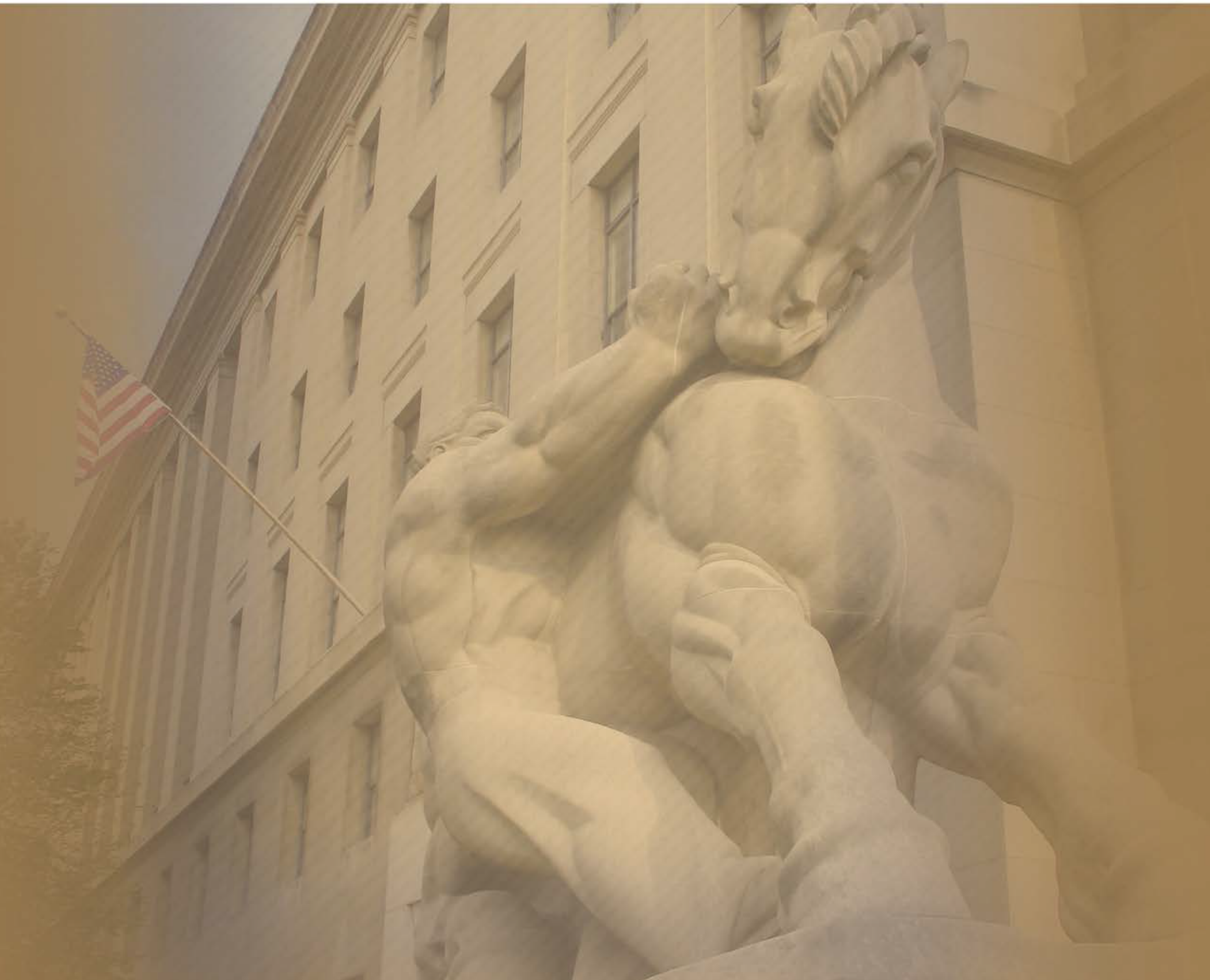
OIG Audit

of the Federal Trade Commission's Financial Statements for Fiscal Year 2017

Report No. 18-02 // November 2017



Office of Inspector General

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

November 13, 2017

MEMORANDUM

TO: Maureen K. Ohlhausen, Acting Chairman
Terrell McSweeny, Commissioner

FROM: Roslyn A. Mazer
Inspector General

I am pleased to provide you with the attached audit report required by the Accountability of Tax Dollars Act of 2002, which presents an unmodified opinion on the Federal Trade Commission's (FTC) fiscal years 2017 and 2016 financial statements. We commend the FTC for the noteworthy accomplishment of attaining an unmodified (clean) opinion for the 21st consecutive year.

We contracted with the independent certified public accounting firm of Brown & Company CPAs and Management Consultants, PLLC (Brown & Company) to audit the financial statements of the FTC as of September 30, 2017 and 2016, and for the years then ended, provide a report on internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations, and report any reportable noncompliance with laws and regulations they tested. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance and the GAO/PCIE *Financial Audit Manual.*

In its audit, Brown & Company found

- the fiscal years 2017 and 2016 financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control over financial reporting and compliance with laws and regulations; and
- no reportable noncompliance with laws and regulations tested.

Brown & Company is responsible for the attached auditor's report dated November 13, 2017, and the conclusions expressed in the report. We do not express opinions on FTC's financial statements or conclusions about the effectiveness of internal control or conclusions on compliance with laws and regulations.

We appreciate the cooperation afforded by management to Brown & Company and my office during the audit. Should you have any questions or would like to discuss the report, please contact me or OIG Audit Manager Mary Harmison at (202) 326-3527.

Enclosure

BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS, PLLC

INDEPENDENT AUDITOR'S REPORT

Inspector General
Federal Trade Commission
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying balance sheets of the Federal Trade Commission (FTC) as of September 30, 2017 and 2016 (Restated), and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended (collectively referred to as the financial statements), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted government auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit includes test of compliance with provisions of applicable laws, regulations, and contracts that have a direct effect on the determination of material amounts and disclosure in the financial statements. The purpose was not to provide an opinion on compliance with provisions of applicable laws, regulations, contracts and grant agreements and, therefore, we do not express such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the FTC as of September 30, 2017 and 2016 (Restated), and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Restated Financial Statements. As discussed in *Note 17 Restatement* the agency has restated the financial statements for FY 2016 due to updating its accounting policy for non-entity funds held by redress third party administrators consistent with SFFAS 1, as these funds are not available or held by the FTC and should not be reported on the FTC financial statements. This policy update is the result of management's multiyear effort to re-evaluate the accounting treatment of their non-entity funds to follow U.S. generally accepted accounting principles (GAAP). As a result, the FTC FY 2016 balance sheet has a reduction of $55 million in both non-entity assets and liabilities, with a net effect of zero. Due to this material correction in the reporting of cash and monetary assets held outside of Treasury, FTC's Consolidated Financial Statements, dated November 14, 2016, should not be relied on. Instead, users should rely on this report and refer to *Note 17 Restatement.*

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the *Management's Discussion and Analysis* (MD&A), also regarded as *Required Supplementary Information* (RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. *The Message from the Chairwoman, Message from the Chief Financial Officer*, *Introduction*, *Other Information*, and the *Appendices* sections are presented for purposes of additional analysis and are not required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FTC's internal control over financial reporting (internal control) to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of providing an opinion on internal control. Accordingly, we do not express such an opinion.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. During the audit of the financial statements no deficiencies in internal control were identified that were considered to be a material weakness. However, material weaknesses may exist that have not been identified.

We also identified other deficiencies in FTC's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant FTC management's attention. We have communicated these matters to FTC management and, will report on them separately in a management letter.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FTC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to FTC. The objective was not to provide an opinion on compliance with those provisions of laws, regulations, contracts and grant agreements, and we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 17-03.

Management's Responsibility for Internal Control and Compliance

FTC's management is responsible for (1) evaluating effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, and (3) ensuring compliance with other applicable laws and regulations.

Auditor's Responsibilities

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit, (2) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin No. 17-03 requires testing, and (3) applying certain limited procedures with respect to the MD&A.

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

We did not test compliance with all laws and regulations applicable to FTC. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin No. 17-03 that we deemed applicable to FTC's financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FTC's corrective actions with respect to the findings included in the prior year's Independent Auditor's Report, dated November 14, 2016. The status of prior year findings is presented in Exhibit A.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance and Other Matters sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FTC's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FTC's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

This report is intended solely for the information and use of the management of FTC, OMB, and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown & Company

Largo, Maryland
November 13, 2017

EXHIBIT A – STATUS OF PRIOR YEAR FINDING

Finding No.	Type of Finding	FY 2016 Finding	FY 2017 Status
2016-02	Material Weakness	Improved Accounting and Controls are Needed Over Receivership Receivables.	Closed.

PRINCIPAL FINANCIAL STATEMENTS

FINANCIAL STATEMENT DESCRIPTIONS

A brief description of the five principal financial statements presented on the following pages is provided:

Balance Sheet – Presents the combined amounts the agency had to use or distribute (assets) versus the amounts the agency owed (liabilities), and the difference between the two (net position).

Statement of Net Cost – Presents the annual cost of agency operations. The gross cost less offsetting revenue is used to determine the net cost.

Statement of Changes in Net Position – Reports the accounting activities that caused the change in net position during the reporting period.

Statement of Budgetary Resources – Reports how budgetary resources were made available and the status of those resources at fiscal year-end.

Statement of Custodial Activity – Reports collections and their disposition by the agency on behalf of the Treasury General Fund and one other Federal agency. The FTC acts as custodian and does not have use of these funds.

The accompanying Notes to the Financial Statements describe significant accounting policies as well as detailed information on select statement lines.

BALANCE SHEET

AS OF SEPTEMBER 30, 2017 AND 2016 (Restated)

(Dollars in thousands)

	2017	Restated 2016
Assets (Notes 2 and 17):		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 565,055	$ 929,693
Accounts receivable, net (Note 4)	52	75
Advances and prepayments	253	-
Total intragovernmental	565,360	929,768
Accounts receivable, net (Note 4)	69,972	98,996
Property, plant, and equipment, net (Note 5)	50,714	57,368
Total Assets	$ 686,046	$ 1,086,132
Liabilities (Notes 6 and 17):		
Intragovernmental:		
Accounts payable	$ 1,181	$ 621
Other liabilities (Note 7)	1,847	4,973
Total intragovernmental	3,028	5,594
Accounts payable	9,533	10,353
Accrued redress due to claimants	69,887	98,182
Undisbursed redress collections (Note 17)	431,573	796,395
Other (Note 7)	19,857	19,275
Total Liabilities	533,878	929,799
Net Position (Notes 1(p) and 17):		
Unexpended appropriations	-	-
Cumulative results of operations	152,168	156,333
Total Net Position (Note 17)	152,168	156,333
Total Liabilities and Net Position (Note 17)	$ 686,046	$ 1,086,132

The accompanying notes are an integral part of these statements.

STATEMENT OF NET COST

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Costs by Strategic Goal (Note 10):		
Strategic Goal 1: Protect Consumers:		
Gross costs	$ 181,505	$ 184,670
Less: earned revenue	(14,565)	(13,867)
Net cost	166,940	170,803
Strategic Goal 2: Maintain Competition:		
Gross costs	145,532	143,924
Less: earned revenue	(126,037)	(114,673)
Net cost	19,495	29,251
Net Cost of Operations	$ 186,435	$ 200,054

The accompanying notes are an integral part of these statements.

STATEMENT OF CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Cumulative Results of Operations:		
Beginning balance	$ 156,333	$ 169,498
Budgetary Financing Sources:		
Appropriations used	175,374	179,804
Other Financing Sources (Non-Exchange):		
Imputed financing	6,896	7,085
Total financing sources	182,270	186,889
Net cost of operations (Note 10)	(186,435)	(200,054)
Net change	(4,165)	(13,165)
Cumulative Results of Operations	152,168	156,333
Unexpended Appropriations:		
Beginning balance	-	-
Budgetary Financing Sources:		
Appropriations received	175,374	179,804
Appropriations used	(175,374)	(179,804)
Total budgetary financing sources	-	-
Total Unexpended Appropriations	-	-
Net Position (Note 1(p))	$ 152,168	$ 156,333

The accompanying notes are an integral part of these statements.

STATEMENT OF BUDGETARY RESOURCES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	2017	2016
Budgetary Resources:		
Unobligated balance, brought forward, October 1	$ 25,950	$ 22,118
Recoveries of unpaid prior year obligations	8,947	20,317
Other changes in unobligated balance	18	28
Unobligated balance from prior year budget authority, net	34,915	42,463
Appropriations	175,374	179,804
Spending authority from offsetting collections	137,625	131,425
Total Budgetary Resources	$ 347,914	$ 353,692
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 11)	$ 314,747	$ 327,742
Unobligated balance, end of year:		
Apportioned, unexpired accounts	27,241	10,346
Unapportioned, unexpired accounts	5,926	15,604
Unexpired unobligated balance, end of year	33,167	25,950
Unobligated balance, end of year (total)	33,167	25,950
Total Status of Budgetary Resources	$ 347,914	$ 353,692
Change in Obligated Balance:		
Unpaid Obligations:		
Unpaid obligations, brought forward, October 1	$ 83,351	$ 91,647
New obligations and upward adjustments (Note 11)	314,747	327,742
Outlays, gross	(313,468)	(315,721)
Recoveries of prior year unpaid obligations	(8,947)	(20,317)
Unpaid obligations, end of year	75,683	83,351
Uncollected Payments:		
Uncollected payments from Federal sources, brought forward, October 1	(1,515)	(577)
Change in uncollected payments from Federal sources, brought forward , October 1	617	(938)
Uncollected payments from Federal sources, end of year	(898)	(1,515)
Memorandum (non-add) Entries:		
Obligated balance, start of year	81,836	91,070
Obligated balance, end of year	74,785	81,836
Budget Authority and Outlays, Net:		
Budget authority, gross	312,999	311,229
Actual offsetting collections	(138,700)	(130,515)
Change in uncollected customer payments from Federal sources	617	(938)
Recoveries of prior year paid obligations	18	28
Budget authority, net	$ 174,934	$ 179,804
Outlays, gross	$ 313,468	$ 315,721
Actual offsetting collections	(138,700)	(130,515)
Outlays, net	174,768	185,206
Distributed offsetting receipts	(94,654)	(6,825)
Agency outlays, net	$ 80,114	$ 178,381

The accompanying notes are an integral part of these statements.

STATEMENT OF CUSTODIAL ACTIVITY

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

(Dollars in thousands)

	Protect Consumers	Maintain Competition	2017	2016
Revenue Activity (Note 14):				
Sources of collections:				
Premerger filing fees (net of refunds)	$ -	$ 125,440	$ 125,440	$ 114,173
Civil penalties and fines	2,517	-	2,517	6,291
Consumer redress	94,463	-	94,463	6,680
Other miscellaneous receipts	191	-	191	145
Total cash collections	97,171	125,440	222,611	127,289
Accrual adjustments	(731)	-	(731)	(554)
Total Custodial Revenue	$ 96,440	$ 125,440	$ 221,880	$ 126,735
Disposition of Collections (Note 14):				
Transferred to others:				
Treasury general fund	$ 97,171	$ -	$ 97,171	$ 13,116
Department of Justice	-	125,520	125,520	114,093
Amounts yet to be transferred	(731)	(80)	(811)	(474)
Total Disposition of Collections	$ 96,440	$ 125,440	$ 211,880	$ 126,735
Net Custodial Activity	$ -	$ -	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

(a) REPORTING ENTITY

The FTC is an independent agency of the U.S. Government, established by the Federal Trade Commission Act of 1914. The FTC enforces a variety of Federal antitrust and consumer protection laws. Its mission is to protect consumers by preventing anticompetitive, deceptive, and unfair business practices, enhancing informed consumer choice and public understanding of the competitive process, and accomplishing this without unduly burdening legitimate business activity. The FTC 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 Chair.

The FTC carries out its mission of protecting consumers and maintaining competition through three bureaus: The Bureau of Consumer Protection (BCP), the Bureau of Competition (BC), and the Bureau of Economics (BE), which supports both BCP and BC. Additionally, various offices within the FTC provide critical mission support to the bureaus. The FTC's staff is located in Washington, D.C. and seven other geographic areas.

The financial statements and notes include the financial activity recorded in all of the funds under the FTC's control. As further described in Note 1(b), Fund Accounting Structure, the FTC maintains these funds including appropriations received for salaries and necessary expenses, as well as non-entity funds that are primarily collections derived from court ordered judgments and settlements held for subsequent distribution to approved claimants.

(b) FUND ACCOUNTING STRUCTURE

The FTC, like other Federal agencies, uses Treasury Account Symbols (TAS) to record and track financial activity. These TAS are described as:

GENERAL FUND

Salaries and Expenses (TAS 29X0100): Each year, this account receives budget authority from an appropriation and offsetting collections, up to a limit set by Congress, to fund the necessary expenses of the agency. Offsetting collections include fees collected for premerger notification filings under the Hart-Scott-Rodino (HSR) Antitrust Improvement Act of 1976, and collections for the National Do Not Call Registry, which operates under Section 5 of the FTC Act. Collections in excess of Congressional limits are unavailable by law and included in the FTC's unavailable – temporary reduction balance. (See Note 3, Fund Balance with Treasury)

DEPOSIT FUND

Consumer Redress Escrow (TAS 29X6013): This account consists of amounts collected under the consumer redress program and held temporarily by the FTC until money is distributed to consumers or harmed entities (or to a third party agent that distributes money to consumers on the FTC's behalf), or transferred to the general fund of the Treasury. These funds, which are considered non-entity funds, do not affect the FTC's Net Position and are not reported on the Statement of Changes in Net Position. (See Note 3, Fund Balance with Treasury and Note 15, Consumer Redress Activities)

CLEARING/SUSPENSE FUND

Budget Clearing and Suspense (TAS 29F3875): Fees collected for premerger notification filings under the HSR Act are deposited, initially, into the Budget Clearing and Suspense account, then distributed equally to the FTC (as an offsetting collection in the general fund) and the Department of Justice (DOJ). (See Note 1(q), Revenues and Other Financing Sources)

RECEIPT ACCOUNTS

Fines, Penalties, and Forfeitures, Customs, Commerce, and Antitrust Laws (TAS 29 1040): Collections of civil penalties imposed in court actions for violations of antitrust acts and FTC orders are deposited into this account. Penalties imposed, but not yet collected, are accrued as accounts receivable and recorded in this account. The cash balance in the fund at the end of the fiscal year is transferred to the general fund of the Treasury.

General Fund Proprietary Receipts (TAS 29 3220): Miscellaneous receipts that by law are not available for the FTC's use, and collections in connection with the consumer redress program for which redress to consumers is not practicable, are held in this account until the end of the fiscal year when they are transferred to the general fund of the Treasury.

(c) BASIS OF PRESENTATION AND ACCOUNTING

The accompanying financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and custodial activities of the FTC, and have been prepared from the accounting records of the FTC. These financial statements may differ from other financial reports submitted pursuant to the Office of Management and Budget (OMB) directives for the purpose of monitoring and controlling the use of the FTC's budgetary resources.

The FTC's financial statements are prepared in conformity with Generally Accepted Accounting Principles (GAAP) for Federal entities and with OMB Circular A-136, Financial Reporting Requirements (as revised August 2017). Accordingly, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. These principles differ from budgetary reporting principles. The differences relate primarily to the capitalization and depreciation of property and equipment, as well as the recognition of other long-term assets and liabilities.

As described in Note 1(b), Fund Accounting Structure, the FTC maintains a single fund to account for salaries and all necessary expenses. Further, there are limited intra-entity transactions with any other fund (e.g., deposit fund) that would require eliminating entries to present consolidated statements. Accordingly, the statements are not labeled consolidated nor is the Statement of Budgetary Resources (SBR) presented as combined.

Assets, liabilities, revenues, and costs are classified in these financial statements according to the type of entity associated with the transactions. Balances classified as intragovernmental arise from transactions with other Federal entities. Balances not classified as intragovernmental arise from transactions with individuals or organizations outside of the Federal Government (i.e., with the Public).

The FTC presents net cost of operations by its two major strategic goals: Protect Consumers and Maintain Competition. These goals are described in the agency's strategic and performance plan and align with the agency's major programs.

(d) USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP 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. For example, estimates are used in computing accounts payable for vendor service contracts, the allowance for uncollectible accounts, and the allocation of costs to strategic goals in the Statement of Net Cost. Actual results could differ from the estimated amounts.

(e) BUDGET AUTHORITY

The Congress passes appropriations annually that provide the FTC with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended, subject to the OMB apportionment and to Congressional restrictions on the expenditure of funds. In addition, the FTC places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds. The FTC's budget authority is derived from a direct appropriation and offsetting collections. The FTC accounts for budget authority in its general fund (29X0100), as reflected in the Statement of Budgetary Resources.

(f) ENTITY AND NON-ENTITY ASSETS

The FTC accounts for and reports on both entity and non-entity assets in the financial statements. Assets that the agency is authorized to use in its operations are entity assets. Assets that the agency holds on behalf of another Federal agency or a third party and are not available for the agency's use are non-entity assets. Non-entity assets include collections and accounts receivable that arise from court order judgments for monetary relief, civil monetary penalties, and the portion of fees collected for premerger notification filings that are distributed to the DOJ in a subsequent period. These non-entity assets are included in the financial statements along with an offsetting non-entity liability of equal amount. (See Note 2, Entity and Non-Entity Assets)

(g) FUND BALANCE WITH TREASURY

The Fund Balance with Treasury is the aggregate amount of undisbursed funds in the FTC's general fund, deposit fund, and clearing/suspense fund. General funds include a portion that is available to the FTC to make expenditures and pay liabilities, and a portion that is unavailable. Deposit fund and clearing/suspense fund balances are non-entity funds that are temporarily held by the FTC until transferred to another Federal agency (Treasury or DOJ), or distributed to a third party. Fund balances are carried forward into subsequent fiscal years until disbursements are made. (See Note 3, Fund Balance with Treasury)

(h) CASH AND OTHER MONETARY ASSETS

In FY 2017, the FTC updated its practice of accounting for non-entity funds held by redress third party administrators to be consistent with Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standard (SFFAS) 1: Accounting for Selected Assets and Liabilities. These funds are not available or held by the FTC and therefore should not be on the FTC's financial statements. As a result of this correction to remove all remaining balances for funds held by redress third party administrators, the FTC restated the FY 2016 financial statements. (See Note 17, Restatement)

(i) ACCOUNTS RECEIVABLE, NET AND ADVANCES AND PREPAYMENTS

Accounts receivable, net of allowances, reflect the 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 GAAP. FASAB 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 includes estimates of the net cash value from court appointed receivers for which the FTC anticipates the proceeds will be deposited in the Consumer Redress Escrow account.

The method used to estimate the allowance for uncollectible accounts consists of individual case analysis by a case manager who assesses the debtor's ability and willingness to pay, the defendant's payment record, and the probable recovery amount including the value of assets. Based on the litigation and collection status, cases are referred to the Treasury for collection action. (See Note 4, Accounts Receivable, Net)

Advances and prepayments consist of payments by the FTC to other Federal agencies for services that will be provided in a future period.

(j) PROPERTY, PLANT, AND EQUIPMENT, NET

The FTC's property, plant, and equipment (PP&E) consists of general purpose equipment used by the agency and capital improvements made to buildings leased from the General Services Administration (GSA) by the FTC for office space, as well as software leased and purchased from vendors. The FTC's capitalization policy, *Accounting for Property, Plant, and Equipment,* was updated with an effective date on or after October 1, 2014. PP&E placed in service prior to October 1, 2014, will continue to be accounted for based on the capitalization policy in effect at the time acquired, until fully depreciated or removed from service.

Effective October 1, 2014, capitalization thresholds are as follows:

Asset Type	Capitalization Threshold
Furniture	$ 50,000
General Equipment	$ 50,000
IT Equipment	$ 150,000
Leasehold Improvements	$ 150,000
Internal Use Software	$ 200,000

The FTC reports property and equipment at historical cost and capitalizes items based on the above thresholds and a useful life of two or more years. Property and equipment that meet these criteria are depreciated or amortized using the straight-line method over the estimated useful life of the asset. Additionally, assets under development, such as internal use software and leasehold improvements, with an estimated aggregate cost meeting the threshold criteria are capitalized and then amortized once completed and placed into service. Normal repairs and maintenance, and PP&E that do not meet the capitalization criteria, are recognized as an expense in the current period. (See Note 5, Property, Plant, and Equipment, Net)

(k) ACCRUED LIABILITIES AND ACCOUNTS PAYABLE

Accrued liabilities and accounts payable represent a probable future outflow or other sacrifice of resources from past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by budgetary resources. The FTC has liabilities that are entity and non-entity. Entity liabilities cannot be liquidated without legislation that provides the resources to do so. In addition, the government, acting in its sovereign capacity, can abrogate the FTC's liabilities (other than contracts). (See Note 6, Liabilities Covered and Not Covered by Budgetary Resources)

(l) 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) administered by the Office of Personnel Management (OPM). The FTC contributes a percentage to each program to pay for current benefits.

(m) EMPLOYEE RETIREMENT BENEFITS

FTC employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) administered by the OPM. Employees hired after December 31, 1983 are covered by FERS and Social Security, while employees hired prior to January 1, 1984 were allowed to elect joining FERS or remaining in CSRS. For employees participating in CSRS, the FTC contributes 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund. For employees participating in FERS, the FTC contributes 13.2 percent to the Federal Employees' Retirement Fund. New employees hired between January 1 and December 31, 2013 participate in FERS-RAE (Revised Annuity Employees). New employees hired on or after January 1, 2014 are covered by FERS-FRAE (Further Revised Annuity Employees). The FTC contribution is 11.1 percent for both FERS-RAE and FERS-FRAE. In addition, the FTC contributes the employer's matching share to the Social Security Administration under the Federal Insurance Contributions Act, which fully covers FERS participating employees. FTC contributions are recognized as current operating expenses.

The Thrift Savings Plan (TSP) is a defined contribution retirement savings and investment plan for employees covered by either CSRS or FERS. Participating employees may contribute any dollar amount or percentage of basic salary to the TSP, not to exceed an annual dollar limit set by law. For those employees participating in FERS, the FTC makes a mandatory 1 percent contribution to this plan and, in addition, matches 100 percent of the first 3 percent contributed and 50 percent of the next 2 percent. CSRS participating employees do not receive a matching contribution from the FTC. The FTC contributions to the TSP are recognized as current operating expenses.

The FTC does not report CSRS and FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. The OPM reports this information. However, the FTC recognizes the full cost of providing future pension benefits to covered employees at the time the employees' services are rendered using cost factors provided by the OPM that estimate the true service cost of providing the pension benefits. The FTC recognizes the excess of the true service cost over amounts contributed as an imputed cost. This additional cost is financed by the OPM, and recognized as an imputed financing source by the FTC. (See Note 16, Reconciliation of Net Cost of Operations to Budget)

(n) FECA AND OTHER POST-EMPLOYMENT BENEFITS

The Federal Employees' Compensation Act (FECA) administered by the U.S. Department of Labor (DOL) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The DOL bills the FTC annually for the claims paid and the FTC recognizes the FECA liability for future payment. Payment is deferred for two years to allow for funding through the budget. The FTC also recognizes a FECA actuarial liability, which is an estimate for the future workers compensation as a result of past events using procedures developed by the DOL to estimate the liability. FECA liabilities are reported as not covered by budgetary resources. (See Note 6, Liabilities Covered and Not Covered by Budgetary Resources)

FTC employees eligible to participate in the FEHBP and the FEGLIP may continue to participate in these programs after their retirement. The FTC recognizes a current cost of providing post-retirement benefits using cost factors provided by the OPM that estimate the true cost of providing these benefits to current employees. The cost of providing post-retirement benefits for the FEHBP and FEGLIP is financed by the OPM, and recognized as an imputed financing source by the FTC. (See Note 16, Reconciliation of Net Cost of Operations to Budget)

(o) ANNUAL AND SICK LEAVE

The FTC accrues an annual leave liability when employees earn leave and reduces the liability when employees take leave. The balance in this account reflects the current leave balances and pay rates of the FTC employees. Budget execution rules do not allow this liability to be funded as earned. It is funded when leave is taken or when paid out as a lump sum at the end of employment. As a result, accrued annual leave is reported as not covered by budgetary resources. Sick leave is non-vested and expensed as used. (See Note 6, Liabilities Covered and Not Covered by Budgetary Resources)

(p) NET POSITION

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.

The portion of the FTC's budget authority funded by a direct appropriation is fully expended during the year. Therefore, there is no unexpended appropriation balance in net position at the end of the year. (See Statement of Changes in Net Position)

(q) REVENUES AND OTHER FINANCING SOURCES

The FTC's activities are financed through exchange revenue it receives from others and through an appropriation provided by the Congress. Exchange revenues consist of fees collected for premerger notification filings under the HSR Act and collections for the National Do Not Call Registry. Additionally, exchange revenues include a small amount of reimbursements for services performed under inter-agency agreements.

(r) METHODOLOGY FOR ASSIGNING COSTS AND EXCHANGE REVENUES

The FTC allocates costs and exchange revenues on the Statement of Net Cost to its two major strategic goals: Protect Consumers and Maintain Competition. Costs and exchange revenues that are identified specifically with each of these two strategic goals are charged or credited directly. Costs not directly attributable to these two goals, including costs related to the FTC's third goal, Advance Organizational Performance, are allocated based on the percentage of direct full-time equivalents used by each of these two goals.

NOTE 2—ENTITY AND NON-ENTITY ASSETS

The FTC's entity assets are comprised of undisbursed general funds, accounts receivable, and property, plant and equipment. Accounts receivable, net, represents amounts due from other Federal agencies, current and former employees, and vendors.

The FTC's non-entity assets are comprised of fund balances with Treasury and accounts receivable. The fund balances with Treasury consist of amounts held temporarily in deposit funds for the consumer redress program and collections of premerger filing fees held in clearing/suspense funds that will be transferred to the DOJ in a subsequent period. Accounts receivable, net, is the estimated amount collectible on consumer redress judgments and civil penalties.

Entity and non-entity assets consisted of the following as of September 30, 2017:

(Dollars in thousands)	2017 Entity	2017 Non-Entity	2017 Total
Intragovernmental:			
Fund balance with Treasury:			
General funds	$ 133,482	$ -	$ 133,482
Deposit funds - consumer redress	-	431,573	431,573
Clearing/Suspense funds - premerger filing fees	-	-	-
Accounts receivable, net	52	-	52
Advances and Prepayments	253	-	253
Subtotal intragovernmental assets	133,787	431,573	565,360
Accounts receivable, net	81	69,891	69,972
Property, plant, and equipment, net	50,714	-	50,714
Total Assets	$ 184,582	$ 501,464	$ 686,046

Entity and non-entity assets consisted of the following as of September 30, 2016 (Restated):

(Dollars in thousands)	2016 Entity	Restated 2016 Non-Entity	Restated 2016 Total
Intragovernmental:			
Fund balance with Treasury:			
General funds	$ 132,875	$ -	$ 132,875
Deposit funds - consumer redress	-	796,395	796,395
Clearing/Suspense funds - premerger filing fees	-	423	423
Accounts receivable, net	75	-	75
Advances and Prepayments	-	-	-
Subtotal intragovernmental assets	132,950	796,818	929,768
Accounts receivable, net	79	98,917	98,996
Property, plant, and equipment, net	57,368	-	57,368
Total Assets	$ 190,397	$ 895,735	$ 1,086,132

NOTE 3—FUND BALANCE WITH TREASURY

The FTC's Fund Balance with Treasury consists of undisbursed appropriated funds, which are either unobligated or obligated, as well as deposit funds arising from amounts collected for consumer redress and not yet disbursed to claimants. The fund balance also includes clearing/suspense funds for collections of premerger filing fees that will be distributed to the DOJ in a subsequent period. The unobligated balance includes available and unavailable balances. The unavailable balance is the result of recoveries that exceeded anticipated and apportioned amounts, the collection of fees above the authorized amount to spend in the current year and prior year, and $6,450 thousand of sequestered funds from FY 2013.

Fund balance with Treasury consisted of the following as of September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Fund Balance with Treasury:		
General funds	$ 133,482	$ 132,875
Deposit funds - consumer redress	431,573	796,395
Clearing/Suspense funds - premerger filing fees	-	423
Total Fund Balance with Treasury	$ 565,055	$ 929,693
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available - apportioned	$ 27,241	$ 10,346
Unavailable - unapportioned	5,926	15,604
Unavailable - temporary reduction	25,530	25,089
Obligated balance not yet disbursed	74,785	81,836
Non-budgetary fund balance with Treasury:		
Deposit funds - consumer redress	431,573	796,395
Clearing/Suspense funds - premerger filing fees	-	423
Total Status of Fund Balance with Treasury	$ 565,055	$ 929,693

The FTC's Fund Balance with Treasury, as reflected in the entity's general ledger and the Treasury account balances, has no material discrepancy.

NOTE 4—ACCOUNTS RECEIVABLE, NET

The bulk of the FTC's accounts receivable are non-entity accounts receivable arising from the settlement or litigation of administrative and Federal court cases in connection with the consumer redress program, and from civil monetary penalties imposed for violation of an FTC order and antitrust acts. Because of the nature of these receivables, they are frequently not fully collectible and are offset with a significant allowance. The allowance for uncollectible accounts is based on an analysis by a case manager who assesses the debtor's ability and willingness to pay, the defendant's payment record, and the probable recovery amount including the value of assets. These non-entity accounts receivable are included in the financial statements along with an offsetting non-entity liability.

Non-entity redress gross accounts receivable is the court ordered judgment amount, usually a calculated amount of ill-gotten gains. The related allowance for uncollectible accounts is the estimate the FTC will not collect from the defendant(s), which many times is a large percentage of the judgment.

Accounts receivable, net consisted of the following as of September 30, 2017:

(Dollars in thousands)	Gross Receivables	Allowance for Uncollectible Accounts	2017 Net
Entity Accounts Receivable:			
Intragovernmental	$ 52	$ -	$ 52
With the public	81	-	81
Total entity accounts receivable	133	-	133
Non-Entity Accounts Receivable:			
Consumer redress	2,585,646	2,515,759	69,887
Civil penalties	39,081	39,077	4
Total non-entity accounts receivable	2,624,727	2,554,836	69,891
Total Accounts Receivable	$ 2,624,860	$ 2,554,836	$ 70,024

Accounts receivable, net consisted of the following as of September 30, 2016:

(Dollars in thousands)	Gross Receivables	Allowance for Uncollectible Accounts	2016 Net
Entity Accounts Receivable:			
Intragovernmental	$ 75	$ -	$ 75
With the public	79	-	79
Total entity accounts receivable	154	-	154
Non-Entity Accounts Receivable:			
Consumer redress	2,600,317	2,502,135	98,182
Civil penalties	35,075	34,340	735
Total non-entity accounts receivable	2,635,392	2,536,475	98,917
Total Accounts Receivable	$ 2,635,546	$ 2,536,475	$ 99,071

NOTE 5—PROPERTY PLANT, AND EQUIPMENT, NET

The following represents the FTC's capital assets and accumulated depreciation/amortization as of September 30, 2017 and 2016. No impairment was recognized in either year.

Property, plant, and equipment, net consisted of the following as of September 30, 2017:

Asset Class (Dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Equipment	5-20 years	$ 26,992	$ 15,138	$ 11,854
Leasehold improvements	15 years	46,566	14,718	31,848
Software	5 years	28,000	20,988	7,012
Total Property, Plant, and Equipment		$ 101,558	$ 50,844	$ 50,714

Property, plant, and equipment, net consisted of the following as of September 30, 2016:

Asset Class (Dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Equipment	5-20 years	$ 24,425	$ 10,586	$ 13,839
Leasehold improvements	15 years	45,894	11,697	34,197
Software	5 years	27,359	18,027	9,332
Total Property, Plant, and Equipment		$ 97,678	$ 40,310	$ 57,368

NOTE 6—LIABILITIES COVERED AND NOT COVERED BY BUDGETARY RESOURCES

The FTC recognizes three categories of liabilities described below:

LIABILITIES COVERED BY BUDGETARY RESOURCES

Liabilities incurred that are covered by available budgetary resources as of the Balance Sheet date. These include accounts payable for goods and services received, and accrued employee payroll and benefits payable.

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings. These include unfunded FECA liabilities and accrued annual leave.

LIABILITIES NOT REQUIRING BUDGETARY RESOURCES

Non-entity liabilities that are covered by non-entity assets and do not require budgetary resources. These include:

Undisbursed Premerger Filing Fees - the offsetting liability to the non-entity clearing/suspense fund balance for premerger fees that are payable to the DOJ in a subsequent period.

Accrued Civil Penalties due to Treasury - the offsetting liability to non-entity accounts receivable for civil penalties, net, that upon collection will be payable to the general fund of the Treasury.

Undisbursed Redress Collections - the offsetting liability to the non-entity deposit fund balance for consumer redress that is payable to approved claimants.

Accrued Redress due to Claimants - the offsetting liability to the non-entity accounts receivable for consumer redress that upon collection will be payable to approved claimants.

Liabilities consisted of the following as of September 30, 2017 and 2016 (Restated):

(Dollars in thousands)	2017 Covered by Budgetary Resources	2017 Not Covered by Budgetary Resources	2017 Not Requiring Budgetary Resources	2017 Total Liabilities	2016 Covered by Budgetary Resources	2016 Not Covered by Budgetary Resources	Restated 2016 Not Requiring Budgetary Resources	Restated 2016 Total Liabilities
Intragovernmental:								
Accounts payable	$ 1,181	$ -	$ -	$ 1,181	$ 621	$ -	$ -	$ 621
Accrued employee benefits	1,477	-	-	1,477	1,413	-	-	1,413
Other employment related liability	-	-	-	-	-	13	-	13
FECA liability	-	353	-	353	-	354	-	354
Reimbursable advances	13	-	-	13	1,956	-	-	1,956
Undisbursed premerger filing fees	-	-	-	-	-	-	502	502
Accrued civil penalties due to Treasury	-	-	4	4	-	-	735	735
Subtotal intragovernmental liabilities	2,671	353	4	3,028	3,990	367	1,237	5,594
Accounts payable	9,533	-	-	9,533	10,353	-	-	10,353
Accrued payroll and benefits	6,081	-	-	6,081	5,784	-	-	5,784
Accrued leave	-	11,681	-	11,681	-	11,431	-	11,431
Actuarial FECA	-	2,095	-	2,095	-	2,060	-	2,060
Undisbursed redress collections	-	-	431,573	431,573	-	-	796,395	796,395
Accrued redress due to claimants	-	-	69,887	69,887	-	-	98,182	98,182
Total Liabilities	$ 18,285	$ 14,129	$ 501,464	$ 533,878	$ 20,127	$ 13,858	$ 895,814	$ 929,799

NOTE 7 – OTHER LIABILITIES

Other liabilities consisted of the following as of September 30, 2017:

(Dollars in thousands)	2017 Non-Current	2017 Current	2017 Total
Other intragovernmental:			
Accrued employee benefits	$ -	$ 1,477	$ 1,477
FECA liability	353	-	353
Reimbursable advances	-	13	13
Undisbursed premerger filing fees	-	-	-
Accrued civil penalties due to Treasury	-	4	4
Subtotal other intragovernmental	353	1,494	1,847
Accrued payroll and benefits	-	6,081	6,081
Accrued leave	11,681	-	11,681
Actuarial FECA	2,095	-	2,095
Subtotal other	13,776	6,081	19,857
Total Other Liabilities	$ 14,129	$ 7,575	$ 21,704

Other liabilities consisted of the following as of September 30, 2016:

(Dollars in thousands)	2016 Non-Current	2016 Current	2016 Total
Other intragovernmental:			
Accrued employee benefits	$ -	$ 1,426	$ 1,426
FECA liability	354	-	354
Reimbursable advances	-	1,956	1,956
Undisbursed premerger filing fees	-	502	502
Accrued civil penalties due to Treasury	-	735	735
Subtotal other intragovernmental	354	4,619	4,973
Accrued payroll and benefits	-	5,784	5,784
Accrued leave	11,431	-	11,431
Actuarial FECA	2,060	-	2,060
Subtotal other	13,491	5,784	19,275
Total Other Liabilities	$ 13,845	$ 10,403	$ 24,248

NOTE 8—OPERATING LEASES

Future minimum lease payments due under leases of government-owned property for the fiscal year ended September 30, 2017:

Fiscal Year (Dollars in thousands)		
2018	$	7,088
2019		6,710
2020		363
2021		366
2022		314
Thereafter		762
Total Future Minimum Lease Payments	$	15,603

Future minimum lease payments due under leases of commercial-owned property for the fiscal year ended September 30, 2017:

Fiscal Year (Dollars in thousands)		
2018	$	13,972
2019		14,579
2020		14,901
2021		14,910
2022		14,662
Thereafter		23,376
Total Future Minimum Lease Payments	$	96,400

Leases of government and commercial property are made through and managed by the GSA. While the leases with the GSA are cancellable, the FTC's intention is to stay in the GSA leased space and disclose the amounts that will be paid in the future to the GSA under signed lease agreements. The FTC has leases on four government-owned properties and seven commercial properties totaling approximately 612 thousand square feet for use as offices, storage and parking. The FTC's government and commercial leases expire at various dates through 2027.

NOTE 9—COMMITMENTS AND CONTINGENCIES

As of September 30, 2017, the FTC has no pending single or aggregate administrative proceedings, legal actions, and claims brought by or against it, including pending litigation where adverse decisions are considered by management and legal counsel as "reasonably possible."

NOTE 10—INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

The Statement of Net Cost presents the FTC's costs and exchange revenues for its two major strategic goals. The costs and exchange revenues reported can be further classified as either "intragovernmental" or "public." Intragovernmental costs and exchange revenues arise from transactions with another Federal entity, whereas, public costs and exchange revenues arise from transactions with non-Federal entities.

The FTC's intergovernmental costs are services provided by other Federal agencies under reimbursable agreements to carry out its programs. The Federal agency providing the service bills the FTC based on full cost recovery. The FTC recognizes the costs based on the services being performed by the other agency.

A small portion of the FTC's overall exchange revenue is intragovernmental arising from services provided to other Federal agencies under interagency agreements. The FTC bills the buying agency to recover the full cost of services, primarily salaries, and recognizes the revenue at the time expenditures are incurred.

The bulk of the FTC's exchange revenue is "public" and derived from two primary sources:

Fees collected for premerger notification filings under the HSR Act - The HSR Act requires the filing of premerger notifications with the FTC and the Antitrust Division of the DOJ and establishes a waiting period before certain acquisitions may be consummated. The filing fees are determined by the value and size of the parties. By law, the FTC retains one-half of all premerger filing fees collected, and remits one-half to the DOJ's Antitrust Division.

Subscription fees collected for the National Do Not Call Registry - The Do Not Call (DNC) Registry Fee Extension Act of 2007, which amended the Do Not Call Implementation Act, established a permanent fee structure for the DNC registry and provided that fees be reviewed annually and adjusted for inflation, as appropriate. Telemarketers must pay an annual subscription fee and download 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 FTC recognizes the revenue when collected and the telemarketer is given access to the requested data.

Costs and revenues categorized as intragovernmental and public consisted of the following for the fiscal years ended September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Strategic Goal 1: Protect Consumers		
Intragovernmental gross costs	$ 44,611	$ 45,417
Public costs	136,894	139,253
Gross costs, Protect Consumers	181,505	184,670
Intragovernmental earned revenue - reimbursements	(1,939)	(945)
Public earned revenue - Do Not Call registry fees	(12,626)	(12,922)
Earned revenue, Protect Consumers	(14,565)	(13,867)
Net Cost, Protect Consumers	166,940	170,803
Strategic Goal 2: Maintain Competition		
Intragovernmental gross costs	35,770	35,396
Public costs	109,762	108,528
Gross costs, Maintain Competition	145,532	143,924
Intragovernmental earned revenue - reimbursements	(597)	(500)
Public earned revenue - premerger filing fees	(125,440)	(114,173)
Earned revenue, Maintain Competition	(126,037)	(114,673)
Net Cost, Maintain Competition	19,495	29,251
Net Cost of Operations	$ 186,435	$ 200,054

NOTE 11—APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Obligations incurred consisted of the following for the fiscal years ended September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Obligations Incurred:		
Category A - direct obligations	$ 314,003	$ 324,221
Category B - reimbursable obligations	744	3,521
Total Obligations Incurred	$ 314,747	$ 327,742

Category A – direct obligations represent amounts obligated in carrying out the FTC's normal on-going operations. The source of funding for these obligations is an annual appropriation, offsetting collections, and unobligated funds brought forward from previous years. These funds are made available by the OMB through quarterly (Category A) apportionments.

Category B – reimbursable obligations represent amounts obligated in fulfilling interagency agreements when the FTC is the provider of services. The source of funding for these obligations is reimbursements collected from other Federal agencies to cover the FTC's costs in fulfilling the agreement.

NOTE 12—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 FY 2016 Statement of Budgetary Resources and the FY 2016 actual amounts as reported in the FY 2018 Budget of the United States Government. The FY 2019 Budget of the United States is not available to compare FY 2017 actual amounts to the FY 2017 Statement of Budgetary Resources.

NOTE 13—UNDELIVERED ORDERS AT THE END OF THE PERIOD

The amount of budgetary resources obligated for undelivered orders as of September 30, 2017 and 2016, is $57,664 and $65,100 thousand, respectively.

NOTE 14—CUSTODIAL ACTIVITIES

The primary custodial activities of the FTC are:

PREMERGER FILING FEES

Fees collected for premerger notification filings under the HSR Act are divided evenly between the FTC and the DOJ. The portion of collections designated for the DOJ is reported as a custodial activity. As of September 30, 2017 and 2016, the FTC collected $250,880 and $228,346 thousand respectively, in HSR premerger filing fees. One-half of the amounts collected in each year was distributed to the DOJ, as shown on the Statement of Custodial Activity.

CIVIL PENALTIES

Civil monetary penalties and antitrust violations collected in connection with the settlement or litigation of the FTC's administrative or Federal court cases are collected by either the FTC or the DOJ as provided by law. In those situations where the FTC collects the penalties, the funds are deposited in a receipt account with the Treasury. All civil penalties collected are transferred to the general fund of the Treasury at the end of the year.

CONSUMER REDRESS

Collections for consumer redress reported on the Statement of Custodial Activity are limited to those collections that have been disgorged to the Treasury. Net disgorgements to the Treasury were $94,463 thousand as of September 30, 2017 and $267 thousand as of September 30, 2016.

Other line items on the Statement of Custodial Activity include:

ACCRUAL ADJUSTMENTS

Accrual adjustments represent the change in accounts receivable, net of allowances for uncollectible accounts, for civil penalties assessed in court actions.

AMOUNTS YET TO BE TRANSFERRED

Amounts yet to be transferred represents the change in the offsetting liability for civil penalties due to Treasury that is established at the time an accounts receivable for civil penalties is recorded.

NOTE 15—CONSUMER REDRESS ACTIVITIES

The FTC obtains consumer redress in connection with the settlement or litigation of both administrative proceedings and Federal court cases. The FTC holds redress funds in a deposit fund at Treasury until a determination is made on the practicability of redress. The FTC attempts to distribute funds to injured parties whenever possible. If redress is determined to be practicable, funds are either directly disbursed by the FTC to claimants, or, funds needed to cover immediate disbursements to injured parties are transferred to accounts at financial institutions from which redress third party administrators process claims and disburse proceeds to claimants. The FY 2017 disbursement to claimants and third party administrators of $543,432 thousand includes several large payments of funds collected in prior years; i.e., the $125,169 thousand disbursed to claimants in accordance with a FY 2015 settlement resolving antitrust charges against Cephalon Inc. The FTC also has $212,827 thousand in Fund Balance with Treasury to pay for future settlements against Cepahlon Inc.

In those cases where consumer redress is not practicable, the funds are transferred (disgorged) to the Treasury, or on occasion, used for consumer education or another purpose as directed by the final order issued by the court. Major components of the redress program include eligibility determination, claimant notification, and administration of redress to claimants.

Redress fund activities consisted of the following for the fiscal years ended September 30, 2017 and 2016 (Restated):

(Dollars in thousands)	2017	Restated 2016
Consumer Redress:		
Fund Balance with Treasury		
Beginning balance	$ 796,395	$ 729,804
Collections	273,073	286,265
Disbursements to claimants and third party administrators for redress, net	(543,432)	(219,407)
Disgorgements to Treasury, net	(94,463)	(267)
Total Fund Balance with Treasury, Ending	$ 431,573	$ 796,395
Accounts Receivable, Net		
Beginning balance	$ 98,182	$ 41,741
Net activity	(28,295)	56,441
Total Accounts Receivable, Ending	$ 69,887	$ 98,182

NOTE 16 — RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

For the fiscal years ended September 30, 2017 and 2016:

(Dollars in thousands)	2017	2016
Resources Used to Finance Activities:		
Budgetary resources obligated:		
Obligations incurred	$ 314,747	$ 327,742
Less: spending authority from offsetting collections and recoveries	(147,030)	(151,770)
Total budgetary resources obligated	167,717	175,972
Other resources:		
Imputed financing from costs absorbed by others	6,896	7,085
Total other resources	6,896	7,085
Total Resources Used to Finance Activities	174,613	183,057
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated, but not yet provided	4,898	10,806
Resources that finance the acquisition of assets	(3,879)	(4,328)
Total resources used to finance items not part of the net cost of operations	1,019	6,478
Total Resources Used to Finance the Net Cost of Operations	175,632	189,535
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	250	201
Other	19	47
Total components requiring or generating resources in future period	269	248
Components not requiring or generating resources:		
Depreciation and amortization	10,534	10,271
Total components not requiring or generating resources	10,534	10,271
Total Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:	10,803	10,519
Net Cost of Operations	$ 186,435	$ 200,054

NOTE 17 — RESTATEMENT

In accordance with OMB Circular A-123, the FTC performed a review of its court ordered collection process as a follow-up to the review work performed in FY 2016. The review in FY 2017 identified an inconsistency with the Statement of Federal Financial Accounting Standard (SFFAS) 1, Accounting for Selected Assets and Liabilities. The SFFAS 1 defines the recognition of non-entity assets as follows:

"Assets available to an entity to use in its operations are entity assets while those assets not available to an entity but held by the entity are non-entity assets. While both entity and non-entity assets are to be reported in entity statements, the standards require the segregation of entity and non-entity assets."

In FY 2017, the FTC updated its practice of accounting for non-entity funds held by redress third party administrators consistent with SFFAS 1, as these funds are not available or held by the FTC and therefore should not be reported on the FTC's financial statements. All remaining balances for funds held by redress third party administrators were removed from FY 2017 and 2016, respectively.

As a result of the correction, the FTC restated the FY 2016 financial statements. The restatement is presented in the FY 2017 and FY 2016 comparative financial statements. The FTC Redress program is non-entity in nature, and all assets are offset by an equal liability. There is no net effect to the restatement beyond the lines presented below on the Balance Sheet, and as reflected on the following notes: Note 1 - Significant Accounting Policies, Note 2 - Entity and Non-Entity Assets, Note 6 - Liabilities Covered and Not Covered by Budgetary Resources, and Note 15 - Consumer Redress Activities.

SUMMARY OF CHANGES TO THE BALANCE SHEET

Balance as of September 30, 2016 (Restated):

(Dollars in thousands)	FY 2016 as Stated	Adjustment	FY 2016 Restated
Assets (Notes 2 and 17):			
Cash and other monetary assets	$ 54,495	$ (54,495)	$ -
Total Assets	$ 1,140,627	$ (54,495)	$ 1,086,132
Liabilities (Notes 6 and 17):			
Undisbursed redress collections	$ 850,890	$ (54,495)	$ 796,395
Total Liabilities	984,294	(54,495)	929,799
Net Position (Notes 1(p) and 17):			
Total Net Position	156,333	-	156,333
Total Liabilities and Net Position	$ 1,140,627	$ (54,495)	$ 1,086,132

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