Audit Report

OIG-15-026

Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Years 2014 and 2013 Financial Statements

January 12, 2015

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

January 12, 2015

**MEMORANDUM FOR JOHN J. MANFREDA, ADMINISTRATOR
ALCOHOL AND TOBACCO TAX AND TRADE BUREAU**

FROM: Michael Fitzgerald
Director, Financial Audit

SUBJECT: Audit of the Alcohol and Tobacco Tax and Trade Bureau's Fiscal Years 2014 and 2013 Financial Statements

I am pleased to transmit the attached audited Alcohol and Tobacco Tax and Trade Bureau's (TTB) financial statements for fiscal years 2014 and 2013. Under a contract monitored by the Office of Inspector General, KPMG LLP (KPMG), an independent certified public accounting firm, performed an audit of the financial statements of TTB as of September 30, 2014 and 2013, and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The following reports, prepared by KPMG, are incorporated in the attachment:

- Independent Auditors' Report;
- Independent Auditors' Report on Internal Control Over Financial Reporting; and
- Independent Auditors' Report on Compliance and Other Matters

In its audit, KPMG found:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed KPMG's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on TTB's financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. KPMG is responsible for the attached auditors' reports dated January 8, 2015, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards and OMB Bulletin No. 14-02.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audit, at (202) 927-5591.

Attachment

Alcohol and Tobacco Tax and Trade Bureau

ANNUAL REPORT

FISCAL YEAR 2014

Alcohol and Tobacco Tax and Trade Bureau

ANNUAL REPORT

FISCAL YEAR 2014

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Introduction

Within its FY 2014 Annual Report, the Alcohol and Tobacco Tax and Trade Bureau (TTB) combines program performance with financial data to demonstrate how effectively the Bureau translates its program dollars into quality service, responsible management practices, effective consumer protection, and increased tax revenue.

Each year, as part of the performance and budget cycle, TTB issues this report to inform its stakeholders of the Bureau's accomplishments and explain any challenges. The report defines the Bureau's mission, strategic goals, and major programs, and summarizes its progress in meeting its objectives, as stated in the TTB strategic plan. TTB also presents financial information that depicts how TTB expended its budget according to its major programs, and accounted for tax collections from the alcohol, tobacco, firearms, and ammunition industries.

This report presents this information in four parts:

Part I – Management's Discussion and Analysis. This section provides an overview of the Bureau, including its mission and programs, and highlights of program performance and financial operations.

Part II – Program Performance Results. This section provides a discussion of results achieved for each performance measure related to the Collect the Revenue and Protect the Public strategic goals and an overview of the Bureau's accomplishments under its Management and Organizational Excellence goal.

Part III – Financial Results, Position, Condition and Auditors' Reports. In this section, TTB presents audited balance sheets, statements of net cost, changes in net position, budgetary resources, and custodial activity as of and for the years ending September 30, 2014, and September 30, 2013, and the Independent Auditors' Report on these financial statements. Also included is a report on the Bureau's internal controls over financial reporting and a report on TTB's compliance with laws and regulations. This section also includes a discussion of budget activities for each of the Bureau's seven major programs and required supplementary information, such as a history of federal excise tax collections for the past decade.

Part IV – Appendices. This section includes a list of TTB's principal officers, an organization chart, and strategic plan information that demonstrates the relationship between TTB's plan and the Department of the Treasury's mission and goals.

Message from the Administrator

Supporting the nation's economic vitality is at the core of the work performed by TTB. The Bureau's role in permitting and regulating the alcohol and tobacco industries ensures a fair marketplace, enhanced trade opportunities, and a level playing field for those engaged in the manufacture and trade of these commodities.

The value of the work we do at TTB was never more evident than during the lapse in appropriations that suspended government operations at the start of fiscal 2014. The impact on small businesses was real and significant – start-up operations were held in abeyance awaiting a permit to operate, many bottling lines sat idle without the appropriate approvals from TTB, and hundreds of export shipments were stranded at ports awaiting certification by TTB.

While we took immediate action to respond to the businesses affected by the shutdown, many of the same challenges remain as TTB continues to contend with high demand for its services. The industries that the Bureau regulates have continued to expand, as evidenced by the nearly 30 percent growth in the permit applications and registrations that TTB received in just the past five years. TTB, like the businesses it regulates, must continuously look for ways to achieve its objectives more efficiently and effectively, leveraging limited resources in smarter and more innovative ways to ensure that the investments made in its mission achieve a positive return.

Accordingly, we have established priority projects to focus our resources and drive improvement in many of our lines of business. Some of the key strategies include removing burdensome filing and reporting requirements and supporting industry members in completing compliant submissions through guidance and system enhancements. Other strategies relate to the protection of the $22 billion in excise taxes we collect annually and involve the use of advanced enforcement techniques to address non-compliance or illicit activity that undermines fair competition.

While there is no simple fix to the challenges we face, I am convinced that the plans and priorities we have established will result in improved outcomes for U.S. businesses and the American people. The resolve and commitment of TTB employees was abundantly apparent during the trying times of this past year, and their dedication to the mission will remain the driving force for our organizational success.

The Bureau has validated the accuracy, completeness, and reliability of the performance data contained in this report.

John J. Manfreda

John J. Manfreda
Administrator

Vision, Mission, and Values

Vision

Our vision is to be the world's authority in the regulation, taxation, and science of alcohol and tobacco products and a model for next generation government.

Mission

Our mission is to collect the taxes on alcohol, tobacco, firearms, and ammunition; protect the consumer by ensuring the integrity of alcohol products; and prevent unfair and unlawful market activity for alcohol and tobacco products.

Values

We value:

- **People.** We empower our people through trust, respect, and teamwork.
- **Results.** We take pride in accomplishing meaningful results for the American public.
- **Accessibility.** We are available to the public and our colleagues through collaboration, communication, and partnership.
- **Innovation.** We explore new and better methods of conducting business, take manageable risks to improve our operations, and evolve based on results.
- **Service.** We are professionals dedicated to public service.

TTB Strategic Goals and Objectives

Strategic Goal: Collect the Revenue

Industry remits the proper federal tax on alcohol, tobacco, firearms, and ammunition products

Tax Verification and Validation. Ensure voluntary compliance in the timely and accurate remittance of tax payments

Civil and Criminal Enforcement. Detect and address excise tax evasion and other criminal violations of the Internal Revenue Code in the industries TTB regulates

Strategic Goal: Protect the Public

Alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements

Business Integrity. Ensure that only qualified persons and business entities operate within the industries TTB regulates

Product Integrity. Ensure that alcohol beverage products comply with federal production, labeling, and advertising requirements

Market Integrity. Ensure fair trade practices throughout the alcohol beverage marketplace

Strategic Goal: Management and Organizational Excellence

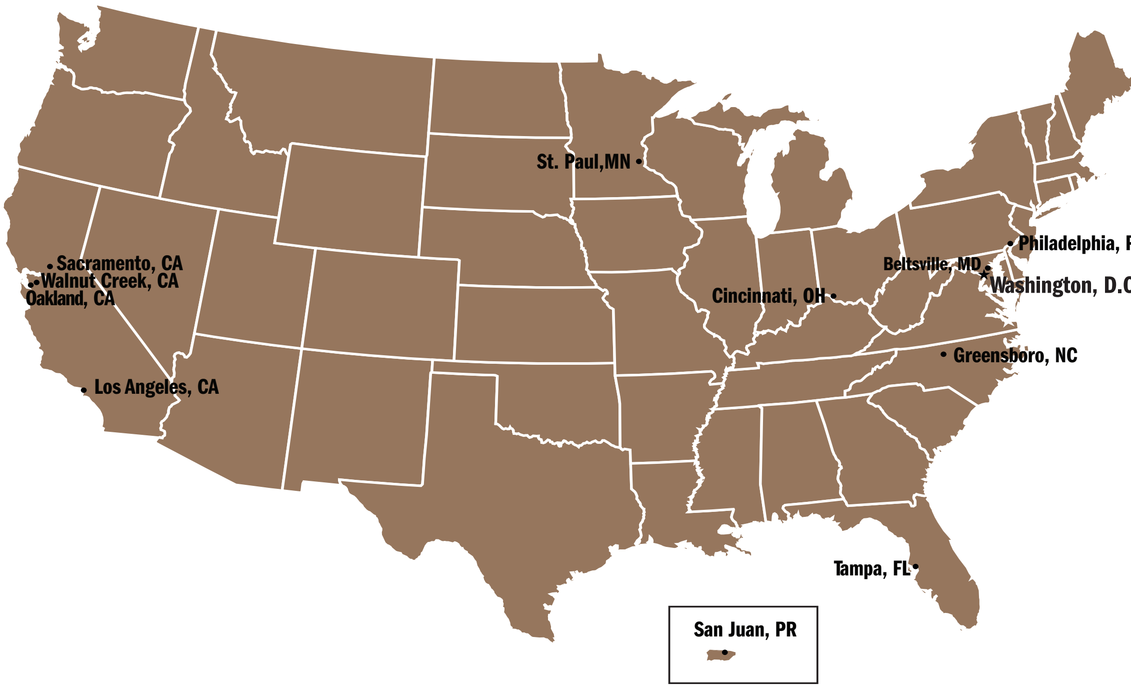
Effectively managed resources and human capital for maximum performance, efficiency, and program results

Human Capital Management. Maintain a qualified, engaged, and satisfied workforce

Technology Solutions. Deliver effective, streamlined, and flexible IT solutions that add value and support program performance

Finance and Performance Results. Facilitate strategic management and financial accountability through the delivery of timely and reliable financial and performance information

TTB Office Locations



Industry at a Glance	FY 2014	FY 2013
Total TTB Permittees	71,900	66,642
TTB Permittees by Industry Type		
Alcohol	96.9%	96.7%
Tobacco	1.4%	1.5%
Firearms	1.7%	1.8%
TTB Taxpayers	10,548	9,298

TTB at a Glance	FY 2014	FY 2013
Employees	473	482
Office Locations *	12	12
Budget Authority	$99.0 Million	$94.7 Million
Revenue Collected	$22.2 Billion	$22.9 Billion
Original and Amended Permits Received		
Original Permits	8,170	8,448
Amended Permits	16,761	21,921
Certificate of Label Approvals Received	142,440	140,324

*TTB has some offices co-located in larger cities.

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Part I
Management's Discussion and Analysis

Profile of a Bureau

The mission of the Alcohol and Tobacco Tax and Trade Bureau (TTB) is to collect the federal taxes on alcohol, tobacco, firearms, and ammunition products, protect consumers from unsafe or improperly labeled alcohol beverage products, and prevent unfair or unlawful trade of alcohol and tobacco products. TTB's diverse mission, and its position as a Bureau of the Department of the Treasury, means that TTB must strike a balance between its tax and regulatory functions and its role in facilitating fair and robust economic activity in the alcohol and tobacco trades.

TTB is staffed with approximately 470 employees, most of whom report to either the headquarters office in Washington, D.C., or the National Revenue Center in Cincinnati, Ohio. For its auditors, investigators, and agents to most effectively operate in the field, TTB maintains a minimal physical footprint, with 10 offices in cities across the United States and Puerto Rico. These small, strategically located offices place the Bureau in close proximity to centers of trade and industry activity, and provide effective launch points for TTB's investigative teams. Additionally, the Bureau has two laboratory facilities in Walnut Creek, California and Beltsville, Maryland. See Part IV of this report for a chart outlining the TTB organizational structure.

The Bureau was formed in January 2003, under the Homeland Security Act of 2002, but its history began more than 200 years ago as one of the earliest federal tax collection agencies. Today, TTB operates under the authorities of the Internal Revenue Code of 1986 (IRC)[1] and the Federal Alcohol Administration Act (FAA Act),[2] including the Alcoholic Beverage Labeling Act of 1988 (ABLA),[3] and the Webb-Kenyon Act.[4] These laws put in place strict requirements and controls related to alcohol and tobacco products and place restrictions on who can make, sell, and distribute these commodities.

In essence, TTB administers its jurisdiction according to two core mission areas—"Collect the Revenue" and "Protect the Public"—both of which serve to support economic growth and stability by ensuring that the federal government has the cash resources needed to fund national priorities and that lawful U.S. alcohol businesses are competitive and thriving in the global marketplace.

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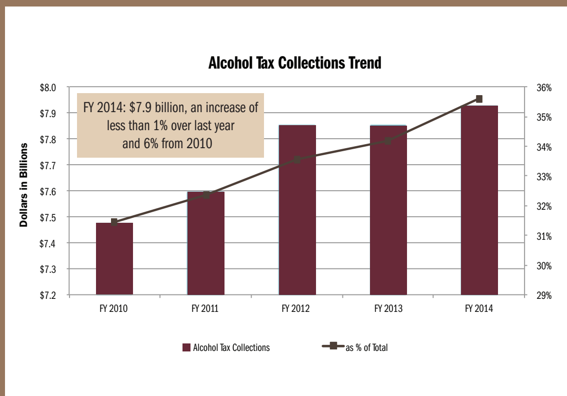
1 Chapters 51 and 52 of the IRC provide for excise taxation and authorize operations of alcohol and tobacco producers and related industries, and IRC sections 4181 and 4182 provide for excise taxes for firearms and ammunition.

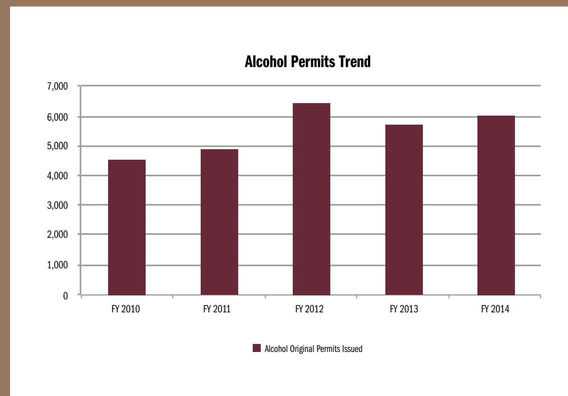
2 The FAA Act provides for regulation of those engaged in the alcohol beverage industry and for protection of consumers through certain requirements regarding the labeling and advertising of alcohol beverages. The FAA Act also includes provisions to preclude unfair trade practices that serve as barriers to competition and trade in the U.S. marketplace.

3 The ABLA mandates that a Government warning statement appear on all alcohol beverages offered for sale or distribution in the United States.

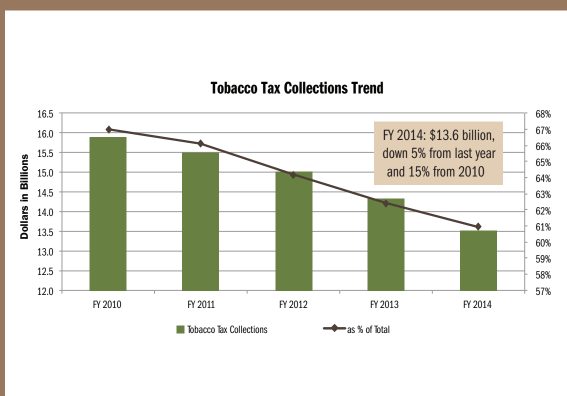
4 The Webb-Kenyon Act prohibits the shipment of alcohol beverages into a State in violation of the receiving state's laws.

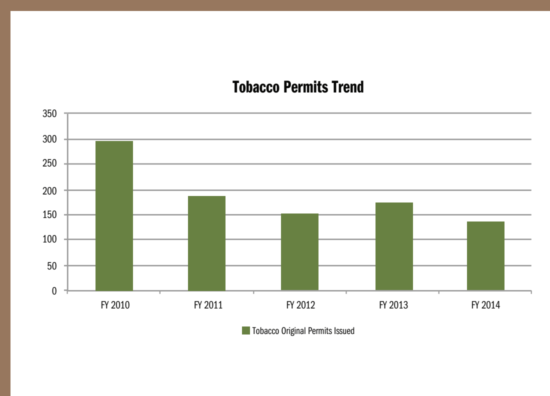
Alcohol Industry Snapshot



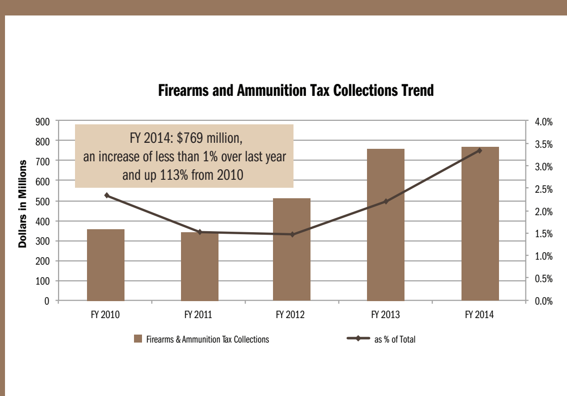


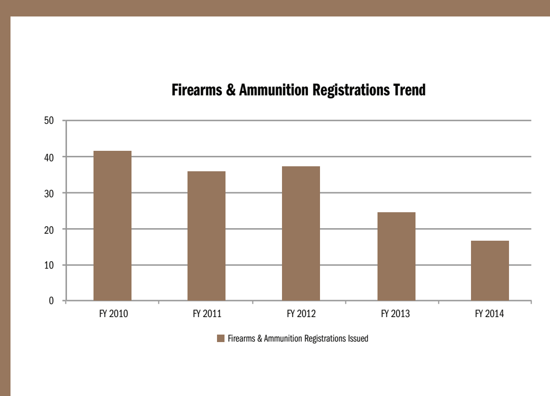
Tobacco Industry Snapshot





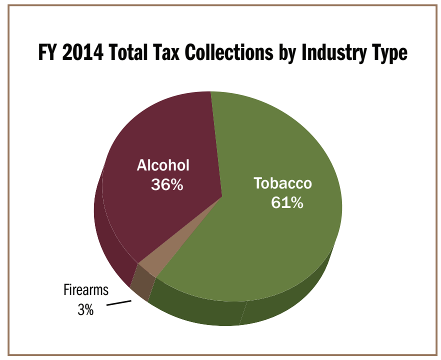
Firearms & Ammunition Industry Snapshot





Performance Highlights

Collect the Revenue



TTB is the third largest tax collection agency in the U.S. government, behind the Internal Revenue Service (IRS) and U.S. Customs and Border Protection (CBP). Annual revenues from the alcohol, tobacco, firearms, and ammunition industries are approximately $22.2 billion. TTB excise tax collections reached an historic high of $23.8 billion in FY 2010, principally due to increased receipts from the tobacco industry. Today, tobacco revenues comprise more than 60 percent of TTB's total excise tax collections.

In FY 2014, TTB collected $13.6 billion in tobacco tax revenue, a decrease of approximately 5 percent compared to FY 2013 collections. In forecasting tobacco revenue, the Congressional Budget Office (CBO) predicted that federal collections would decline after peaking in FY 2010 due to the significantly increased tax rates on cigarettes and other tobacco products enacted by the Children's Health Insurance Program Reauthorization Act (CHIPRA). This legislation provided for a tax rate increase on all tobacco products, cigarette papers, and cigarette tubes, effective April 1, 2009. Higher prices on tobacco products have historically resulted in decreased consumption and increased illicit trade, which indicates that tobacco revenue will continue to decline. Further, recent analysis of tobacco collections has shown significant market shifts for tobacco products since the passage of CHIPRA. The law introduced large federal excise tax disparities among tobacco products, which created opportunities for tax avoidance and led manufacturers and price sensitive consumers to shift toward lower-taxed products. The growing popularity of untaxed products, such as electronic cigarettes, may further contribute to declining tobacco revenue. TTB will continue to exercise its civil and criminal tax jurisdiction to support voluntary tax compliance and deter illicit trade.

The alcohol beverage industry in the United States accounts for approximately 36 percent of the excise tax revenue collected by TTB. In FY 2014, TTB collected approximately $7.9 billion in revenue from U.S. wineries, breweries, and distilleries, up slightly compared to the prior year. While economic forecasts predict continued modest growth in the U.S. alcohol industry as a whole, excise tax collections will likely remain relatively flat due to a number of variables, including increasing volumes in imports and exports, and declining sales by volume from the country's largest breweries, which account for over 90 percent of the beer sold in the U.S. The rapid expansion of new small alcohol beverage producers, including small wineries, breweries, and distilleries, will not entirely offset the declines in sales and tax payments by the large companies because these producers have lower production volumes and small beer and wine producers are eligible for reduced tax rates based on their production volume. This trend is expected to continue into FY 2015.

TTB also collects the federal excise taxes on firearms and ammunition. These taxes are remitted to the Fish and Wildlife Restoration Fund for wildlife restoration and research and hunter education programs.

In the past decade, collections have increased from $225 million in FY 2005 to an estimated $769 million in FY 2014, an increase of $544 million over the past decade, or a 240 percent growth in tax revenue. Historically, the increase in reported tax revenue can be attributed to external factors, such as increased sales, as well as TTB's enforcement presence, which increases collections and promotes voluntary compliance.

Civil Tax Enforcement

Tax Classification

The tax rate on alcohol and tobacco products depends on a variety of factors, including product type (i.e., wine, spirits, or malt beverage) as well as characteristics of the products themselves, such as composition and weight. A critical first step in tax enforcement is the assignment of a tax class to alcohol and tobacco products based on federal statutory and regulatory standards. For alcohol beverages, classification requires that TTB review the formula of certain products before they enter the market. TTB also conducts tobacco product evaluations during audits to check for proper tax classification based on the characteristics of the product as defined by statute.

Shifting Tobacco Market Trends due to Tax Rates

The significant differences in the federal excise tax rates on cigarettes and other tobacco products highlight the importance of TTB's tax classification activities. Prior to CHIPRA, TTB faced enforcement challenges due to the disparate tax rates on cigarettes and small cigars, and difficulties in applying the statutory criteria to these products. The law resolved these challenges by creating parity in the excise tax rates for cigarettes and small cigars. However, CHIPRA created large disparities in tax rates for other tobacco products, thus presenting new challenges for TTB in appropriately classifying and collecting the taxes due on these products. Since the new tax rates took effect in April 2009, TTB has identified and monitored significant market shifts toward lower-taxed tobacco products by manufacturers and price-sensitive consumers.

In the past six years, TTB data indicates a near complete reversal in the market shares for pipe and roll-your-own (RYO) tobacco in response to the lower tax rate on pipe tobacco.[5] Because the two products can be similar (and even interchangeable), and because the tax on roll-your-own tobacco was significantly increased, a portion of the roll-your-own tobacco market has switched to pipe tobacco, resulting in a dramatic shift in the volume of pipe tobacco and roll-your-own tobacco reported as removed by domestic manufacturers.

Because of the lack of clear standards in the tax code to differentiate pipe tobacco from RYO tobacco, TTB has initiated rulemaking on the types of objective standards that would provide a basis for differentiating between these two products for tax purposes. At the same time, in support of this rulemaking, the TTB Tobacco Laboratory has been evaluating proposed methods and standards. The goal is to set forth objective criteria, based on physical characteristics of the products, to distinguish between pipe tobacco and RYO for tax purposes. TTB intends to publish subsequent rulemaking in this area.

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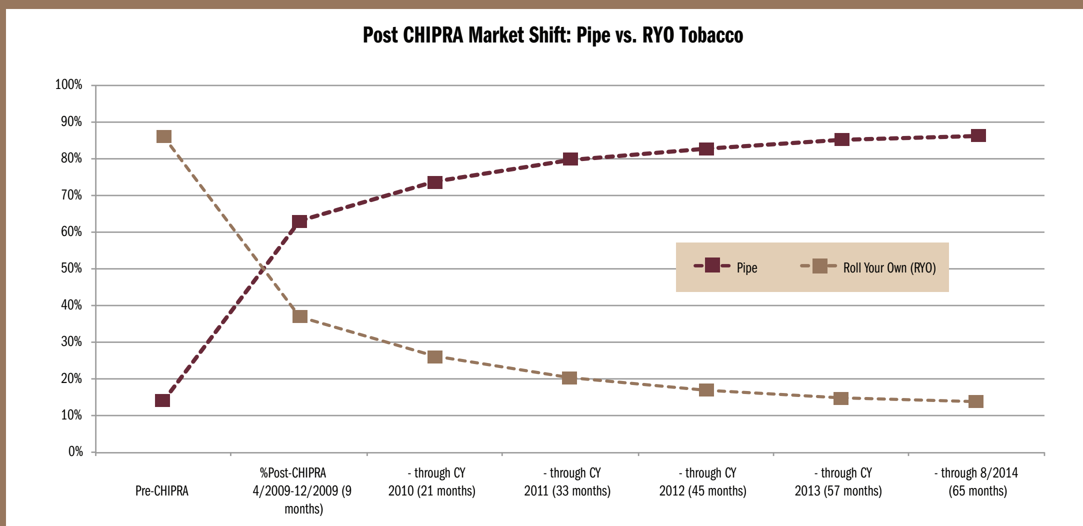
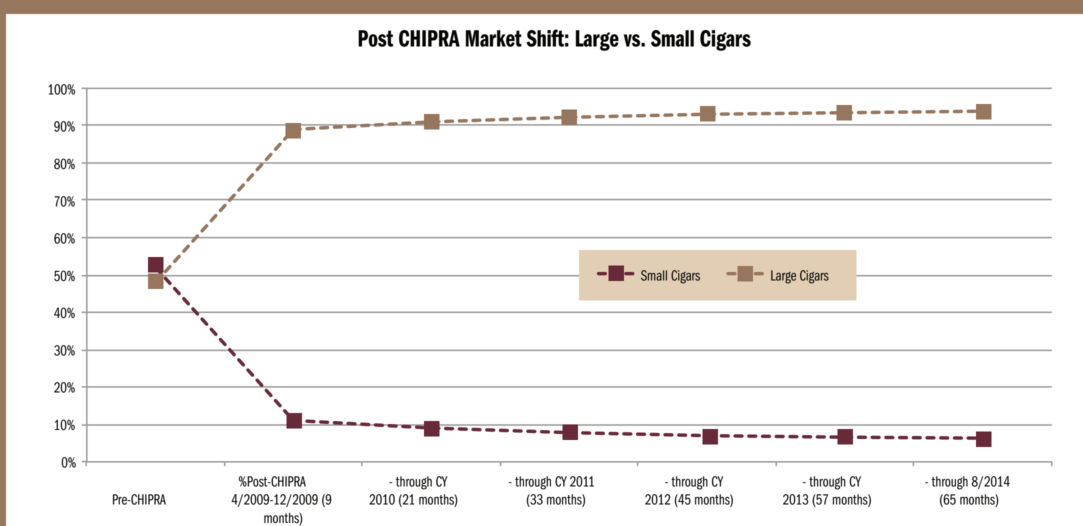
5 Prior to CHIPRA, the tax rates on pipe tobacco and RYO tobacco were the same at just under $1.10 per pound. As a result of CHIPRA, the tax on pipe tobacco was increased to just over $2.83 per pound, while the tax on RYO tobacco was increased to $24.78 per pound.

Market Shifts in Tobacco Products

Significant shifts in the tobacco products industry have developed since the enactment of CHIPRA, particularly for small and large cigars and RYO and pipe tobacco. An independent review by the Government Accountability Office (GAO) examined the market shifts in smoking tobacco products and federal revenue losses (GAO-12-475). In 2014, GAO published testimony estimating that federal revenue losses due to market shifts from RYO to pipe tobacco and from small to large cigars range from $2.6 to $3.7 billion for the period April 2009 through February 2014. GAO also confirmed its original recommendations that Congress consider equalizing tax rates on RYO and pipe tobacco and, in consultation with the Department of the Treasury, consider options for reducing tax avoidance due to tax differentials between small and large cigars. GAO also recognized that TTB has taken steps to respond to these market shifts, including its efforts to differentiate between RYO and pipe tobacco for tax collection purposes, but acknowledged that TTB has limited options. Current data indicates that this trend continued in FY 2014.





TTB Administrator Testifies on Tobacco Tax Enforcement

On July 29, 2014, TTB Administrator John Manfreda testified before the Senate Finance Committee on federal tobacco tax administration and enforcement, particularly since the 2009 tax rate increases on tobacco products enacted by CHIPRA.

TTB provided testimony on its jurisdiction and enforcement profile, market shifts in taxable removals of tobacco products since the enactment of CHIPRA, and various tax avoidance and evasion schemes identified by TTB auditors, investigators, and agents.

The hearing also included testimony from the Government Accountability Office and members of the U.S. tobacco industry. In its testimony, GAO highlighted updates to the key findings from its April 2012 report, including market shifts among smoking tobacco products since CHIPRA, the impact of the market shifts on federal revenue, and Treasury's actions to respond to these shifts.

The market shares for small cigars and large cigars, which were relatively equal pre-CHIPRA, have also starkly shifted toward large cigars following the CHIPRA increase in the small cigar tax rate. Large cigars are subject to an *ad valorem* tax and may have a significantly lower tax than a small cigar depending on the sale price of the cigar. [6]

This incentive to avoid tax is reflected in the overall decrease in the average taxable sale price for large cigars since CHIPRA. Large cigar manufacturers may be lowering their taxable sale price in a number of ways. Manufacturers may legitimately add weight to small cigars to qualify them for the large cigar tax rate, and then recognize net tax savings. In some instances, only minimal changes may be needed to add additional weight to a product so that it meets the definition of a large cigar, such as adding a small amount of tobacco.

Another common scenario is to "layer" sales transactions to avoid taxes. In some of these cases, manufacturers or importers insert an additional transaction with an intermediary into their distribution chain before the sale to a wholesaler or distributor, resulting in a lower sales price at retail. This activity is an ongoing enforcement challenge for TTB, as it may represent tax avoidance or tax evasion, depending on the arrangement.

Supporting Global Alcohol and Tobacco Tax Administration

TTB supports an effective global excise tax enforcement scheme through technical collaborations with domestic partners and foreign counterparts. TTB's expertise extends from alcohol and tobacco excise tax administration to advanced analytical techniques to support lawful and compliant trade.

During FY 2014, TTB partnered with the Department of the Treasury's Office of Technical Assistance (OTA) in a cooperative effort to improve tax collection outcomes and better combat cross-border illicit trade activities. OTA supports improved financial systems around the world, with a core focus on effective tax policy and administration. Through this effort, TTB will be able to share its best practices with similarly situated officials in foreign countries, and leverage the resources of the international community to address the global issue of illicit trade, which may cross into the United States.

6 Large cigars are the only tobacco product for which the excise tax is based on the manufacturer or importer's sale price, up to a maximum amount; all other tobacco products are taxed at a flat rate based either on the number of units or the weight of the product. As a result, since the tax increase on small cigars, TTB has found that manufacturers and importers are increasing the weight of products that had been classified as small cigars prior to CHIPRA so that they meet the statutory definition of a large cigar.

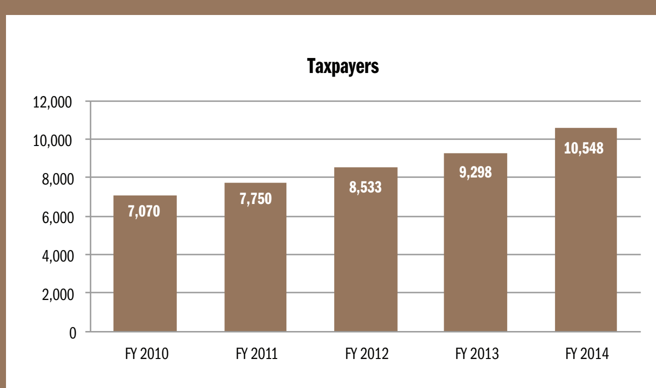
Further, in FY 2014, TTB increased and strengthened international connections with tax administration officials in foreign governments and across stakeholder organizations, such as the World Health Organization, the Pan American Health Organization, and the Framework Convention Alliance.

TTB also continued its efforts to advance tobacco science through the development of methods and protocols to identify physical and chemical characteristics of tobacco products for regulatory and tax enforcement purposes. In FY 2014, TTB's Tobacco Laboratory partnered with the U.S. Food and Drug Administration's Center for Tobacco Products to develop and validate an analytical method for polyphenols in tobacco leaves and tobacco products to support rulemaking and enforcement efforts by both agencies. TTB is also developing methods for analysis of emerging products that claim to be tobacco-free, such as e-cigarettes and e-liquid. TTB's jurisdiction is limited to products that contain tobacco, as compared to products containing only nicotine or nicotine extract. These analytical methods will assist in determining whether any of these products contain tobacco, in which case they would be taxed and regulated by TTB as tobacco products.

In FY 2014, TTB also coordinated and hosted an international wine technical forum, which provided an opportunity for TTB to address emerging technical issues and encourage scientific collaboration between TTB, industry scientists, and other wine regulators. Participants at this year's forum included representatives from TTB, the Wine Institute, the Unione Italiani Vini (an Italian wine trade organization), China, Australia, Canada, and Argentina. The technical principles discussed during the international forum focused on establishing regulatory limits for wine and testing wine for compliance. These technical principles support a multi-year project to promote coherence in wine regulation throughout the Asia-Pacific region and have been officially adopted by the World Wine Trade Group.

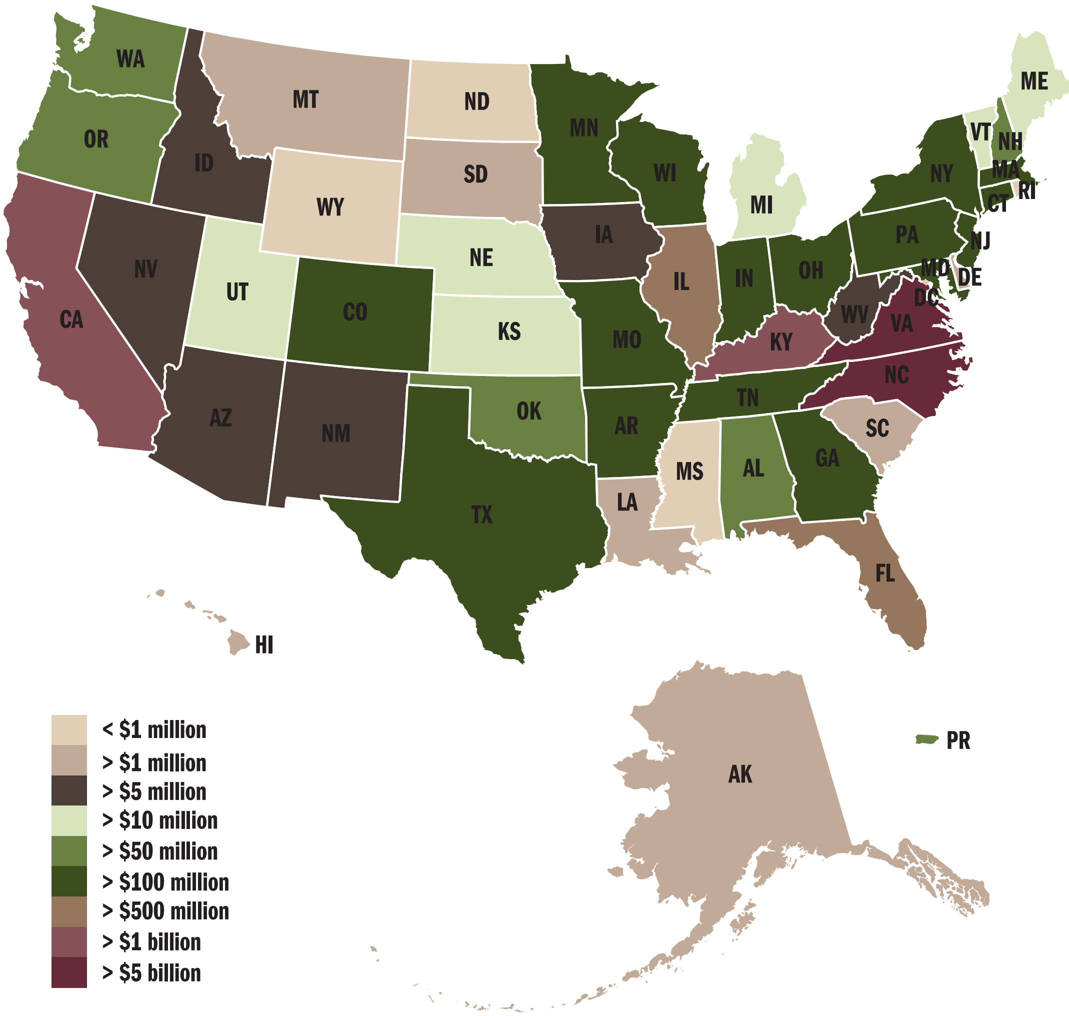
Tax Verification

In effecting its revenue mission, TTB uses a strategic risk-based approach to verify that industry members remit the excise taxes due on the alcohol, tobacco, firearms, and ammunition products sold to U.S. consumers. This strategy enables TTB to cover a wide universe of taxpayers and establish an identifiable enforcement presence to deter industry members and others from engaging in diversion activity. This involves a combination of risk modeling and data analytics to support the identification of the highest risk activity for audit or investigation, an area of priority focus for TTB in FY 2014. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its enforcement resources to address the most serious revenue threats.



TTB regulates approximately 72,000 permittees, but only a small percentage file a return and pay taxes to TTB in a given fiscal year. The largest segment of TTB permit holders—alcohol importers and wholesalers—do not pay taxes to TTB. Up until 2010, there were several years of modest growth. The TTB tax base grew by approximately 10 percent or more in FY 2014 for the fourth consecutive fiscal year. Since 2010, the number of TTB taxpayers has increased 49 percent.

FY 2014 Tax Collections by State



States* with the Largest Percentage Increase in Federal Excise Tax Collections (FY 2010 - FY 2014)			
State	FY 2010	FY 2014	% Increase
NE	$6,125,319	$17,352,382	183%
MI	$4,217,967	$11,202,521	166%
NV	$2,596,083	$6,439,937	148%
CT	$53,172,714	$126,087,658	137%
KS	$15,031,191	$31,069,383	107%

*Limited to states with tax remittances of greater than $5 million in FY 2014.

Addressing Revenue Threat from Cigarette-Making Machines

Any person who for commercial purposes makes available for consumer use a cigarette-making machine is considered a tobacco product manufacturer under federal law and is required to obtain a TTB permit and pay the applicable taxes. These machines increased in popularity following the enactment of CHIPRA, as consumers responded to the increased tax rate on cigarettes and roll-your-own tobacco by substituting a lower taxed alternative, pipe tobacco, in the machines. Further, the CHIPRA tax change coincided with technological advances in cigarette-making machines, some of which could make cigarettes from either pipe tobacco or roll-your-own tobacco at a much quicker rate, taking only eight minutes to produce a carton of 200 cigarettes as compared to the three hours needed to produce a carton using older model machines.

The proliferation of these machines continues to create enforcement challenges and strain TTB enforcement resources given the number of locations and the relative tax exposure involved in each case. TTB has partnered with states to identify establishments operating cigarette-making machines and has issued letters to retailers and private clubs informing them of their compliance obligations. To date, TTB's enforcement efforts at retail establishments resulted in the identification of nearly $4 million in tax liabilities. Going forward, TTB will continue to engage its law enforcement partners and collect additional intelligence on locations with these machines to identify and collect unpaid tax liabilities from unpermitted manufacturers shirking their tax responsibilities.

Enforcing Compliance in the Import and Export Trade

Due to the known revenue risk in the import and export trade in alcohol and tobacco products, in FY 2014, TTB continued to focus its enforcement on these at-risk points in the supply chain. TTB's efforts, in collaboration with U.S. Customs and Border Protection (CBP), have helped to maintain an even playing field in the international trade of alcohol and tobacco.

Exports pose a significant revenue threat because alcohol and tobacco products intended for export may be placed in a customs bonded warehouse, foreign trade zone, or tobacco export warehouse without payment of tax because they are not intended for the U.S. market. Some tax evasion schemes involve diversion of these products into domestic commerce to evade federal excise taxes. According to TTB data, non-taxpaid removals of cigarettes exported through foreign trade zones and export warehouses have an annual excise tax exposure of about $105 million.

In FY 2014, TTB examined suspected tax fraud and diversion at export warehouses. Though these investigations are time intensive, the results to date indicate significant diversion activity. TTB has initiated approximately $5.5 million in tax assessments based on these investigations and anticipates taking actions on the permits of the implicated companies. Going forward, and in partnership with CBP, TTB intends to expand its proven intelligence and investigative techniques to make significant inroads into identifying additional tax evasion schemes that involve the diversion of non-taxpaid products intended for export.

Addressing the Revenue Risk from Processed Tobacco

Manufacturers and importers of processed tobacco distribute millions of pounds of processed tobacco annually to a myriad of brokers, manufacturers, and other tobacco processors for use in cigarettes and other taxable tobacco products. Manufacturers and importers of processed tobacco must obtain a TTB permit and report to TTB on the first removal, transfer, or sale of processed tobacco. As processed tobacco is untaxed, the diversion of this product for use in the illegal manufacture of cigarettes or other tobacco products poses a significant revenue risk, and TTB continues to face enforcement challenges due to the unrestricted sale of processed tobacco.[7]

In FY 2013, the last complete year of data examined, nearly a quarter of the roughly 831 million pounds of processed tobacco removals reported to TTB (excluding exports) were shipped to entities that do not hold a federal permit with TTB. Although some of these removals represent sales to brokers, who may ultimately sell processed tobacco to a TTB-permitted manufacturer of tobacco products, other removals may be ultimately destined for illicit production. TTB analyzes this information, in conjunction with other intelligence, to select and prioritize its audits and investigations. As a result of these enforcement efforts, TTB investigations have identified approximately $180 million in unpaid federal excise taxes; some of these cases have resulted in referrals for criminal investigation. TTB will continue to refine its enforcement efforts related to this and other priority enforcement initiatives in FY 2015 through a combination of data analytics and advanced field investigative techniques.

Criminal Enforcement

TTB is the federal agency responsible for detecting and addressing federal excise tax evasion in relation to alcohol and tobacco products. Under its criminal authority, TTB is charged with identifying any gaps in tax payment from entities and individuals manufacturing or selling these products illegally. The diversion of products into domestic commerce without the payment of taxes threatens federal revenues, undermines fair competition, and provides a well-established source of funding for criminal enterprises.

Accurately estimating tax losses resulting from tobacco diversion has inherent challenges, both because of the clandestine nature of the activity and the degree of underreporting in tobacco consumption data used to generate revenue loss estimates, as noted in the Department of the Treasury's 2010 Report to Congress.[8] However, in any case where the intrinsic value of a product is dwarfed by its tax value, there is incentive to evade the tax to gain an illegal profit.

Increases in federal and state tobacco tax rates have further increased the profit incentive to engage in cigarette trafficking, which has resulted in a proliferation of tobacco diversion schemes. A March 2011 Government Accountability Office report found that there are a wide range of schemes used to evade tobacco excise taxes and fees and described the scope of current diversion activity.[9] However, the diversion of products to evade federal excise tax is not limited to tobacco. Enforcement experience also indicates that there is criminal activity in the alcohol trade, with non-taxpaid product removals, illegal imports, and fraudulent labeling just a few of the schemes used to evade taxes, defraud American consumers, and undermine the legitimate alcohol trade.

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7 The Administration proposed legislative amendments in the FY 2014 and FY 2015 President's Budgets to tax any processed tobacco that is removed for domestic consumption or transferred to unpermitted businesses in the United States.

8 In February 2010, the Department of the Treasury issued a report to Congress ("Report to Congress on Federal Tax Receipts Lost Due to Illicit Trade and Recommendations for Increased Enforcement"), which included an effort to estimate the amount of federal tax receipts lost as a result of cigarette diversion. The study emphasized the substantial uncertainty surrounding the magnitude of the federal tax receipts lost due to cigarette diversion.

9 "Illicit Tobacco: Various Schemes are Used to Evade Taxes and Fees," U.S. Government Accountability Office, GAO-11-313, March 2011.

Using temporary appropriations, TTB has developed an effective criminal enforcement program by leveraging existing law enforcement agents within the Treasury Department to enforce its criminal jurisdiction. This arrangement has allowed TTB to engage in operations quickly and bypass certain operational costs, both of which are critical considerations given continued funding uncertainties. TTB's forensic auditing and advanced investigative techniques have proven effective in addressing tax evasion in the tobacco and alcohol industries and contributing to deficit reduction through additional revenue collections.

Achieving Criminal Enforcement Results

TTB's criminal enforcement program is critical to the Bureau's ability to effectively curtail current illicit operations and deter others from engaging in diversion activity. Although still in its early stages, TTB's criminal enforcement program has exhibited notable results. With a small cadre of special agents, obtained through an interagency agreement with the Internal Revenue Service Criminal Investigation Division, TTB has opened a total of 72 cases, with identified liabilities of over $345 million in estimated alcohol and tobacco excise taxes and approximately $117 million in criminal seizures. To date, 70 of 72 cases presented to the U.S. Attorney's Office have been accepted for further investigation – demonstrating both the merit and magnitude of these cases – and TTB has maintained a 100 percent conviction rate on cases fully resolved through the legal system. TTB's criminal enforcement program is also building key relationships with other federal and state law enforcement agencies, generating referrals for additional cases and opportunities for partnering in future cases and investigations.

In addition, specifically with regard to diversion risk associated with the importation and exportation of tobacco products, TTB has been working with CBP on cooperative enforcement efforts, including the development and implementation of the International Trade Data System (ITDS). The purpose of ITDS is to provide a "single window" through which importers and exporters will submit electronically all information necessary to comply with all other government agencies' requirements for the clearance of imports and exports. This cooperative system and the transactional trade data that it will provide are expected to factor prominently in TTB's tax enforcement strategy going forward. In addition to more timely and targeted information on imports and exports for TTB enforcement purposes, TTB expects that this effort will improve communication and coordination between CBP, TTB, and other participating agencies on tax and trade issues. TTB plans to be fully integrated into ITDS by the end of 2015, well in advance of the December 2016 mandate for government-wide use of ITDS under the Executive Order entitled "Streamlining the Export/Import Process for America's Businesses."

Protect the Public

TTB's public protection mission includes a wide range of activities that directly impact American consumers and the U.S. economy. TTB's role in regulating the trade of alcohol and tobacco products ensures not only consumer confidence in the integrity of the products manufactured in the U.S., but also that businesses are operating on a level playing field—key outcomes that promote job growth and a strong economy. TTB's work in this mission area aligns under three main programs: 1) Permits and Business Assurance; 2) Trade Facilitation; and 3) Advertising, Labeling, and Product Safety.

Business Integrity

TTB facilitates growth in the U.S. economy by ensuring that only qualified applicants enter business as an alcohol producer, wholesaler, or importer, or as a tobacco products manufacturer, importer, or exporter. The FAA Act includes provisions that require a permit for alcohol beverage producers, importers, or wholesalers; the IRC includes similar permitting requirements for tobacco manufacturers, importers, and export warehouses, as well as some alcohol industry members. The number of applicants filing for an original permit or registration with TTB has grown 27 percent between fiscal years 2010 and 2014. Today, the Bureau regulates nearly 72,000 industry members.

Under its statutory authority, TTB evaluates applications prior to issuing a permit to ensure that only qualified persons operate within the TTB-regulated industries. Through this process and other activities under its Permits and Business Assurance Program, TTB prevents prohibited persons from commencing operations and potentially diverting products from legitimate commercial channels to fund illicit activity. Given the substantial tax revenue associated with the commodities TTB regulates, this activity plays an important role in protecting federal revenues.

Efficiency in permit processing is equally critical to support economic opportunities for U.S. businesses. Prompt turnaround times for permit application processing enables those who are qualified to hold a federal permit to begin their operations sooner, facilitating U.S. economic growth in a fair marketplace.

Improving Service in Permit Processing

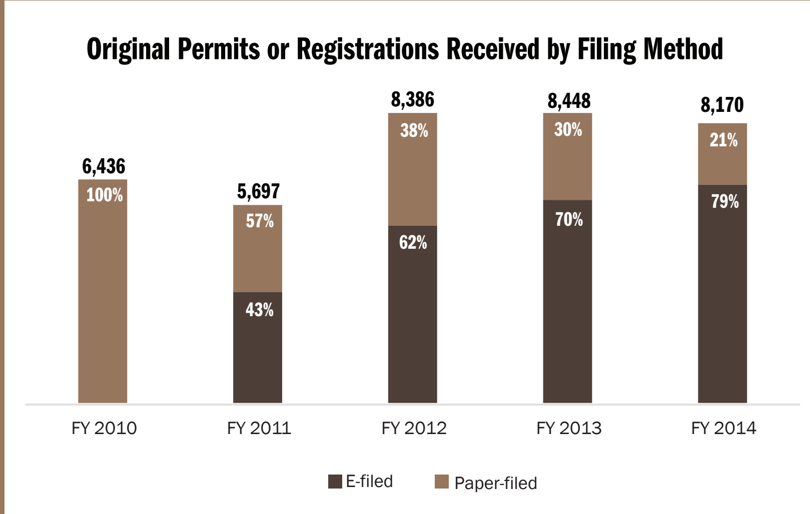
TTB processes applications for 23 types of permits or registrations for the alcohol, tobacco, firearms, and ammunition industries. The new businesses permitted by TTB are predominantly small businesses, which contribute to local job opportunities as well as America's competitiveness in the global market.

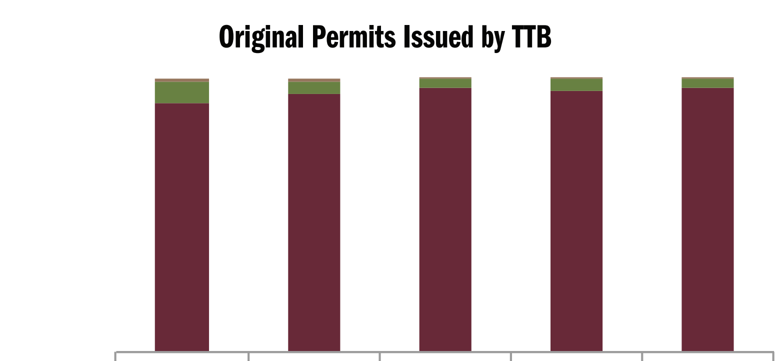
In FY 2014, TTB processed more than 8,100 applications for a federal permit or registration, and qualified approximately 6,100 start-up businesses to operate. The Permits Online electronic filing system has helped TTB manage the influx of applications resulting from sustained growth in its regulated industries. Industry growth over the past several years has been striking, particularly in the number of beverage alcohol producers, which increased nearly 80 percent in five years. TTB resources have not kept up with this growth, however, making it difficult to maintain prompt processing times.

Even as electronic filing rates reached 79 percent, the average processing time for a new permit application increased from 81 days in FY 2013 to 84 days in FY 2014. Although electronic processing reduces application errors as well as the time and resources needed to return incomplete applications, it does not decrease the time needed by TTB to review each application. As a result, addressing delays in application processing requires broader reforms in TTB's business processes.

In FY 2014, to curb increasing turnaround times, TTB continued its priority project to facilitate electronic filing, which concentrates on system enhancements and improvements to streamline the application review and approval processes. These changes addressed bottlenecks in the approval process and eliminated certain manual and paper-based processes. Significantly, in FY 2014, TTB updated its regulations to allow for the electronic submission to TTB of copies of on certain required application documents, which completed the transition to an entirely electronic application process. TTB intends to improve processing times in FY 2015 through a combination of initiatives that involve further streamlining TTB's internal procedures, increased industry outreach, and ongoing system enhancements.

Permitting Stats





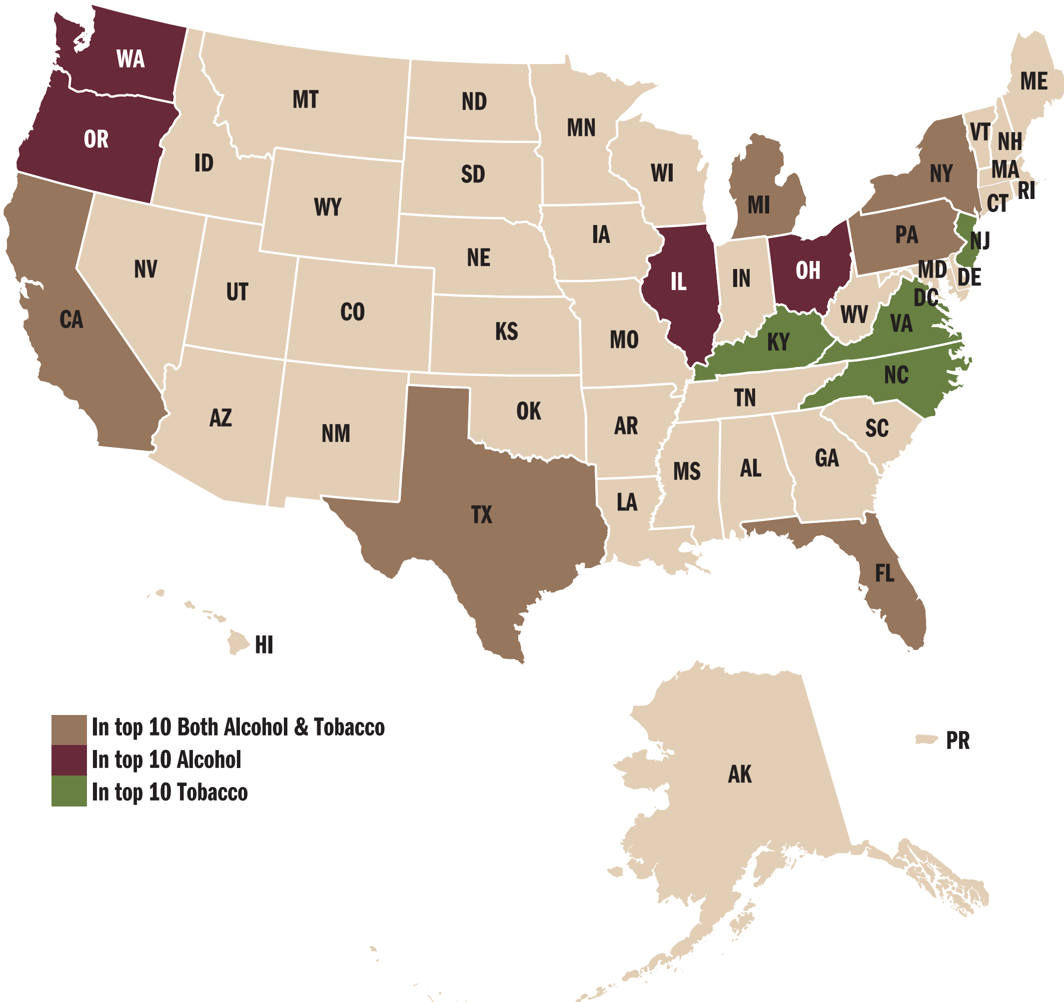
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Firearms	41	36	37	24	17
Tobacco	297	188	153	174	140
Alcohol	4,529	4,839	6,384	5,660	5,959

In five years, the total number of applications for original permits and registrations has increased by nearly 30 percent. Alcohol wholesaler permit applications spiked in FY 2012 due to a change in Washington State law, and have since decreased. Growth continues in the number of small wineries, breweries, and distilleries.

Electronic filing rates continue to rise, with almost 80 percent of new applications submitted via Permits Online in FY 2014. TTB expects this trend to continue as it enhances online guidance and implements planned system improvements.

In FY 2014, TTB issued over 6,100 permits and registrations, primarily to new alcohol beverage producers, importers, and wholesalers. TTB expects that its efforts to facilitate electronic filing will result in more timely processing of applications going forward.

FY 2014 Permitees by State



Top 10 States by Number of Alcohol Permits	
State	**# Permit Holders**
California	6,762
Washington	1,728
New York	1,702
Texas	1,318
Pennsylvania	1,245
Oregon	1,108
Michigan	1,031
Ohio	998
Florida	923
Illinois	919

Top 10 States by Number of Tobacco Permits	
State	**# Permit Holders**
Florida	286
California	115
North Carolina	85
New York	81
Texas	51
Virginia	47
New Jersey	43
Pennsylvania	42
Kentucky	28
Michigan	26

Market Integrity

TTB is charged with ensuring that the alcohol marketplace is free from practices that would stifle competition and act as a barrier to trade. TTB meets this mandate through a variety of activities under its Trade Facilitation program, ranging from investigations of industry trade practices to engaging foreign counterpart agencies to keep the channels of commerce open and operating in compliance with U.S. and international laws.

Promoting Fair Competition in the U.S. Marketplace

As part of its Trade Facilitation Program, TTB's FAA Act trade practices program investigates acts that violate federal law relating to alcohol beverage marketing practices. The FAA Act provisions that TTB enforces require TTB to ensure fair competition in the alcohol beverage trade by not only verifying that persons who engage in the trade are qualified to do so within the meaning of the statute, but also by ensuring that the trade practices among industry competitors comply with the law. Regulated trade practices include restrictions on exclusive outlets, tied house arrangements, commercial bribery, and consignment sales. Unlawful trade practices threaten fair competition by undermining equal access to the marketplace, precluding healthy small business activity, and limiting consumer choices by allowing influential producers to unlawfully interfere with the supply chain.

In FY 2014, TTB continued its evaluation of certain industry practices around the provision of shelf plans and schematics that may violate the tied house provisions of the FAA Act. In recent years, evolving industry practices and developing technologies have changed how shelf schematics are designed and offered to retailers. Shelf schematics in the current market are often complex computer-generated models of entire beverage sections that are increasingly offered in combination with shelf management programs that include additional related services, some of which could be considered unlawful inducements under the FAA Act.[10] TTB intends to take additional actions to address this issue in FY 2015 to the extent that these activities violate federal laws that are intended to promote a competitive market.

Facilitating U.S. Penetration into Foreign Markets

TTB has been actively engaged with U.S. trade officials in facilitating fair and open trade in alcohol beverages to support new opportunities for U.S. businesses in overseas markets. U.S. exports of alcohol beverages totaled $3.5 billion in 2013, the most recent full year of data available. In line with increases in overall export volume, alcohol beverage exports increased approximately 10 percent in 2013 compared to the prior calendar year. The majority of these exports are spirits and wine products, although growth has been notable for malt beverages in recent years.

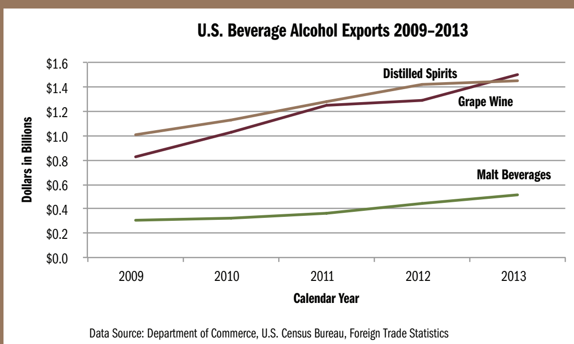
10 Examples of activities that are considered unlawful inducements under the FAA Act include furnishing, giving, renting, lending, or selling to the retailer any equipment, fixtures, signs, supplies, money, services, or other things of value. The regulatory exceptions to this provision are limited to certain promotional support items, such as product displays.

Alcohol Beverage Exports

Overseas demand for the products TTB regulates continues to grow. The value of U.S. exports of all alcohol beverages totaled $3.5 billion in 2013, the most recent full year of data available.

U.S. exports of distilled spirits totaled more than $1.4 billion, which represents a 3 percent increase from 2012. Over the same period, U.S. exports of wine increased by 16 percent, to $1.5 billion. Meanwhile, U.S. exports of beer also increased by 16 percent, to $518 million. With the exception of the 2009 calendar year, exports of U.S. alcohol beverages have increased each year in the previous five years.

TTB has undertaken a variety of efforts to directly influence that trend through its partnership with USTR. These include facilitating the reduction of export certification requirements imposed by foreign countries, negotiating trade agreements that facilitate trade and suspend trade barriers, and educating industry on U.S. import and export requirements.



As the technical expert in these commodities, TTB seeks to promote U.S. exports by facilitating industry compliance with foreign requirements and by working with foreign regulators to address barriers that block market access for U.S. products. For example, many major markets abroad require export certifications to accompany shipments of alcohol beverages before a product may enter foreign commerce. The importance of this work was underscored during the government shutdown in October 2013, when more than two million liters of U.S. products were left at ports unable to ship until TTB could issue export certificates.

TTB's workload in processing export certificates increased by 73 percent between fiscal years 2009 and 2013, and was on track to double by FY 2014, reflecting increased overseas demand for U.S. spirits and wine. In FY 2014, through its international outreach and negotiations, TTB arranged for the elimination or reduction of burdensome requirements and routine certifications, which reduced the number of certifications TTB issued to just over 13,000 compared to more than 15,000 last year.

This decline in part reflects China's acceptance in March 2014 of a combined export certificate for U.S. wines, which consolidates three separate export certificates into a single form. The establishment of this document took place after an 18-month negotiating period between TTB and the Chinese government, which concluded in December 2013. The combined document should result in significant savings—both financially and in terms of preparation time—for U.S. exporters.

Preventing and Addressing Barriers to Trade

The TTB Trade Facilitation Program also includes identifying and addressing barriers to trade in the international marketplace. TTB is the principal advisor and technical expert for the Office of the United States Trade Representative (USTR) and other federal agencies in the administration of U.S. alcohol laws, regulations, and policies, and coordinates with these agencies as appropriate in responding to alcohol beverage trade issues. TTB provides expert reviews of foreign regulatory proposals impacting the alcohol trade to identify and assess the impact of potential trade barriers for U.S. alcohol exporters. The USTR estimates that, in any given year, up to 20 percent of new barriers to trade relate to alcohol beverages. TTB plays a crucial role in the early identification and resolution of these issues.

TTB Hosts APEC Economies

In November 2013, TTB hosted a technical workshop for the Asia–Pacific Economic Cooperation's Wine Regulatory Forum (WRF) in Washington, D.C. TTB was joined by the Office of the U.S. Trade Representative, U.S. Department of Commerce, USDA Foreign Agricultural Service, and representatives from the U.S. wine industry.

The workshop brought together regulators and industry members from 14 of the 21 APEC economies to discuss good regulatory practices and exchange information on regulatory requirements for wine products. This session aligns with the five–year action plan to implement a framework within APEC for sound wine regulation, with a special emphasis on reaching out to developing economies to build capacity for proper risk management.

During the meeting, the group considered issues relating to export certification, laboratory testing, capacity building, and technical elements of wine production to faciliate trade in wine among the participants.

As a result of the workshop, WRF participants agreed to the establishment of four working groups, which have already begun to lead work in areas relating to a regulatory compendia, export certificates, enhanced risk controls, and pesticide maximum residue limits.

APEC wine work is also an opportunity for TTB to support U.S. jobs and promote exports. In 2012, the United States exported $735 million worth of wine to APEC economies, up 92 percent from 2008.

Specifically, in FY 2014, TTB continued its efforts to prevent new non-tariff trade barriers related to alcohol beverages by participating in the World Trade Organization process for reviewing proposed, new, and amended technical regulations. In FY 2014, TTB addressed issues related to alcohol beverage regulations or standards proposed by Brazil, India, and Canada, including Brazil's allergen labeling requirements, India's proposed standards for alcohol beverages, and Canada's food safety law.

In addition, TTB continued to participate in Codex Alimentarius Commission (Codex) committee meetings to protect U.S. interests as other countries and organizations seek to initiate or adopt standards and guidelines that could prove burdensome and unnecessary for U.S. producers of alcohol products. The Codex is a United Nations organization that develops international food standards and guidelines. TTB continued its engagement on key issues under consideration by Codex committees, including establishing standards for the labeling of alcohol products in the areas of mandatory date marking and bio-engineered, organic, and nutrition labeling. Date marking requirements are of particular interest to U.S. producers, as wine and distilled spirits products do not spoil under normal aging processes, and adding the information to labels would be burdensome and costly for U.S. producers, and potentially confusing to U.S. consumers.

TTB also continued its efforts through Codex to add common winemaking additives to the General Standards for Food Additives (GSFA). Many developing countries look to the GSFA to set national legislation and do not allow additives that are not listed in the GSFA. This reliance on the GSFA has resulted in trade barriers for U.S. alcohol beverages entering certain markets, and TTB's work in this area will ensure export markets remain open to U.S. businesses.

Supporting International Trade Agreements for Alcohol Beverages

TTB also works to address barriers in the international marketplace by participating with other federal agencies in the negotiation of international trade agreements related to alcohol products on behalf of the U.S. government. Highlights in FY 2014 include:

- Advanced the goal of promoting U.S. export trade in wine through the Asia-Pacific Economic Cooperation's (APEC) Wine Regulatory Forum. TTB played a significant role in the first two technical workshops of the APEC Wine Regulatory Forum with member economies, hosting the first workshop in Washington, D.C. with its interagency partners and members of the U.S. wine industry and taking the lead in significant parts of the second workshop in Beijing, People's Republic of China. The first workshop resulted in the formation of four public-private working groups to manage the reduction of barriers to trade related to export certification, transparency of regulatory requirements, testing and risk controls, and pesticide maximum residue levels. The goals of the second workshop were achieved when the APEC economies agreed to the working group recommendations, which included the development of a model export certificate, electronic certifications, and self-certification. Long term, the goal remains to eliminate as many certification requirements as possible as APEC economies enhance their regulatory capacities. The third workshop is scheduled to take place in Australia in November 2015.
- Provided technical advice on the Wine and Spirits Annex to the chapter of the Trans-Pacific Partnership Agreement (TPP) related to technical barriers to trade. The Annex aims to reduce barriers to trade in the regulation of wine and spirits.
- Contributed to the negotiations of the Transatlantic Trade and Investment Partnership (TTIP), a comprehensive free trade agreement between the two economies. The EU is the top export market for U.S. wine, and it is the largest source of imported wine in the United States. As a result, maintaining a free flow of trade between the two economies is vital to U.S. economic growth. USTR sought TTB's technical advice on a variety of alcohol beverage topics. TTB will continue to work with USTR on TTIP to ensure representation of U.S. stakeholders' interests.
- Facilitated a joint regulators forum with APEC member economies during the World Wine Trade Group (WWTG) annual meeting in November 2013. Members and observers from both trade organizations shared information about new and upcoming wine issues within their jurisdictions, including winemaking additives and processing aids, labeling rules, laboratory testing, and excise taxes. The joint session gave the WWTG participants the opportunity to interact with the Asia-Pacific economies, many of which are key export markets for wine.
- Supported the WWTG governments in completing and issuing their "WWTG Tbilisi Statement on Analytical Methodology and Regulatory Limits," which will help address an increasing pattern of burdensome global wine trade barriers that do not protect consumers. TTB will continue to work with the USTR and its WWTG counterparts in FY 2015 to further the group's key objectives, including outreach to strategic markets and the minimization of technical trade barriers.

Coordinating with Foreign Counterparts to Extend Regulatory Controls

The global trade in alcohol beverages is active and increasing. One key strategy to ensure that U.S. businesses remain competitive on a global scale is through improved communication and information exchange with U.S. trading partners. TTB's expansion of international agreements has fostered a global network of regulators in the alcohol and tobacco industries that ensure markets remain open and that illegal activity in the global trade is addressed promptly.

As part of an effort to protect consumers and to facilitate the import and export trade in alcohol beverages, TTB signed a memorandum of understanding with Moldova's Office of Vine and Wine in FY 2014. Moldova has a long history of wine production and is interested in expanding its export markets, including the United States. TTB's cooperation with Moldova helps ensure that Moldovan wine imported into the United States complies with U.S. laws and regulations.

Product Integrity

Consumer confidence is essential to ensuring that U.S. and world economies perform at their full economic potential. TTB is the federal agency responsible for carrying out provisions of the FAA Act that ensure that labeling and advertising of alcohol beverages provide adequate information to consumers concerning the identity and quality of products. This authority also calls for TTB to prevent misleading labeling or advertising that may result in consumer deception regarding alcohol beverage products.

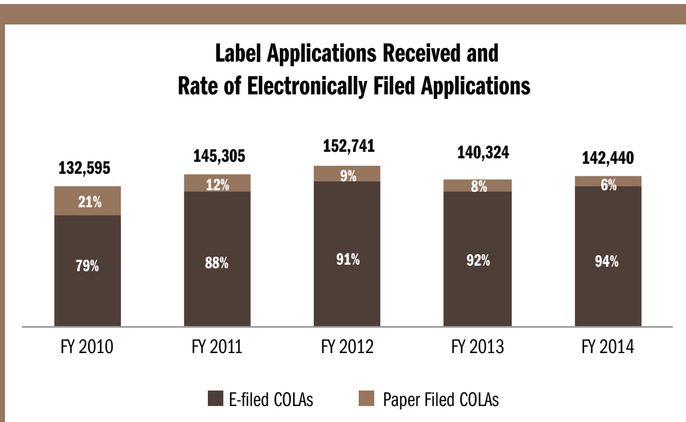
TTB Signs MOU with Moldova

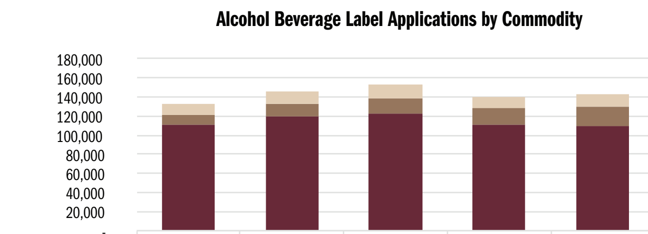
In July 2014, TTB hosted a delegation of winemakers and wine regulators from Moldova. Four officials from Moldova's Ministry of Agriculture, including the Minister of Agriculture, and several winemakers met with TTB officials to participate in signing a memorandum of understanding (MOU) between TTB and Moldova's Office of Vine and Wine.

Pictured above are TTB Assistant Administrator for Headquarters Operations, Theresa McCarthy, and Moldova Minister of Agriculture, Vasile Bumacov.

The Moldovan delegation was in the United States as part of a program hosted by the Department of Commerce's Special American Business Internship Training Program and was joined at the TTB meeting by representatives from the Office of International Trade of the Department of the Treasury, the U.S. Agency for International Development, and the Department of State.

The MOU covers many topics including exchanges of information concerning labeling and related regulations, bilateral trainings, seminars for technical and scientific staff, and developing laboratory–testing methods. It also provides a method for how issues concerning import and export that lie within the agencies' authorities may be resolved through information exchange and cooperative consultation.





	2010	2011	2012	2013	2014
Distilled Spirits	11,497	12,114	13,873	12,389	12,984
Malt Beverage	10,838	13,880	16,425	17,602	20,629
Wine	110,267	119,313	122,443	110,330	108,827

Alcohol Beverage Labeling Stats

Electronic filing rates for label applications continued to increase in FY 2014. Electronic filing has many benefits, particularly to industry members, who generally experience faster response times and higher approval rates as compared to paper filers.

Electronic filing, however, does not decrease the time required for TTB to review an application, and with the high volume of submissions, TTB has implemented program changes to meet the demand for service within available resources. These changes have helped TTB to manage workloads and start to reduce the average processing time for a label approval.

Through targeted outreach, TTB will continue to educate industry on the permissible label changes and continue to encourage use of its electronic filing systems.

This consumer protection function falls under TTB's Advertising, Labeling, and Product Safety Program. Before an alcohol beverage product subject to the FAA Act can be sold in the United States, TTB reviews the product label to ensure that it contains all mandatory information and does not mislead the consumer. In addition, labels are reviewed for compliance with the Alcohol Beverage Labeling Act, the federal law that mandates that a health warning statement appear on all alcohol beverages offered for sale and distribution in the United States. The approved label application is called a Certificate of Label Approval (COLA).

TTB confirms compliance with federal product and labeling regulations by reviewing production records through its product integrity investigations and by conducting marketplace sampling to test products for safety as well as container content and label compliance. TTB also reviews advertisements for alcohol beverage products from television, radio, the Internet, and other sources for compliance with federal regulations.

In the event that a food safety or other product integrity issue occurs, TTB responds by working directly with the responsible parties and, as appropriate, shares its findings with other regulatory and enforcement agencies and works in partnership for a timely resolution of the issue.

Modernizing the Alcohol Beverage Label Program

TTB continues its priority project to modernize its alcohol beverage labeling program. TTB is in the unsustainable position of having limited resources to meet the increased demand for its services from a growing business sector and is working to fundamentally reshape its program to address these challenges. TTB intends to accomplish this transformation through three main initiatives to: 1) streamline and simplify the label application submission and review process, 2) improve and update guidance to industry, and 3) enhance marketplace enforcement efforts. Through these efforts, TTB expects to eliminate the current barriers to compliant trade caused by processing delays while maintaining adequate regulatory controls to ensure consumer protection.

Label Application Submissions

In FY 2014, TTB received more than 142,400 label applications. After a decade of nearly constant annual growth, TTB has been effective in implementing policy changes to reverse the upward trend in label submissions, enabling TTB to better respond to the demand for its services. By revising the label application form to expand the list of items that may be changed on an alcohol beverage label without obtaining a new label approval, TTB reduced the number of new and resubmitted label applications by 7 percent in FY 2014 compared to FY 2012, the high water mark for applications. TTB will continue to educate industry members on the list of permissible revisions to labels and coordinate with states to ensure their adoption.

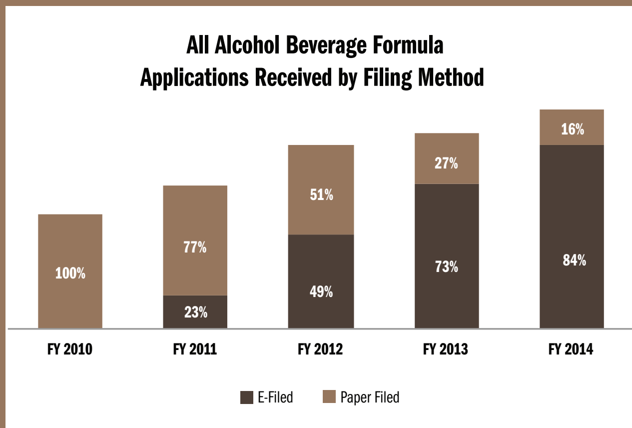
TTB is also developing system improvements to support timely processing of label applications. In FY 2014, industry submitted 94 percent of all COLA applications electronically though COLAs Online. TTB has continued to introduce system enhancements to draw industry members to electronic filing, including updating processing information and adding new system validations to check the completeness of applications. As errors or incomplete applications increase processing times, in FY 2015, TTB will review system data on common reasons for errors in applications to inform the ongoing initiative to improve industry guidance and further enhance COLAs Online. Going forward, TTB will continue to look for additional solutions to reduce regulatory burden and help industry members get their products to the marketplace faster without compromising its statutory mandates to ensure alcohol beverages are truthfully and accurately labeled.

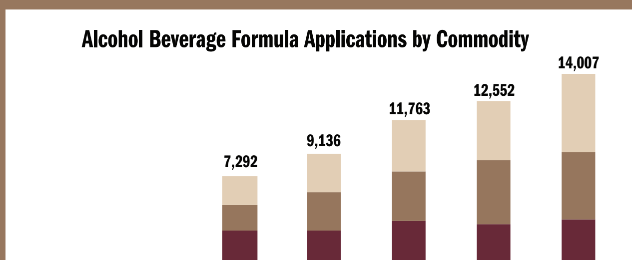
Federal Labeling Regulations

Other changes to the labeling program require amending TTB regulations. In FY 2014, in line with the goal to provide industry with clear guidance, TTB continued its efforts to modernize the federal alcohol beverage labeling regulations. By modernizing the labeling regulations to remove ambiguity and to remain current with market conditions and industry practices, TTB anticipates that industry will gain greater understanding of federal requirements, resulting in increased label compliance. These efforts should help industry avoid the administrative burden and cost of multiple application resubmissions, and promote the most efficient use of TTB's resources. TTB anticipates publication of the notice of proposed rulemaking before the end of the fiscal year.

Market Review of Label and Product Compliance

After alcohol beverages enter the marketplace, TTB monitors labeling compliance through the Alcohol Beverage Sampling Program (ABSP). The ABSP is a random survey of products in the marketplace to help TTB evaluate marketplace compliance and determine where issues may exist. The Bureau's continued monitoring of product and label compliance through the ABSP assists TTB in evaluating the integrity of U.S. alcohol beverage products, both in the view of U.S. consumers and TTB's international counterparts, which is critical to gaining foreign market access for U.S. exporters. Significantly, in FY





	FY10	FY11	FY12	FY13	FY14
Distilled Spirits	1,631	2,170	3,004	3,459	4,539
Malted Beverages	1,543	2,232	2,919	3,733	3,861
Wine	1,819	1,879	2,347	2,183	2,512

Alcohol Beverage Formula Stats

In five years, the total number of alcohol beverage formulas applications has grown more than 90 percent. Product innovation and the growth in the number of small brewers and distillers has contributed to the overall increase in formula submissions. The majority of formula submissions are for distilled spirits products (e.g., flavored vodkas, liqueurs) and malt beverages (e.g., flavored malt beverages). There are also formula requirements for certain types of wines.

TTB continues to evaluate broader changes to its formulation requirements to reflect modern industry practices and consumer interests, which have the potential to reduce the volume of submissions that industry must submit and TTB must pre-approve.

Notes: Electronic filing rates for Formulas Online includes electronic applications and uploaded forms. Information presented on formula applications by commodity does not include pre-import or laboratory analysis.

2014, TTB revised this program to support additional risk-based marketplace sampling based on findings in prior years.

For each product evaluated under the ABSP, TTB determines if they are fully and accurately labeled (i.e., whether the label accurately reflects the content of the bottle) by reviewing the labels and contents of those products. In reviewing the label, TTB checks for all required information and determines if there is a valid COLA. TTB also sends the products to its laboratories to undergo chemical analyses to evaluate whether the label information accurately reflects the content of the container.

TTB uses the ABSP results to address compliance problems for products that are currently in the marketplace. In most cases, TTB notifies the industry member about a violation and works with them to bring the product into compliance. For more significant violations, however, the Bureau conducts field investigations and ensures corrective action is taken on the part of industry members. Most violations in FY 2014 related to discrepancies between the actual alcohol content of certain wine, spirits, and malt beverage products and the alcohol content stated on the label of those products. The complete results of the FY 2014 ABSP will be available on TTB.gov in early 2015.

Modernizing the Formula Application Process

TTB reviews the formulation of certain domestic and imported alcohol beverages to support the accurate labeling and appropriate tax classification of those products. Formulas include statements of process, laboratory analyses, and pre-import letters, all of which also help to ensure that U.S. consumers have full and accurate information about the products they purchase.

Formula applications have increased rapidly in recent years for all alcohol beverage commodities, with the volume of submissions nearly doubling in the past five years. Formula applications increased another 11 percent between FY 2013 to FY 2014. This increase is due to the overall growth in the alcohol beverage market as well as trends toward products that require a TTB formula approval, including many flavored distilled spirits, wines, and malt beverages. In addition, small brewers and distillers are increasingly creating new and innovative products or using non-traditional methods to distinguish their products to consumers. Industry members are required to submit the formulas for many of these products to TTB for review to verify that the products are appropriately labeled and taxed and do not pose a risk to consumer safety.

Efforts to modernize the formula program fall under the umbrella of the priority project to modernize the labeling program. In FY 2014, to address the dramatic increase in the number of formula applications, TTB improved regulatory guidance and enhanced the online submission process. In June 2014, TTB issued a ruling to eliminate the formula requirement for certain malt beverage products, including those produced with certain common fruits or spices or aged in barrels. As malt beverage formulas represent between 30 - 40 percent of the submissions received, TTB anticipates that this single action will both reduce the burden for brewers associated with the formula application and approval process and result in a permanent reduction in workload for TTB. In FY 2015, TTB will continue to evaluate whether additional malt beverage, wine, and spirits products may be exempted from the formula approval requirement due to low risk to consumer safety or tax revenue.

TTB also continues to make progress in modernizing the formula application process through improving the Formulas Online electronic filing system. TTB is engaging industry to ensure its next phase of system enhancements is responsive to user feedback. In FY 2014, TTB continued to host Formulas Online Improvement Forums with industry representatives to discuss recent enhancements to Formulas Online and to share and gather ideas for future improvements, including automating certain flavor and ingredient calculations. These forums provided a valuable opportunity for dialogue between industry and TTB, which assists TTB in prioritizing future enhancements. In FY 2015, in addition to industry outreach, TTB will evaluate available data related to routine filing errors to develop a comprehensive list of areas for industry guidance and system improvements to increase the number of applications submitted correctly the first time.

Improving Product Information for Consumers

In February 2014, TTB issued an update to its interim policy on "gluten-free" claims on alcohol beverage labels. This update followed the publication of the Food and Drug Administration's (FDA) final rule on the use of the term "gluten-free" in the labeling of products under FDA's jurisdiction. Given the important consumer health considerations relating to "gluten-free" claims, TTB consulted with FDA and adopted an approach on this issue that is as consistent as possible with the new FDA regulations. TTB's interim policy offers guidance to industry on labeling products that are inherently gluten-free (such as wines fermented from grapes), products made from gluten-containing grains, and products that have been processed or treated to remove gluten. TTB will consider revisions to its policy for alcohol beverages after the FDA proceeds with its planned rulemaking or issues guidance to specifically address fermented and hydrolyzed products.

Protecting Consumers from Adulterated and Contaminated Products

In administering the Advertising, Labeling, and Product Safety Program, TTB also conducts routine analyses of sampled alcohol beverages for ingredients or materials whose presence is prohibited or limited. TTB also works with its counterpart U.S. agencies to evaluate and address incidents involving potential health hazards related to alcohol beverage products, including the FDA. TTB considers an alcohol beverage found by FDA to be adulterated under the Federal Food, Drug, and Cosmetic Act to be mislabeled under federal alcohol beverage labeling laws. In FY 2014, TTB worked with industry members on the voluntary recall of several alcohol beverage products, including:

- A wine product that had been adulterated by mercury,
- Several malt beverage and sparkling wine products that exploded in the bottle due to over-carbonation and/or inadequate bottle weight, and
- A spirits and a malt beverage product bottled in a defective container that presented a risk of glass particles breaking off inside the container.

In each instance, TTB worked with other agencies and the affected industry members to monitor and confirm resolution of the voluntary recalls, and no adverse public health impacts were reported.

Voluntary Compliance

In its Collect the Revenue and Protect the Public programs, TTB promotes voluntary compliance by providing clearer regulatory standards and guidance, encouraging use of its e-Gov filing systems, and supporting industry members through education and outreach efforts. TTB employees provide industry members and states with direct assistance on specific needs or guidance on broader issues affecting the regulated commodities.

Supporting Compliance through Industry Outreach

The industries regulated by TTB are growing, and obtaining voluntary compliance requires that TTB educate both new and existing industry members on federal requirements in the areas of manufacturing, marketing, importing, and exporting alcohol and tobacco products, as well as on paying tax on alcohol, tobacco, firearms, and ammunition products. TTB has reshaped its approach to outreach in recent years to operate a voluntary compliance program with limited resources by taking advantage of technological advances. Although TTB continues to attend select industry-sponsored seminars and workshops to provide information and answer questions on federal laws and regulations, TTB increasingly relies on online training to reach industry members. These online training materials are published for industry to reference in the future.

TTB chemists in the Beverage Alcohol Laboratory demonstrating techniques for gauging spirits products in the new online training video.

Significantly, TTB released its first web video series, which was targeted to distilled spirits plant proprietors. The instructional videos provide step-by-step guidance and demonstrations of several frequently used proofing procedures. Improper proofing of distilled spirits was identified as a recurring compliance problem for a significant number of industry members through TTB's marketplace sampling program. Because the excise tax for distilled spirits is based on alcohol content, proper gauging of distilled spirits is integral to proper tax determination and compliance.

TTB also released an online tutorial to help new businesses in filing a complete and accurate application package through Permits Online. Permits Online already includes a number of system-based checks and integrated assistance features to minimize mistakes and answer questions during the application process. The online tutorial, released in September 2014, supplements these features with additional guidance related to preparing an application, including the permit type that aligns to the applicants' business plan and the documentation that must be submitted to support the application package.

Streamlining Regulations to Reduce the Compliance Burden

TTB seeks to promote voluntary compliance by ensuring that industry members have all the tools needed to incorporate compliance as part of their business models, including clear and unambiguous regulations and guidance. TTB has an ongoing regulations modernization effort underway to ensure that its regulations and enforcement strategy keep up with changes in the industries that it regulates. In FY 2014, TTB made progress in updating its regulations to reflect current industry practices and achieve efficiencies for the industry and TTB.

TTB is currently engaged in rulemaking to consolidate the required distilled spirits plant (DSP) monthly operations reports. TTB is preparing to issue a supplemental proposed rulemaking that will propose to consolidate the current four operations report forms, which would be filed on a monthly or quarterly basis. TTB undertook this project to address numerous concerns and desires for improved reporting by distilled spirits industry members and to achieve efficiencies by reducing the number of monthly plant operations reports that DSPs must complete and file, and that TTB must process. TTB intends to continue this rulemaking project in FY 2015.

In FY 2014, TTB also continued a rulemaking project to revise the specially denatured alcohol (SDA) and completely denatured alcohol (CDA) formula regulations. SDA and CDA are widely used in the U.S. fuel, medical, and manufacturing sectors. The industrial alcohol industry is far larger than the beverage alcohol industry in both size and scope, and it continues to grow in the U.S. Based upon a determination that certain products present minimal revenue risk, TTB issued a proposed rulemaking in June 2013 that proposes to eliminate outdated SDA formulas from the regulations, reclassify some SDA formulas as CDA, and issue new general-use formulas for products made with SDA to reduce the number of products that require pre-approval by TTB. TTB estimates that this effort will decrease the number of formula submissions required from industry by an estimated 80 percent. These changes would remove unnecessary regulatory burdens and update the regulations to align them with current industry practice. TTB expects to publish a final rule in FY 2015.

Finally, in September 2014, TTB published a final rule to encourage more small brewers to file their tax returns, tax payments, and operations reports on a quarterly basis, thereby reducing the filings required of industry and received by TTB annually. As the bond amount is considered to be the limiting factor in increasing quarterly filings, the final rule permanently reduces the amount of the bond required for small brewers to a flat rate of $1,000 and requires those brewers to quarterly file their tax returns, tax payments, and reports of operations. This rule is expected to facilitate quarterly filing by approximately 91 percent of all brewers and, according to a comment on the proposed rulemaking from the Brewers Association, to save small U.S. brewers $2 million annually.

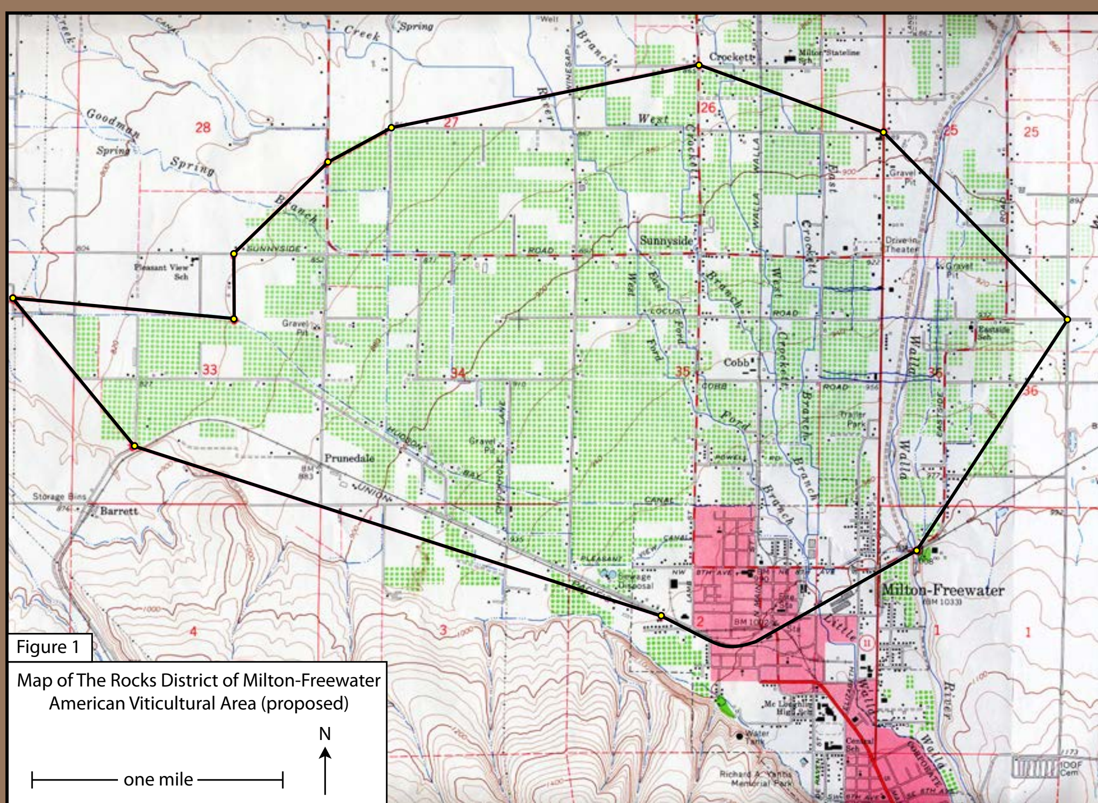
American Viticultural Areas

An American Viticultural Area (AVA) is a delimited grape-growing region having a viticulturally significant name, a delineated boundary, and distinguishing features as described in part 9 of the TTB regulations. Distinguishing features may include climate, geology, soils, physical features, and elevation.

An AVA designation allows vintners and consumers to attribute a quality, reputation, or other characteristic of a wine made from grapes grown in an area to its geographic region. The establishment of an AVA allows vintners to more accurately describe the origin of their wines to consumers and helps consumers to identify wines that they may purchase.

TTB published 10 AVA-related documents in FY 2014. Five of those documents established new AVAs, the Moon Mountain District–Sonoma County AVA, the Kelsey Bench–Lake County AVA, the Big Valley District–Lake County AVA, the Ballard Canyon AVA, the Upper Hiwassee Highlands AVA, and the Malibu Coast AVA. Additionally, TTB proposed the establishment of the Manton Valley AVA, The Rocks District of Milton–Freewater AVA, and the Fountaingrove District AVA. Finally, TTB proposed the expansion of the established Fair Play AVA and the established Sta. Rita Hills AVA.

At the end of FY 2014, TTB and its predecessor agency, the Bureau of Alcohol, Tobacco and Firearms, had established a total of 214 AVAs.



Map of the proposed The Rocks District of Milton-Freewater AVA, a 3,770-acre viticultural area in Umatilla County, Oregon.

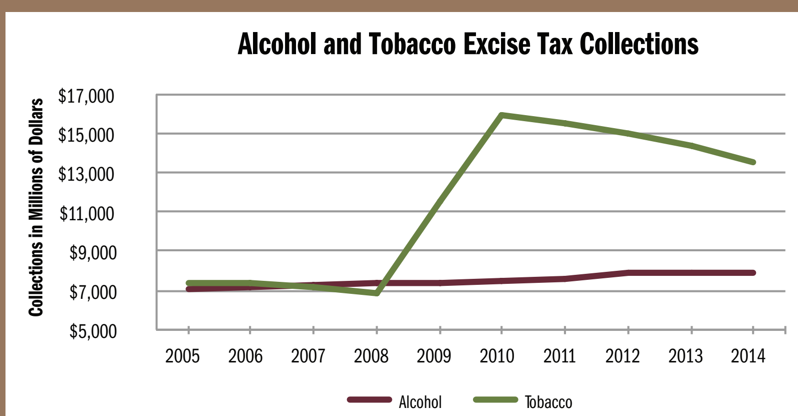
Financial Highlights

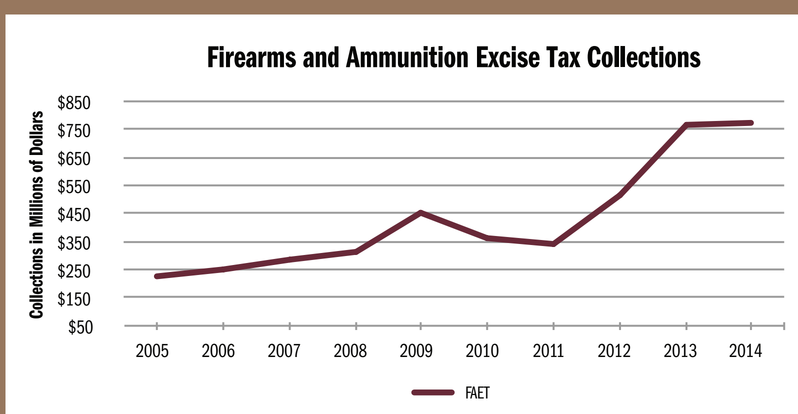
Federal Excise Tax Collections

TTB collects excise taxes from the alcohol, tobacco, firearms, and ammunition industries. In addition, the Bureau collects Special Occupational Tax (SOT) from certain tobacco businesses. During FY 2014, TTB collected $22.2 billion in taxes, interest, and other revenues.

Substantially all of the taxes collected by TTB are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes (FAET) are an exception. This revenue is remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937. The U.S. Fish and Wildlife Service, which oversees the fund, apportions the money to state governments for wildlife restoration and research, and hunter education programs.

FY 2014 Excise Tax Collections	
Alcohol	$7,924,951,000
Tobacco	$13,552,711,000
FAET	$768,927,000
SOT	$332,000
FST	$465,000
Other	$2,000
Total	**$22,247,388,000**





TTB's tax collections for domestic alcohol beverages have shown a relatively stable rising trend for several years. The tax for imported alcohol beverages is collected by U.S. Customs and Border Protection.

Tobacco tax revenues in FY 2014 decreased by approximately 6 percent from the prior year. This trend tracks with Congressional Budget Office projections for tobacco tax revenue following the enactment of tobacco tax rate increases under CHIPRA.

FAET revenues continue to rise, with total collections up 8 percent compared to the prior year. Since TTB assumed the responsibility for administering the FAET in 2003, collections have increased 298 percent.

Refunds and Other Payments

During FY 2014, TTB issued $669 million in tax refunds, cover-over payments, and drawback payments on taxes paid by manufacturers of nonbeverage products (MNBPs).

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986 on certain articles produced in Puerto Rico and the U.S. Virgin Islands (USVI) that are brought or imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the U.S. are "covered over," or paid into the treasuries of Puerto Rico and USVI, less the collection expenses incurred by TTB. TTB also issues cover-over payments to Puerto Rico and USVI for "other rum," which is the rum imported into the United States from other than Puerto Rico or the USVI.[11]

During FY 2014, cover-over payments totaled $312 million, with $304 million paid to Puerto Rico and $8 million paid to USVI[12] for their proportional share of other rum tax collections. Year-to-year, cover-over payments can vary depending on the rate of payments, which is established by statute.

Drawback Payments

Under current law (26 U.S.C. 5114), MNBPs may be eligible to claim a refund of taxes paid on distilled spirits used in their products. During FY 2014, drawback payments totaled $316 million.

For distilled spirits on which the tax has been paid or determined, a drawback is allowed on each proof gallon at the rate of $1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined is unfit for beverage purposes or was used in the manufacture of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume. The claimant must submit a product formula to the TTB laboratory for analysis and approval of the nonbeverage claim. To assess drawback claims, the TTB laboratory analyzed approximately 11,000 formulas and samples in FY 2014.

FY 2014 Excise Tax Refunds	
Alcohol and Tobacco Excise Tax Refunds	$40,600,000
Cover–over Payments , Puerto Rico	$303,457,000
Cover–over Payments , Virgin Islands	$8,279,000
Drawbacks on MNBP Claims	$316,040,000
Interest and Other Payments	$358,000
Total	**$668,734,000**

11 The cover-over payments made to Puerto Rico and the Virgin Islands based on taxes collected on "other rum" is distributed between the territories based on a formula set forth in 27 CFR 26.31.

12 The Department of the Interior also issues cover-over payments for imported USVI rum to the USVI.

FY 2014 Bureau Budget

Direct Appropriations (Salaries & Expense Account)

TTB's budget authority under the 2014 Consolidated Appropriations Act was $99 million. This amount included $2 million for the costs of criminal enforcement activities and special law enforcement agents for targeting tobacco smuggling and other criminal diversion activities. TTB elected not to hire the agents directly, but to enter into an interagency agreement with the Internal Revenue Service Criminal Investigations division to conduct criminal investigations into violations of the tax laws TTB enforces. The FY 2014 enacted appropriation authorized 473 full-time equivalent (FTE) positions for TTB.

Offsetting Collections, Reimbursable, and Other Accounts

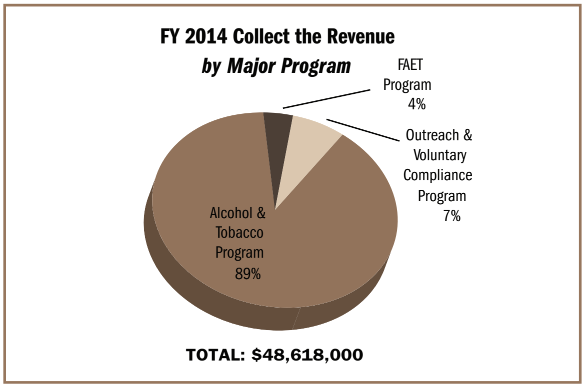
During FY 2014, TTB had $7.6 million in spending authority from offsetting collections, reimbursable activity, and fund transfers. Of that amount, TTB incurred obligations and expenditures of $6.9 million. The funds originated from multiple sources, including:

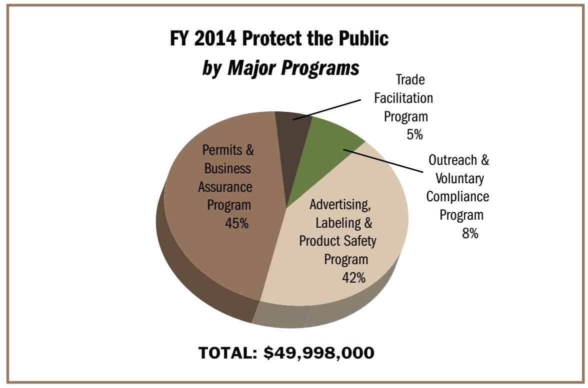
- Recoveries from the operation of the cover-over program and other enforcement activities in Puerto Rico;
- Funding from the Department of the Treasury's Executive Office for Asset Forfeiture (TEOAF) mandatory account to cover investigative expenses;
- Reimbursement from the FDA for laboratory services; and
- Reimbursement from the Community Development Financial Institutions Fund (CDFI) for information technology support services.

In addition, TTB used a transfer of funds from the TEOAF Super Surplus Fund to invest in laboratory equipment and activities.

FY 2014 Offsetting Collections, Reimbursables, and Other Accounts		
	Authority	Actuals
Offsetting Collections		
Puerto Rico Cover Over	$3,300,000	$3,034,000
Reimbursables		
Department of Justice, Bureau of Alcohol,Tobacco, Firearms and Explosives (ATFE)	$12,000	$-
Treasury Executive Office for Asset Forfeiture - Mandatory Account	$600,000	$487,000
Community Development Financial Institutions Fund (CDFI)	$2,600,000	$2,403,000
Food and Drug Administration (FDA)	$229,500	$118,000
Other Accounts		
Treasury Executive Office for Asset Forfeiture - Super Surplus Fund	$900,000	$892,000
FY 2014 Offsetting Collections, Reimbursable, and Other Accounts	**$7,641,500**	**$6,934,000**

Obligations and Expenditures by TTB Program





Audit of TTB's FY 2014 Financial Statements

The Department of the Treasury is one of 24 federal agencies that are required by law to produce annual audited financial statements. TTB's financial activities are an integral part of the information reported on by the Treasury Department.

TTB's Annual Report includes audited FY 2014 and FY 2013 financial statements; the Independent Auditors' Report opinion on these financial statements, and reports on the Bureau's internal controls over financial reporting and compliance with laws and regulations.

Management Assurances

TTB received an unmodified audit opinion on its financial statements as a result of the independent, full-scope financial statement audit that was conducted for FY 2014. TTB provides reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act were achieved in FY 2014, and that the Bureau's financial management systems are in substantial compliance with the Federal Financial Management Improvement Act. This overall determination is based on past and current practices, an improved internal controls environment, scrutiny by external audit sources, internal evaluations, and administrative and fiscal accounting system enhancements.

During FY 2014, TTB also applied its custom risk management tools to its Revenue Accounting Section to identify risks in the accounting and tracking of TTB's annual federal excise tax collections and to the National Revenue Center, with a focus on its key business processes. Based on these tools, TTB has determined that adequate internal controls are in place to mitigate risk to those operations, and the overall risk of fraud, waste, and abuse is "low."

Bureau Challenges

TTB plans to revisit the vulnerability and risk management tools that are used each year to monitor the internal controls over tax collections to ensure these documents reflect the key business processes in operation at the National Revenue Center and fully support our internal controls program at the Bureau. As systems and businesses processes change, it is important that TTB update the tools used to monitor its tax processing activities.

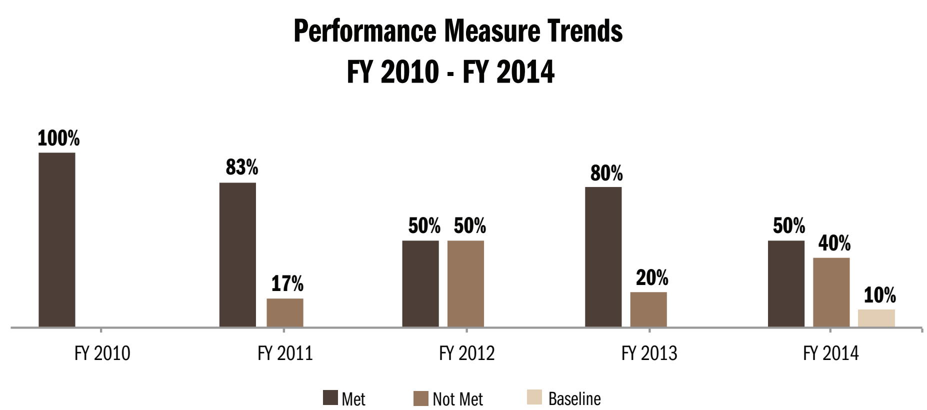
Part II
Program Performance Results

Performance Overview

TTB reports its performance through a suite of key performance measures that represent its ability to foster compliance from taxpayers, employ technology to meet its public protection mission, and provide value for the investment in TTB programs. In FY 2014, TTB updated its suite of measures, replacing several measures that had served their purpose and introducing several new customer-centric measures.

TTB met or exceeded the performance targets for five of the nine measures reported to its stakeholders that had targets in FY 2014; baseline data was collected for an additional measure. TTB achieved 80 percent or more of its targeted performance level for the four measure targets that it did not meet. Based on external factors and the results achieved this fiscal year, TTB reviewed its performance targets and set FY 2015 targets that reflect workload projections, resource constraints, planned business process improvements, and anticipated impacts from technology enhancements. To meet its performance goals in FY 2015, TTB will implement an aggressive strategic agenda that integrates new technology, streamlining initiatives, and targeted efforts in both outreach and enforcement. All performance results are subject to management review and periodic audit by the Department of the Treasury.

FY 2014 Performance Measure Status	
Performance Targets Met	5
Performance Targets Not Met	4
Baseline	1
Total Performance Measures	**10**



Summary of Collect the Revenue Performance

Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014		FY 2015	FY 2014	% of Target
	Actual	Actual	Actual	Actual	Target	Actual	Target	Target Met?	Reached
Amount of Revenue Collected Per Program Dollar	478	468	449	457	400	**457**	400	Y	114%
Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely (In Terms of Revenue)	94	95	92	92	91	**90**	92	N	99%

Performance Discussion

In FY 2014, TTB met one of its two annual targets for the performance measures in the Collect the Revenue mission area. Taken together, TTB's measures of the Amount of Revenue Collected per Program Dollar and the Percent of Voluntary Compliance from Large Taxpayers in Filing Payments Timely demonstrate the effectiveness and efficiency with which TTB operates its revenue collection function. Achieving positive results for both measures will be supported by the strategic application of technology to streamline internal and external processes and an effective tax enforcement presence that leverages data from a variety of government and commercial sources and interagency partnerships with counterpart enforcement agencies.

Improve Efficiency of Tax Collection

The Amount of Revenue Collected per Program Dollar measure uses annual collections figures and the actual expenditures and obligations for collection activities to quantify the efficiency of the TTB tax collection program. In FY 2014, TTB achieved a return on investment of $457 for every program dollar spent on collection activities, which exceeded its annual performance target of $400. TTB maintained the result achieved in FY 2013 despite decreased collections in FY 2014 through sound fiscal management to reduce spending in both program and operating expenses. Effective enforcement combined with process improvements and streamlining efforts should contribute to continued positive returns on the investment in TTB in FY 2015.

In setting its FY 2015 performance target, TTB examined historical collections trends across each of its regulated commodities, as well as other predictors that influence consumer behaviors. Specifically, significant shifts in consumption patterns, product manufacturing, and trade will continue to impact federal revenues in the years ahead. The CHIPRA tobacco tax changes have resulted in increased tax collections by TTB since their enactment, although the amount of the increase has decreased steadily since FY 2010, the first full fiscal year following CHIPRA. In accounting for these types of marketplace shifts, TTB used Congressional Budget Office revenue projections for tobacco excise tax collections to determine the targeted performance level of 400:1 in FY 2015.

In FY 2015, to meet its performance target, TTB will continue to improve efficiencies and results in its tax enforcement program by improving its tax verification systems and processes. On the front end, TTB will continue to evaluate and develop options to increase automation in the detection, notification, assessment, and collection of excise taxes due, which will allow TTB to focus its resources on substantive tax analysis. In FY 2015, TTB also intends to continue its review of all operational reports and tax returns required of the businesses it regulates as part of the ongoing effort to streamline TTB's information collections. This initiative has the dual purpose of ensuring that TTB has the information required for effective tax and regulatory enforcement and eliminating unnecessary reporting burdens for U.S. companies.

On the back end, TTB will continue to develop and build risk models based on multiple data sources to identify high-risk activity or taxpayers for audit and investigation. Continuous refinements to these models and sound intelligence enable TTB to efficiently deploy its enforcement resources. A primary focus for TTB tax enforcement continues to be tobacco manufacturers and importers, including any person who for commercial purposes makes available for consumer use a cigarette-making machine and manufacturers and importers of processed tobacco. TTB expects to expand its enforcement initiatives to include other points in the supply chain that are at-risk for diversion activity. In FY 2015, in partnership with CBP, TTB also intends to expand its proven intelligence and investigative techniques to make significant inroads into identifying tax evasion schemes that involve the diversion of non-taxpaid products intended for export.

Increase Voluntary Compliance from Taxpayers

Fostering voluntary compliance among excise taxpayers is a primary tax administration strategy for TTB. The Percent of Voluntary Compliance from Large Taxpayers in Filing Tax Payments Timely is a key performance metric that shows the rate of compliance by large taxpayers (i.e., those that pay more than $50,000 in annual taxes) in voluntarily filing their tax payments on or before the scheduled due date. In FY 2014, TTB did not meet its performance target of 91 percent, but achieved a 90 percent rate of compliance from its large taxpayers. Again in FY 2014, performance data indicates that the voluntary compliance rate continues to be lower in the latter half of the year as efforts to enforce tax compliance earlier in the year result in the submission of additional late filings by TTB taxpayers. Improvements in the Bureau's ability to detect non-compliance due to the effective deployment of its automated tool for the identification of late, missing, and erroneous tax returns and operational reports have caused a temporary decrease in performance. As TTB continues to enhance the functionality of this automated tool, TTB expects that its reported compliance rate for timely filings may continue to decline before enforcement efforts lead to demonstrable improvements in industry compliance.

By FY 2015, TTB expects to meet its performance target of a 92 percent voluntary compliance rate for its large taxpayers. During a period of economic recovery, TTB believes that this is an aggressive target for taxpayer compliance and will demonstrate the effectiveness of TTB's strategies to improve industry understanding of and compliance with federal tax requirements. TTB will employ complementary strategies to meet this performance target that focus on enhancing electronic filing options to enable taxpayers to file complete, accurate, and timely tax returns and payments; improving online guidance, particularly for the large number of newly permitted industry members; and maintaining an enforcement presence to encourage voluntary compliance. Moving forward on all three fronts will ensure that TTB strikes the appropriate balance between supporting new businesses in setting up compliant operations while also focusing on detecting and curtailing high-risk activity that undermines lawful business activity.

In FY 2015, TTB will intensify its efforts to increase the electronic filing rate of its taxpayers. TTB expanded the e-filing program to allow all excise taxpayers to file required tax returns, reports, and payments online through the Pay.gov system, with approximately 24 percent of excise tax returns and

38 percent of operational reports submitted electronically through Pay.gov in FY 2014. As part of a comprehensive strategy to promote e-filing by TTB taxpayers, TTB plans to address a primary hindrance for industry members in using Pay.gov by enabling the system to accept credit card payments. This enhancement would also address a timing issue that requires those who file electronically to remit tax payments early. TTB is partnering with the Bureau of the Fiscal Service in this effort, which will require both system changes and rulemaking to implement.

Summary of Protect the Public Performance

Measure	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014		FY 2015	FY 2014	% of Target
	Actual	Actual	Actual	Actual	Target	Actual	Target	Target Met?	Reached
Percent of Electronically Filed Permit Applications (NEW)	n/a	n/a	62	70	75	**79**	82	Y	105%
Percentage of Permit Applications Processed within Service Standards (NEW)	n/a	n/a	61	50	85	**58**	85	N	68%
Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business	65	77	69	81	75	**84**	DISC	N	88%
Customer Satisfaction Rate with TTB Permitting Process (NEW)	n/a	n/a	n/a	n/a	BASE	**BASE**	80	n/a	n/a
National Revenue Center Customer Service Survey Results	89	90	84	DISC	DISC	**DISC**	n/a	n/a	n/a
Percent of Electronically Filed Label and Formula Applications (NEW) 1/	n/a	84	88	90	92	**93**	94	Y	101%
Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards (NEW)	n/a	n/a	83	49	85	**67**	85	Y	79%
Percent of Electronically Filed Certificate of Label Approval Applications	79	88	91	92	93	**94**	DISC	Y	101%
Percentage of Importers Identified by TTB as Operating without a Federal Permit	15	14	13	11	12	**15**	DISC	N	75%

Key: DISC - Discontinued and BASE - Baseline

1/ The electronic filing rate for formula applications includes all applications received in an electronic format through Formulas Online, including the uploaded TTB Form 5100.51, Formula and Process for Domestic and Imported Alcohol Beverages. The current system configuration cannot distinguish between uploaded forms and applications that have been data-entered into Formulas Online.

Performance Discussion

In FY 2014, TTB met one of its three annual targets for the performance measures in place at the start of FY 2014 under its Protect the Public mission. TTB reports on its success in meeting its strategic goals to facilitate lawful commerce and ensure consumer protection through three principal performance measures in FY 2014, which indicate the Bureau's timeliness in issuing permits to qualified alcohol and tobacco businesses, its effectiveness in deterring the illicit importation of tobacco products by non-permitted entities, and its efficiency in processing alcohol beverage label applications. Taken together, these measures and their associated activities reflect the priorities of a service-oriented organization that applies technology to the greatest extent to perform its consumer protection role and to ensure that commerce is fair, lawful, and open.

In FY 2015, TTB is revising the performance measures for this core mission area to increase their utility as management tools and reflect a renewed focus on "voice of the customer" feedback. The five new measures will help TTB to monitor the degree to which it is meeting the service standards it establishes for permit, label, and formula applications, the impact that electronic filing initiatives are having on improved service delivery, and the level of satisfaction that new industry members have with TTB's permitting process. TTB's strategies to achieve its performance targets for these measures include a combination of streamlining its internal procedures, implementing enhancements to its online filing systems, and publishing clear guidance to industry members.

Improve Efficiency and Effectiveness of Permitting Process

TTB protects consumers by screening permit applicants to ensure only qualified persons engage in operations in the alcohol, tobacco, firearms, and ammunition industries. For this purpose, in FY 2014, TTB processed approximately 8,100 original and 17,000 amended permits, using risk analysis to perform investigations into high-risk applicants to meet TTB's business integrity objective. TTB also monitors its timeliness in processing permit applications through its measure of the Average Number of Days to Process an Original Permit Application for a New Alcohol or Tobacco Business. Undue delays in permit application processing impede domestic economic growth, primarily in the small business sector, as taxable commodities, such as wine, beer, or spirits products, cannot be lawfully produced without a federal permit from TTB. TTB targeted a 75-day turnaround time for original permit applications in FY 2014. TTB's average processing time was 84 days in FY 2014, with the shortfall attributable in part to lengthy processing times of more than 100 days in the first quarter due to the government shutdown.

In FY 2014, TTB will discontinue this measure and replace it with a measure of the Percentage of Permit Applications Processed within Service Standards. Rather than reporting an average processing time that may or may not represent the typical customer experience, TTB will instead monitor how many of its customers are receiving service levels that fall within the communicated standards. As businesses rely on accurate information related to TTB service delivery in their operational planning, this measure will provide important data related to a key outcome for TTB and its stakeholders. For this measure, TTB will continue to establish an annual service standard based on anticipated workload volume and resources, and will calculate the percentage of applications that TTB processes within this service standard. In FY 2014, TTB met its 75-day service standard for original permits 58 percent of the time, an improvement compared to the prior year when TTB met its 65-day service standard just 50 percent of the time. This positive performance trend is largely attributable to the adjusted service standard in FY 2014, as the workload challenges and resource constraints that began under sequestration remain. Using the same service standard of 75 days, TTB intends to meet its FY 2015 performance target of 85 percent for timely processed permit applications through a combination of industry outreach to promote electronic filing, streamlining its internal procedures, and ongoing system enhancements.

Electronic filing enables TTB to more efficiently process applications. According to its measure of the Percent of Electronically Filed Permit Applications, which tracks the e-filing rate for new business applications, TTB has made substantial progress in a short time, with 79 percent of permit applications received via Permits Online in FY 2014. To meet its FY 2015 target of 82 percent, TTB will continue to promote use of Permits Online by all permit applicants, including through webinars and online training modules.

Even as e-filing rates increase, however, TTB has not experienced a commensurate reduction in processing times for permits due, in part, to the high volume of applications. Over the past several years, the number of new permit applications has increased in line with rapid industry growth, adding to backlogs and making it difficult to maintain service levels within current resources. Between 2010 and 2014, the number of original permit applications received has increased nearly 30 percent, primarily due to growth in the small beverage alcohol producers and alcohol wholesalers segments.

To realize improvements to service delivery, TTB is engaged in a priority project to facilitate electronic filing for all industry members. In FY 2014, as part of this multi-year endeavor, TTB focused on improvements to the Permits Online system and the internal processes in its business qualification program. In FY 2014, TTB began to update the business rules and customer support features embedded in the system to help prospective industry members submit complete and accurate information on their permit application the first time; these updates will continue in FY 2015. Initial data collected in FY 2014 indicates that as few as 30 percent of applicants filing for a permit correctly complete the application without TTB assistance. By receiving more correct and complete applications, TTB can reduce the time spent in returning applications to customers for correction and reviewing corrected submissions, thus improving the time from application to permit issuance.

TTB is also taking steps to speed its transition to an entirely online processing environment. System enhancements that will begin in FY 2015 will improve the ease of amendment filing for existing Permits Online users and enable approximately 60,000 TTB permittees who originally filed a paper permit application to file for amendments to their permit (e.g., change in control or change in address) electronically through Permits Online. As TTB receives between 15,000 – 20,000 permit amendments annually, this project will result in efficiencies for both TTB and the businesses it serves. These enhancements are necessary to increase the rate of electronic filing by industry and improve processing times.

In addition to the workflow improvements associated with the above system changes, TTB will continue to update its procedures used to screen permit applicants, adding new financial data sources to its risk models and improving the risk criteria used to vet applicants for suitability to hold a federal permit in the alcohol and tobacco industries. Increased focus on risk modeling and statistical sampling will help TTB continue to permit only qualified applicants, while also managing workloads. With these changes, TTB anticipates achieving sustained reductions to its permit application turnaround time late in FY 2015 following various additional system enhancements that are scheduled for implementation in January 2015.

Increase Customer Satisfaction with TTB Service Delivery

TTB also measures its performance in its permit processing function by surveying the businesses that apply for a TTB permit. TTB monitors the Customer Satisfaction Rate with TTB's Permitting Process by using an e-mail survey to assess how satisfied businesses are when applying for a permit through Permits Online. This new survey replaces the telephonic survey previously used to gauge customer satisfaction with various services provided by the National Revenue Center, TTB's service center for permit applicants and taxpayers. In FY 2015, to achieve its performance target of 80 percent, TTB will implement system enhancements and process improvements to improve the customer experience with the system and improve the online guidance available to permit applicants. TTB will also seek to improve the level of service provided to customers seeking live assistance with the permit application process via TTB's call center.

Ensure Compliance with Importer Permit Requirement

TTB's efforts to maintain lawful operations in the trade of alcohol and tobacco commodities facilitates commerce by ensuring all businesses operate on a level playing field. TTB continues its enforcement of federal permit requirements, targeting entities identified as importing cigarettes and other tobacco products without a TTB permit. Through its measure of Percentage of Importers Identified by TTB as Operating without a Federal Permit, TTB monitors international trade data supplied by Customs to ensure active importers have a permit on file with TTB. This enforcement activity enables the Bureau to identify and take action against those entities engaging in unlawful operations (i.e., those importing in quantities that are indicative of commercial activity). In FY 2014, approximately 15 percent of entities reporting importations of tobacco products had done so without a permit, falling short of its performance target of 12 percent due to the number of personal use importations. TTB has found that the vast majority of unpermitted importers consist of individuals purchasing tobacco products from overseas via the Internet, and only a fraction of these entities are importing product at levels that may indicate illegal activity. TTB's issuance of cease and desist letters to these entities, and appropriate follow up activities, ensured that the responsible parties ended operations or obtained a permit.

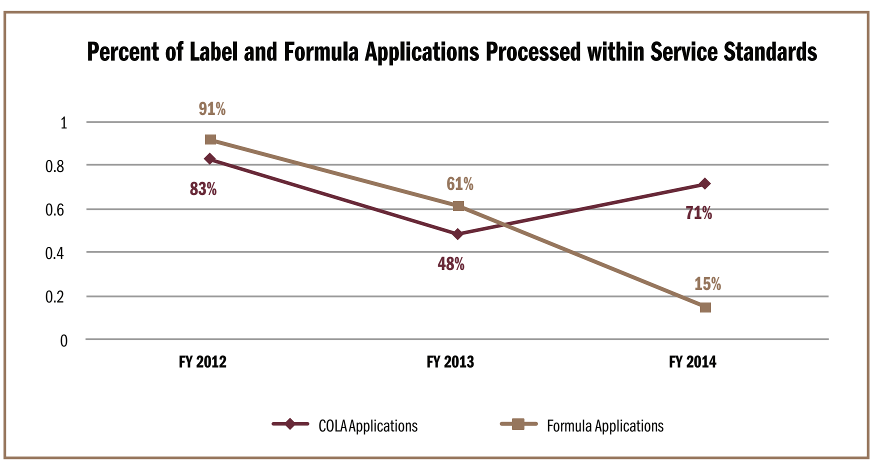
TTB discontinued this measure for FY 2015 as it has embedded this effective enforcement approach into its operations and achieved the intended deterrent effect. As tobacco products are often smuggled into the U.S., however, TTB must continue to supplement these data mining efforts and to monitor importer activity through audits, investigations, and other intelligence efforts to detect undeclared importations and address the substantial potential tax losses that they represent. TTB also will continue to focus its enforcement efforts on the importation of processed tobacco to ensure that importers comply with federal law. Processed tobacco remains the subject of TTB enforcement scrutiny, as it is not subject to tax and may be diverted for illegal manufacturing purposes.

Improve Efficiency and Effectiveness of Alcohol Beverage Label Processing

TTB's regulatory enforcement activities under its alcohol beverage labeling program include the review of label applications and associated formula submissions to ensure product labels are truthful and accurate and products are formulated and produced with ingredients and processes that do not pose a health risk to U.S. consumers.

In FY 2014, TTB received approximately 142,400 label applications and 14,000 formula applications. The rapid expansion of the alcohol beverage industry combined with market trends toward formulated products have contributed to the high volume of applications. Between 2008 and 2012, the number of applications increased by 14 percent. TTB has implemented policy changes each year since FY 2012 to expand the number and type of changes that industry may make to an alcohol beverage label without submitting a new label application. These changes reduced the volume of submissions by 7 percent between FY 2012 and FY 2014 without compromising TTB's consumer protection role. Although these labeling program changes were successful in temporarily bending the curve for label applications, annual industry growth is already causing label applications to increase again. Additionally, the volume of formula applications continues to increase, with submissions increasing 11 percent over last year.

These workload challenges have prevented progress in improving service delivery in this area. Lengthy processing times continue to disrupt the business operations of U.S. beer, wine, and spirits producers and importers, posing a potential barrier to commerce. TTB has made minimal gains in reducing processing times as TTB spent much of the first half of FY 2014 working to recover from the federal government shutdown in the face of high demand. Given the importance of timely TTB approvals and the negative impact that delays may have on U.S. businesses, TTB is introducing a new measure of the Percentage of Alcohol Beverage Label and Formula Applications Processed within Service Standards. This measure parallels the new measure of TTB's permitting process, described previously. TTB combines label and formula applications in this measure given the interdependent nature of these approvals, as a formula approval is often required prior to label approval to substantiate label claims. Heading into FY 2014, TTB met its service standards of 30 days for a COLA and 45 days for a formula approximately 50 percent of the time, with new businesses waiting nearly three months on average from the time they filed for a formula approval to their first release of a new product. As illustrated by the chart below, this represents a significant departure from prior year performance. In FY 2014, TTB has made progress in its label approvals as the impact of the policy updates have taken effect, but performance in timely processing formula approvals has declined, with TTB meeting the 45-day service standard just 15 percent of the time. In June 2014, TTB issued a ruling to eliminate the formula requirement for certain malt beverage products, which should help stem the number of applications from this expanding and highly innovative industry and enable TTB to focus on products that may pose a risk to consumers or federal revenues.



In FY 2015, under the same service standards, TTB maintained a target of 85 percent for the percentage of label and formula applications that meet the established service standards. To meet the performance target, TTB will continue to focus efforts on revising and updating its policies and industry guidance given current performance challenges. In the same vein as the beer formula ruling issued in FY 2014, TTB will examine potential revisions to its formula policies for spirits and wine products, some of which will require rulemaking to implement. TTB also intends to proceed with its regulations modernization project, which will update and streamline the labeling regulations to reflect current TTB policy and modern industry practices.

To achieve its FY 2015 performance target, TTB must also consider how the current industry profile impacts service delivery, as new producers often require extensive assistance during the application process and frequently submit applications that require correction, both of which add to processing times. Available data for formula and label processing indicates that this year approximately 40 percent of label applications and 30 percent of formula applications required correction, thus adding to the processing burden as each resubmitted application requires additional review. In FY 2015, TTB will evaluate upgrades to COLAs Online and Formulas Online to increase system checks to ensure applications are complete and accurate to reduce the number that require correction.

TTB will also continue to employ its strategy to increase electronic filing to manage workloads and drive down processing times, as electronic applications are often more complete and accurate than paper submissions. In FY 2014, TTB achieved an electronic filing rate of 94 percent for label applications, exceeding its targeted performance level of 93 percent. The ongoing rise in electronic filing is due to TTB outreach to industry members and system improvements made in response to customer feedback that simplify the filing process for industry members.

TTB proposes to discontinue this measure in FY 2015, and replace it with a new measure of the Percent of Electronically Filed Label and Formula Applications. As TTB seeks to modernize its labeling program, it will focus on both the label and formula approval processes, which both are pre-conditions to market entry for alcohol beverage products. In FY 2015, TTB is targeting a 94 percent electronic filing rate for this new measure, reflecting TTB's expectation that e-filing rates will remain relatively constant going forward without more significant program changes.

TTB recognizes that, even with high rates of electronic filing, the volume of label applications necessitates consideration of broader efforts to streamline the alcohol beverage label application process. In FY 2015, TTB will continue its Labeling Modernization priority project to streamline the process for submitting and reviewing label and formula applications as part of the planned transition to a more meaningful marketplace review of labels.

Summary of Management and Organizational Excellence Performance

Effectively and efficiently administering the Bureau's revenue collection and public protection mission requires that TTB create the conditions necessary for programs to reach and sustain excellence. In all aspects of performing its mission, TTB aims to ensure that its programs operate efficiently and effectively, and with full accountability. TTB accomplishes this by providing program offices with the high-quality management and administrative support needed to achieve the Bureau's program goals.

The Bureau's objectives in the area of Management and Organizational Excellence align with the Administration's emphasis on automating processes to improve services and enhancing internal operations to be more efficient and effective. In FY 2014, the Bureau demonstrated its ability to enhance efficiency and reduce costs through its strategic management of human capital, rigorous financial management practices, and information technology (IT) enhancements to improve operations.

Human Capital Management

In FY 2014, TTB continued efforts to align workforce needs with the strategic direction of the Bureau, taking into account the overall business and cultural vision for TTB, including:

- Addressing retirement trends by identifying and closing competency gaps, conducting strategic workforce planning to identify current and future skills sets needed for certain mission-critical occupations, and enhancing our recruitment and retention plan;
- Providing an employee-friendly culture that strikes an appropriate work/life balance through employee recognition, performance management, flexible schedules, and teleworking;
- Incorporating organizational needs into human capital planning as identified by the Office of Personnel Management's Federal Employee Viewpoint Survey results; and
- Streamlining human resource functions through various information systems, including a new electronic employee official personnel file and enhanced online availability of self-service personnel actions.

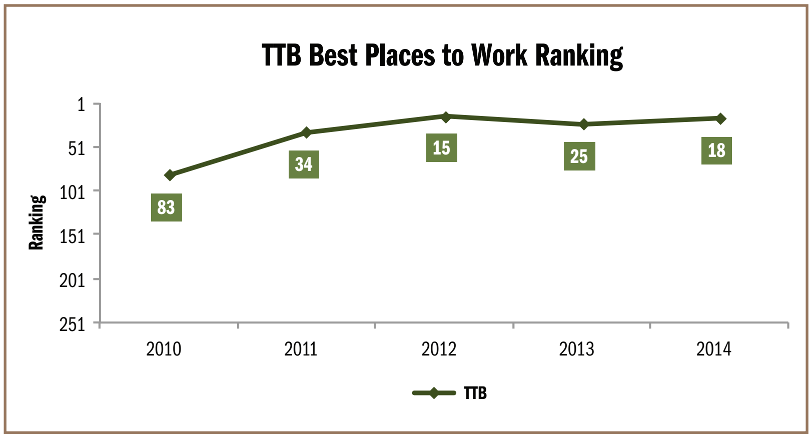
Employee engagement and satisfaction is critical to a productive workplace. Each year, the Office of Personnel Management administers the Federal Employee Viewpoint Survey (FEVS) to measure the satisfaction of the federal workforce. TTB developed a FY 2014 FEVS Action Plan to address areas in the survey that showed a decline from the prior year. The TTB FEVS average score for 2013 trended down to a 75 percent positive response rate from employees, a decrease from 77 percent in 2012, but remaining significantly higher than the government average of 61 percent. Based on this survey data, the Partnership for Public Service determines rankings for federal agencies. TTB ranked 25th out of 300 sub-component agencies on the 2013 Best Places to Work in the Federal Government rankings, a decrease from its 2012 ranking of 15 out of 292.

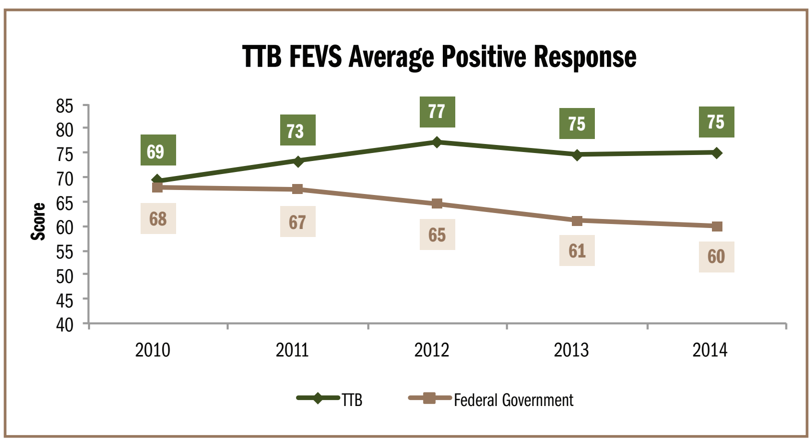
In its FY 2014 planning efforts, TTB validated FEVS data against other data sources and metrics, including employee exit survey responses. Using this additional information and insights, TTB targeted the areas of internal communications, employee development and training, and workforce recruitment and retention strategies. During FY 2014, TTB:

- Developed a process for soliciting employee comments and questions, whether anonymously or in-person, to help drive the agenda for future Bureau-wide town halls;
- Implemented several improvements and policy changes to its hiring process to improve the time it takes to on-board new employees; and
- Revamped its training efforts to provide more cost-effective and meaningful training opportunities to ensure that the Bureau is encouraging continuous learning and actively building the next generation of

TTB leaders. As resources grow scarce, finding opportunities to leverage internal expertise and existing developmental assignments to ensure that employees are adequately prepared for their present jobs, and building skills for the future, is a critical retention strategy.

The 2014 FEVS data indicates that TTB maintained its positive response rate of 75 percent, in contrast to the downward trend across government, and remains well above the government average of 60 percent and the Treasury average of 62 percent. The 2014 Best Places to Work rankings, released in December, indicate that TTB ranked 18th out of 315 sub-component agencies, an improvement compared to the prior year. TTB has begun to update its FEVS Action Plan for FY 2015 based on these new survey results and will continue to assimilate various strategic measures with FEVS data to identify meaningful and targeted actions to improve employee engagement and satisfaction.





The reported scores indicate the average of three survey items that identify overall employee satisfaction.

As a knowledge-intensive organization, TTB requires a highly trained workforce to fulfill its responsibility to protect the public and collect the revenue within a dynamic and global environment. During FY 2014, TTB used a variety of human capital policies and programs for recruiting and attracting talent to ensure qualified people with the necessary skills are in the right positions, and to continue to retain those professionals in the future. Successful strategies employed in FY 2014 included partnerships with a diverse range of universities, community organizations, and professional associations and use of the Treasury Veterans Program. TTB also established contacts with Department of Veteran Affairs' Vocational Rehabilitation and Employment Program, which oversees the "Coming Home to Work" and Non-Paid Work Experience initiatives.

Succession planning is also a strategic priority for the Bureau, especially as it relates to TTB's mission-critical positions. Within the next five years, approximately 50 percent of TTB's workforce will be eligible to retire. TTB continued its Emerging Leaders Program (ELP), established in FY 2009. This leadership development initiative offers three unique certificate programs for non-supervisors, first-level supervisors, and second-level managers at TTB. The three-year program series supports TTB's succession planning strategies and prepares participants with the competencies critical for higher levels of leadership responsibility. Based on participant feedback, TTB is working on expanding the program to include mentoring opportunities and detail assignments to broaden the exposure of program participants.

Financial Management

TTB established and monitored key performance standards to ensure that its business activities covering financial accounting and reporting operate in a highly effective and efficient manner. In FY 2014, TTB achieved all of its financial management performance metrics, in collaboration with its shared service provider, the Bureau of the Fiscal Service Administrative Resource Center (BFS ARC).

This joint effort in providing financial management services has allowed the Bureau to meet its financial goals and deliver quality accounting and budget services to program staff, including:

- Paying vendor invoices on time (Prompt Payment Rate) greater than 99 percent;
- Achieving an Electronic Fund Transfer Compliance Rate of greater than 99 percent;
- Ensuring a Proper Payments Rate of greater than 99 percent;
- Processing Budget Reprogramming Documents within 2 business days;
- Completing timely entry of budget and financial data in the OMB MAX reporting system;
- Reconciling Cash Account by the 4th calendar day of the month;
- Ensuring prompt deposits and recording of tax collections; and
- Providing timely and useful financial management data.

TTB also met established due dates to ensure timely submission of reports required by BFS ARC. Monthly closing of financial data was completed within three business days, and payroll information was downloaded into the core accounting system within three working days of receipt from the National Finance Center.

Joint reviews of payroll activity were conducted to obtain reliable projections of payroll costs relative to on-board staffing levels. The payroll projection system has proven to be a valuable tool as it enables TTB to extract information from the core accounting system and make sound payroll projections continues to provide reliable and accurate financial information for TTB management to use in executing the budget.

In FY 2014, the Bureau was also able to conduct timely reviews of financial information so that program offices were provided with the data necessary to make efficient use of the Bureau's annual appropriation and fulfill TTB's tax collection and regulatory responsibilities, as outlined in its budget plan. By closely monitoring the Bureau's financial status, TTB was successful in making a number of key investments to support its mission. These financial reviews were not limited to the current year's appropriation. TTB also conducted a review of FY 2013 obligations to recover up to 50 percent of unobligated funds, which may be accessed for critical and/or unforeseen investments with appropriate authorization. In FY 2014, TTB received authorization for $477 thousand from unobligated FY 2013 funds to invest in IT hardware equipment.

In support of Treasury's OMB Circular A-123 requirements over financial reporting controls, TTB tested internal controls related to the financial reporting of tax collections. The review identified no control weaknesses over TTB's collection activity and the reporting of those collections.

Expansion of Technology Solutions

TTB made significant progress in achieving its strategic vision of using technology to streamline the delivery of its critical lines of business and to support data-driven decision making. The Bureau's new IT strategic plan for FY 2014 – 2018 supports this vision through four strategic goals intended to:

- Modernize IT Systems
- Increase TTB Workforce Effectiveness
- Increase IT Cost Efficiency
- Strengthen IT Security

In support of its goal to modernize IT systems, TTB will ensure all systems meet the evolving business needs of internal and external users by optimizing its custom applications infrastructure and automating processes. Automation will be a key factor in modernizing IT systems and will free TTB resources to perform mission-essential activities. In FY 2014, 63 percent of the system releases in FY 2014 automated a manual business process. These releases included improvements to COLAs Online that were prioritized as part of the initiative to streamline the label submission and review process and the development of an automated process to share current formula processing times with customers through TTB.gov and TTB call center customers. TTB also made significant progress on the first phase of its multi-year project to enhance Permits Online to support the electronic filing and processing of original permit applications. In July 2014, TTB upgraded the software platform for Permits Online and implemented a new module in the system to support mail processing. Additional internal processing enhancements are scheduled for release in January 2015.

In FY 2014, TTB also made substantial progress in its goal to increase TTB workforce effectiveness. TTB has developed data analytics tools and infrastructure to enable its program offices to better analyze and make use of data from internal applications. In addition, through relationships with external agencies, TTB continued to acquire other government and commercial data that its enforcement personnel can use to determine gaps in excise tax payments and other compliance violations. Leveraging data analysis tools and technologies will improve data driven decision making and will enable informed decisions and timely actions. In FY 2014, TTB made progress on improving data sharing by integrating information from different organizations into its analytics tools and developing plans to implement a data warehouse with current in-house technologies. In the coming year, TTB will also assess new tools and technologies to support an enterprise data warehouse.

In line with its strategic goal to increase IT cost efficiency, TTB launched a project in FY 2014 to move its custom IT applications infrastructure from proprietary hardware and software to Open Source platforms. This initiative will lower the cost of both hardware refresh and maintenance and software licensing and maintenance. Going forward, TTB will continue to seek efficiencies by implementing strategic sourcing solutions, optimizing IT contracts, and reducing costs through innovations.

Maintaining the security of TTB's IT systems remains a top priority. In support of this IT strategic goal, among other activities, TTB will ensure that security vulnerabilities are addressed while allowing appropriate accessibility to information and applications. Securing IT systems with the latest vendor-provided patches will improve confidentiality, integrity, and availability of TTB systems.

Message from the Chief Financial Officer

The October 2013 federal government shutdown was the second longest since 1980. It disrupted agency operations in many ways and created difficult challenges to recover from this fiscal year. This shutdown resulted in reduced services and delays to our industry members and halted many enforcement activities. With sound financial management and planning, we were able to assess the immediate impact of the shutdown and mobilize resources to mitigate further risks and address the backlog in demand from our industry members.

The fiscal challenges of 2014 tested our ingenuity and resourcefulness. TTB continued to rely heavily on data-driven decision making and performance management tools to examine our operations and ensure that we are efficiently managing our resources and returning value for the investments made in our mission. For example, during FY 2014, as a result of our highly successful telework program, TTB was able to reduce its infrastructure costs by eliminating almost 20 percent of its office space at its headquarters office in Washington, D.C.

In spite of these challenges, in FY 2014, TTB again received an unmodified audit opinion on its financial statements from an independent public accounting firm, which did not identify any significant deficiencies or material weaknesses in internal controls within our operations. Our support of this annual audit affirms our commitment to a vigorous internal control environment and financial reporting excellence. Further evidence of this commitment lies in our management practices, which include routine evaluations of our tax collection and revenue accounting operations at the National Revenue Center. These evaluations confirm that sound internal and administrative controls are in place to ensure the collection and verification of more than $22 billion in annual federal excise tax collections from the alcohol, tobacco, firearms, and ammunition industries.

From a strategic planning perspective, we continue to apply the Balanced Scorecard methodology to integrate our strategic plan with our management and investment decisions, which have helped ensure TTB's long-term effectiveness. This tool provides a comprehensive management framework for making decisions regarding where to direct our limited resources to achieve the greatest performance impact. By using the data generated by the Balanced Scorecard and maintaining an open dialogue about our strategy, we are able to readily identify issues and opportunities and take targeted actions to improve the organization as a whole.

Even as resources contract, TTB will continue to aim high and put in place improved processes and tools to fulfill our mission. In the years ahead, strategic investments and sound planning will support TTB in improving the management and performance of the organization. We remain optimistic about the opportunities to develop and implement new ideas for improving the management and performance and to more effectively integrate performance management across our programs.

Cheri D. Mitchell

Cheri D. Mitchell
Assistant Administrator, Management/CFO

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Part III
Financial Results, Position, Condition, and Auditors' Reports

Budget Highlights by Fund Account

This section highlights the TTB program activity in FY 2014 under the annual Salaries and Expenses appropriations account. The Bureau's financial statements include all financial transactions in both the current year accounts and the expired accounts for the previous five years.

FY 2014 Salaries and Expenses	
Fund Source	
Salaries & Expenses FY 2014 Appropriation (P.L. 113-76, Consolidated Appropriations Act, 2014) 1/	**$99,000,000**
Obligations Incurred in FY 2014 from Current Year Appropriations	$98,616,000
Transfer in From Other Appropriations (TEOAF Super Surplus Fund)	**$900,000**
Obligations Incurred in FY 2014 from Current Year Appropriations	$892,000
Salaries & Expenses FY 2013/14 (50% Prior Year Recovery) 2/	**$477,000**
Obligations Incurred in FY 2014 from Current Year Appropriations	$477,000

1/ P.L. 113-76 included $2 million in funding for TTB to use for the costs of criminal enforcement activities and special law enforcement agents for targeting tobacco smuggling and other criminal diversion activities.

2/ General Provisions of the appropriations bill provide that 50 percent of the unobligated balances remaining available at the end of Fiscal Year 2013 shall remain available through September 30, 2014.

In FY 2014, TTB received $99 million in direct appropriations under the Consolidated Appropriations Act of 2014. This amount included $2 million for the costs of special law enforcement agents to target tobacco smuggling and other criminal diversion activities. The authorized full-time equivalent (FTE) staffing level for direct positions was 473 in the FY 2014 President's Budget.

The Bureau obligated or expended more than 99 percent of the $99 million in FY 2014 direct funding from its one-year Salaries and Expenses appropriation.

Additionally, the Bureau received $900 thousand from a direct appropriations transfer from the Treasury Executive Office of Asset Forfeiture (TEOAF) Super Surplus fund to cover expenses related to TTB's diversion and criminal enforcement operations.

TTB also received Congressional authorization in FY 2014 to use an additional $477 thousand from the prior year account of unobligated available balances (also referred to as the 50 percent account) to cover a one-time investment in IT infrastructure to replace obsolete IT equipment.

Offsetting Collections and Reimbursable Accounts

During FY 2014, the Bureau realized $6.7 million in spending authority from offsetting collections and reimbursable accounts. The primary sources of reimbursable funding were collections from the cover-over program and enforcement activity in Puerto Rico, investments in the TTB enforcement program from TEOAF, reimbursement from the Community Development Financial Institution Fund (CDFI) for information technology services, and reimbursement for laboratory services from the Food and Drug Administration and the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Puerto Rico Cover Over and Enforcement Activities

All costs associated with the functioning and support of TTB's Puerto Rico office are paid from the cover-over program, which is offset from cover-over taxes collected in the United States on products originating in Puerto Rico ($303 million) and the U.S. Virgin Islands ($8 million).

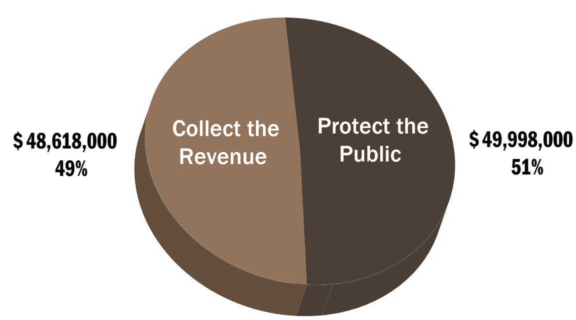
In Puerto Rico, TTB conducts annual audits and investigations of industry members regarding the collection of revenue, application processing, and product integrity. TTB conducts revenue inspections on producers of alcohol and tobacco. These examinations are integral to TTB's fulfillment of its obligations to verify tax compliance and ensure the payment of all cover-over amounts due to the government of Puerto Rico.

Additionally, as a result of the Caribbean Basin Economic Recovery Act, taxes collected on rum imported into the United States from other than Puerto Rico or USVI ("other rum") are also covered into the treasuries of Puerto Rico and USVI. The USVI also receives direct reimbursement for rum it produces and transports to the U.S. through the Department of the Interior.

Linking Budget and Program Spending

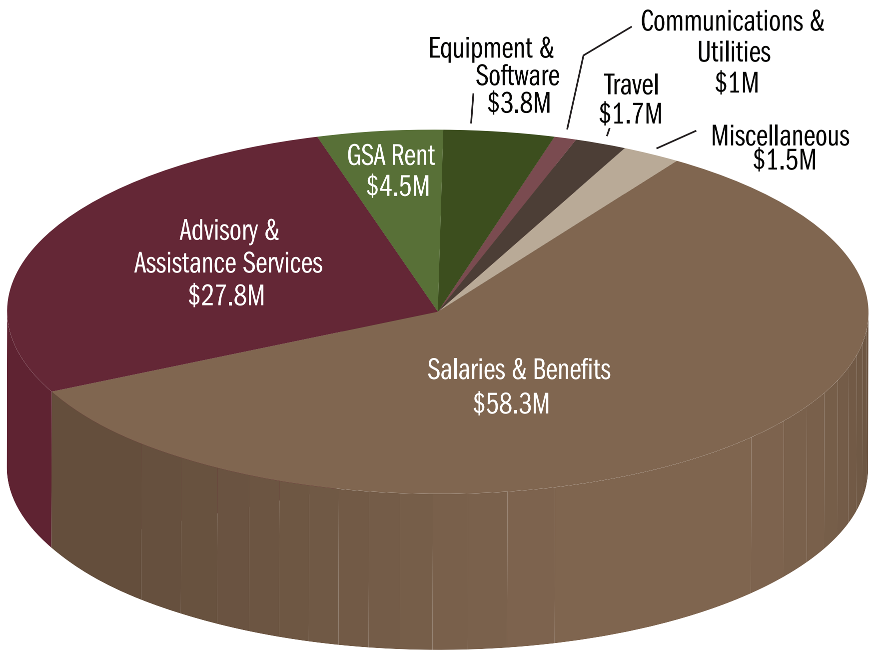
TTB has two primary budget activities that directly align to its mission and strategic goals: Collect the Revenue and Protect the Public. TTB uses an account code structure that provides a direct link from the Bureau budget to specific programs and project activities. To ascertain the full costs of each of these budget activities, overhead costs were allocated and combined with the direct program costs.

An analysis of the FY 2014 data stemming from the account code structure shows that TTB incurred obligations of $98,616,000 of its salaries and expenses appropriation, of which 49 percent was spent on the Collect the Revenue budget activity and 51 percent was spent on Protect the Public budget activity. In recent years, TTB has reported a slightly higher percent of obligations incurred under its Collect the Revenue budget activity. A significant factor contributing to this change was a strategic investment in technology to improve the permitting process which is covered under Protect the Public budget activity.



Obligations Incurred from FY 2014 Appropriation
$98,616,000

Spending by Major Object Class



Obligations Incurred from FY 2014 Appropriation by Major Object Class
(Dollars in Millions)
Total FY 2014 $98.6 Million

TTB presents its obligations incurred by budget activity and program in its Annual Report to explain the cost of delivering the services that support TTB's mission. TTB also presents specific data regarding the purchase of goods and services by major object class that support its program activities. The majority of TTB's incurred obligations (87 percent) fall into two principal major object classes: Salaries & Benefits and Advisory & Assistance Services (Contracts).

Salaries & Benefits comprise 59 percent of total obligations incurred by object class, and cover the cost of TTB's roughly 460 positions in FY 2014. The Advisory & Assistance Services object class constitutes 28 percent of FY 2014 incurred obligations, and covers the cost of both commercial and intra-governmental services.

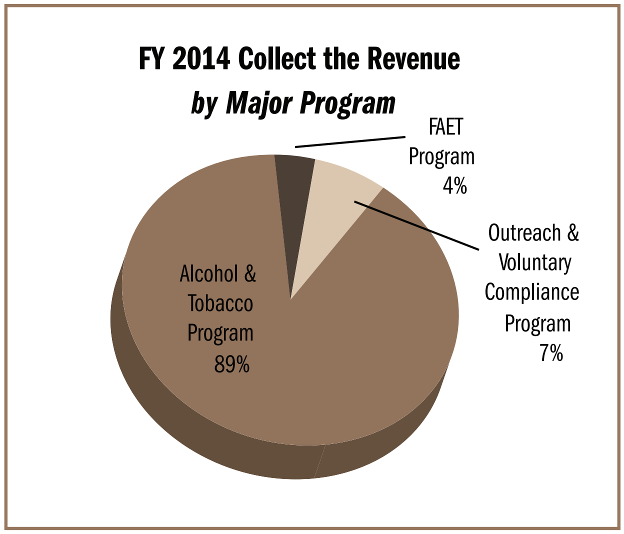
The commercial contracts category is predominantly IT contracts in support of engineering, infrastructure, and support services. This category includes other commercial contracts for services such as the scanning and imaging of label applications and tax forms, lab maintenance, and web site development.

Intra-governmental services include administrative support services provided by our shared service provider for human resources, accounting, travel, and procurement. Other intra-governmental services include budget items such as the costs for special agent support, background investigations, and Federal Protective Services. In FY 2014, the bureau's travel costs were primarily related to its audits and investigations.

The remaining object classes that cover the FY 2014 obligations incurred include cost categories for rent, communications, equipment, and other miscellaneous categories.

Obligations Incurred from FY 2014 Appropriations by Budget Activity

Collect the Revenue..... $48,618,000



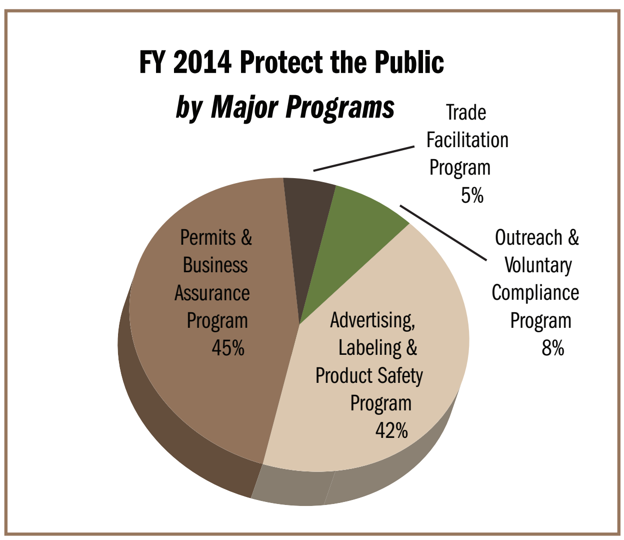
The Collect the Revenue budget activity encompasses TTB's strategy to provide the most effective and efficient system for the collection of all revenue that is rightfully due. It is also designed to prevent or eliminate tax evasion and other criminal conduct and provide high-quality service while imposing the least regulatory burden.

Under the Collect the Revenue activity, TTB administers three programs: 1) Alcohol and Tobacco Tax; 2) Firearms and Ammunitions Excise Tax (FAET); and 3) Outreach and Voluntary Compliance.

In FY 2014, TTB expended 89 percent of its Collect the Revenue resources in collecting federal excise taxes from the alcohol and tobacco industries and 4 percent in collecting FAET. These costs include projects relating to the processing of tax returns and operational reports at the National Revenue Center and the audits and investigations conducted on TTB-regulated industry members.

Costs for the Outreach and Voluntary Compliance Program totaled 7 percent of our Collect the Revenue resources. These resources supported efforts to educate and train industry members regarding their obligations in the areas of tax calculations and remittance.

Protect the Public..... $49,998,000



The Protect the Public budget activity encompasses TTB's strategy to ensure industry compliance with laws and regulations designed to protect the consumers of alcohol beverages, which TTB accomplishes by ensuring the integrity of the people who operate these businesses, of the products themselves, and of the marketplace in which they are traded.

TTB administers four programs under the Protect the Public budget activity: 1) Permits and Business Assurance; 2) Advertising, Labeling, and Product Safety; 3) Trade Facilitation; and 4) Outreach and Voluntary Compliance.

An analysis of the financial data from FY 2014 reveals that TTB spent the preponderance of its Protect the Public resources on two programs: Permits and Business Assurance (45 percent), and Labeling, Advertising, and Product Safety (42 percent).

The Permits and Business Assurance Program is designed to determine the eligibility of persons wishing to enter any of the businesses TTB regulates and to process applications for changes to the original permit. These activities may include a field investigation. A TTB-issued permit or brewer's notice is necessary to conduct operations in the regulated industries.

The Labeling, Advertising, and Product Safety Program includes activities designed to ensure that beverage alcohol labels fully and accurately describe the products upon which they appear and are not misleading. It also encompasses activities relating to verifying that alcohol advertisements contain all mandatory information and do not mislead consumers. The Product Safety component involves all investigative and laboratory activities performed as part of the Alcohol Beverage Safety and Verification Program, including domestic and imported product analyses. The remainder of the Protect the Public resources were divided between the Trade Facilitation Program (5 percent) and the Outreach and Voluntary Compliance Program (8 percent).

Systems and Controls

Introduction

During FY 2014, TTB contracted with BFS ARC to handle its administrative, human resources, procurement, travel and, financial functions.

Accounting Systems and Controls

The BFS ARC accounting system, known as Oracle Federal Financials, is certified by the Financial Systems Integration Office (FSIO) requirements and is in full compliance with Treasury reporting requirements; it also meets requirements under the Federal Financial Management Improvement Act (FFMIA).

The FY 2014 audit of Treasury's consolidated financial statements, which covered the financial management systems of our service provider, BFS ARC, did not identify any instances in which ARC's financial management systems did not substantially comply with FFMIA. Specifically, no instances were identified in which ARC's financial management systems did not substantially comply with: 1) Federal financial management systems requirements, 2) applicable Federal accounting standards, and 3) the United States Government Standard General Ledger at the transaction level.

The Bureau successfully met the Department of the Treasury's reporting requirements and has maintained accurate and reliable financial information on TTB's program activities. The various administrative modules integrated with the TTB financial system have proven to accurately capture Bureau financial data and provide reliable information to management to inform decision making. Only two TTB databases operate outside the BPD ARC environment—the TTB property management system and the tax administration database, IRIS.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

The FMFIA requires Federal agencies to conduct ongoing evaluations of the systems of internal accounting and administrative control. Annually, TTB must report to Treasury all material weaknesses found through these evaluations. Treasury submits a consolidated report on the Department's controls to the President.

The FMFIA also requires the heads of agencies to provide the President with yearly assurance that obligations and costs are in compliance with applicable laws; that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for.

To provide this report and assurance to the President, the Secretary of the Treasury depends upon information from component heads regarding their management controls. The FMFIA program places reliance on each office at TTB to maintain a cost-effective system of controls to provide reasonable assurance that Government resources are protected against fraud, waste, abuse, mismanagement, or misappropriation.

Responsibilities of the Bureau's executive staff include ensuring that programs and administrative support activities are managed efficiently and effectively. Managers must conform to specific management accountability and improvement policies when designing, planning, organizing, and carrying out their responsibilities in order to ensure the most efficient and effective operation of their programs.

These policies address:

- Delegation of authority and responsibility;
- Hierarchical reporting of emerging management problems;
- Personal integrity;
- Quality data;
- Separation of key duties and responsibilities;
- Periodic comparisons of actual with recorded accountability of resources;
- Routine assessment of programs with a high potential for risk;
- Systematic review strategy to assess the effectiveness of program operations; and
- Prompt management actions to correct significant problems or improve operations.

Since its inception, TTB has gradually developed its own Bureau-specific policies.

Management accountability systems must assure basic compliance with the objectives of the FMFIA and the management control standards set by the Government Accountability Office. In addition, any inspection, audit, evaluation, peer or program review process, self-assessment, or the equivalent, used by TTB management to keep informed about needs and opportunities for improvement must incorporate these same standards into its methodology.

Furthermore, the Bureau completed an annual risk assessment for improper payments on all of its programs and activities. This process disclosed low risk susceptibility for improper payments, and documented that sound internal management and controls were in place at the Bureau to cover its disbursements.

The Bureau continues to strengthen and improve the execution of its mission through the application of sound internal controls over financial reporting. In response to OMB Circular A-123, Management's Responsibility for Internal Controls, the Bureau, in concert with the Department, developed and implemented an extensive testing and assessment methodology that identified and documented internal controls over financial reporting on our revenue accounting activities.

This increased emphasis on management controls has had a positive impact on programs and enabled the Bureau to achieve the intended results. The process also ensures that the utilization of resources is consistent with mission priorities and that program and resources are being used without waste, fraud, or mismanagement. Also, in addition to the A-123 review, TTB conducted a series of office reviews during FY 2014 that included an extensive review of administrative and internal controls

Financial Statement Highlights

The following overview of the TTB financial statements highlights certain aspects of the financial statements for the fiscal year ended September 30, 2014.

- The Balance Sheet shows the assets, liabilities, and net position as of a point in time, in this case, as of September 30, 2014.
  - The total assets were reported as $85.3 million at the close of the fiscal year. Of this amount, $35.5 million is classified as the fund balance with Treasury. That fund balance account is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations.
  - The total liabilities amount reported is $55.5 million, of which total intragovernmental liabilities amounts to $32.2 million. The other liabilities are classified by type, such as accrued tax refunds, payables, and other liabilities.
- The Statement of Net Cost shows the total net cost of operations at $103.4 million for the Bureau to administer its two budget activities.
  - The total net cost reported as program costs under the Collect the Revenue program was $50.1 million.
  - The total net cost reported as program costs under the Protect the Public program was $53.3 million.
- The Statement of Change in Net Position shows a total net position balance of $29.9 million, and that amount represents the unexpended appropriations from both prior periods and from the current operating cycle in addition to Cummulative Results of Operations.
- The Statement of Budgetary Resources shows the budgetary resources received and the status of those resources. For TTB, the resources are primarily annual appropriations received from the in the amount of $99.0 million, in addition to spending authority from collections. The offsetting collections amount was $6.7 million. Of that amount, $3.0 million is from the recovery of costs for maintaining enforcement operations in Puerto Rico.
- The Statement of Custodial Activity shows the amount of revenue received during FY 2014 compared with FY 2013, along with tax refunds, drawback on Manufacturer of Nonbeverage Products claims, and cover-over payments. The amount displayed shows that the total Federal excise tax revenues collected from alcohol, tobacco, firearms, and ammunition amounted to $22.2 billion. Within this total, the Bureau processed tax refunds, drawback claims, and cover-over payments in the amount of $668.7 million.
  - **Drawback claims** of $316.0 million were processed based on claims filed from MNBPs. Under current law, a drawback claim is allowed when distilled spirits on which the tax has been paid were unfit for beverage purposes and used in the production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfumes.

- **Tax refunds** and other adjustments (e.g., interest) were processed in the amount of $40.6 million.
- **Cover-over payments** were returned to Puerto Rico and the Virgin Islands in the amount of $311.7 million. Such taxes collected on rum imported in the United States are "covered over," or paid into, the treasuries of Puerto Rico and the Virgin Islands.
- **The disposition of the custodial revenue**, after refunds, claims, and cover-over payments, nets to $21.6 billion, and that amount was deposited to the U.S. Treasury to fund the Federal Government, with the exception of the Federal firearms and ammunition Federal excise taxes. Those revenues, in the amount of $768.8 million, were remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman Robertson Act of 1937.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the financial information provided in the statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents required supplementary information. For instance, TTB includes a table that outlines the tax collections for the past 10 years for each of the key revenue sources. Also, a table has been included to show the refunds, cover-over payments, and drawback payments for the past 10 years.

Financial Statements, Accompanying Notes, and Supplemental Information

Limitations of Financial Statements

The principal statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. For fiscal years 2014 and 2013, all financial statements and notes have been audited.

Management Responsibilities

Bureau management is responsible for the fair presentation of information contained in the principal financial statements, in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by OMB in Circular A-136.

Management is also responsible for the fair representation of TTB's performance measures in accordance with OMB requirements. The quality of the Bureau's internal control structure rests with management, as does the responsibility for identification of and compliance with pertinent laws and regulations.

TTB in Relation to Treasury's Annual Financial Statements

The Department of the Treasury received an unmodified audit opinion on its FY 2014 financial statements. The financial activities of the Bureau are an integral part of the information reported by the Department of the Treasury.

This unmodified audit opinion means that the financial information presented by the Treasury, which includes TTB's financial activities, was presented fairly and in conformity with generally accepted accounting principles (GAAP) of the United States.

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
United States Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

Report on the Financial Statements

We have audited the accompanying financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources and custodial activity for the years then ended, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02, require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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.

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 Alcohol and Tobacco Tax and Trade Bureau as of September 30, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in *Part I: Management's Discussion and Analysis*, and the *Required Supplementary Information* section of *Part III, Financial Results, Position, Condition and Auditors' Reports* 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 auditing standards generally accepted in the United States of America, 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 audits 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 basic financial statements as a whole. The Other Accompanying Information included in (1) pages i through vii, (2) *Part II: Program Performance Results*, (3) *Message from the Chief Financial Officer,* (4) pages 47 through 56 and pages 90 through 96 of *Part III, Financial Results, Position, Condition and Auditors' Reports,* and (5) *Part IV: Appendices* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2015 on our consideration of the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting and our report dated January 8, 2015 on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting and compliance.

KPMG LLP

January 8, 2015

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Internal Control Over Financial Reporting

Inspector General
United States Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, the financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources and custodial activity for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2014, we considered the Alcohol and Tobacco Tax and Trade Bureau's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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 a 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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the Alcohol and Tobacco Tax and Trade Bureau's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

January 8, 2015

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Compliance and Other Matters

Inspector General
United States Department of the Treasury

Administrator
Alcohol and Tobacco Tax and Trade Bureau:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements,* the financial statements of the Alcohol and Tobacco Tax and Trade Bureau, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of net cost, changes in net position, budgetary resources and custodial activity for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2015.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alcohol and Tobacco Tax and Trade Bureau's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 14-02.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on the Alcohol and Tobacco Tax and Trade Bureau's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alcohol and Tobacco Tax and Trade Bureau's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

January 8, 2015

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ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
BALANCE SHEETS
As of September 30, 2014 and 2013
(In Thousands)

	2014	2013
ASSETS		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 2)	$35,545	$32,142
Accounts Receivable (Note 3)	1,263	541
Due from the General Fund (Notes 5 and 8)	1,127	3,739
Advances (Note 7)	-	460
Total Intragovernmental Assets	37,935	36,882
Accounts Receivable (Note 3)	580	417
Tax and Trade Receivables, Net (Notes 4 and 8)	30,915	16,868
Property, Plant and Equipment, Net (Note 6)	15,851	17,777
Advances	34	22
TOTAL ASSETS (Note 8)	$85,315	$71,966
LIABILITIES		
Intragovernmental Liabilities:		
Accounts Payable	$1,019	$745
Payroll Benefits	320	265
FECA Liabilities	29	31
Due to the General Fund (Notes 4 and 5)	25,172	13,661
Other Liabilities (Note 9)	5,745	3,207
Total Intragovernmental Liabilities	32,285	17,909
Accounts Payable	2,553	2,176
Payroll Benefits	1,302	1,095
FECA Actuarial Liability	176	206
Refunds Payable	1,127	3,739
Unfunded Leave	4,421	4,202
Cash Bond Liabilities	12,650	11,167
Other Liabilities (Note 9)	949	1,345
TOTAL LIABILITIES	$55,463	$41,839
Commitments and Contingencies (Note 19)		
NET POSITION		
Unexpended Appropriations - Other Funds	$17,723	$16,629
Cumulative Results of Operations - Other Funds	12,129	13,498
TOTAL NET POSITION - OTHER FUNDS	$29,852	$30,127
TOTAL LIABILITIES AND NET POSITION	$85,315	$71,966

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF NET COST
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
COLLECT THE REVENUE		
Program Costs		
Intragovernmental Gross Costs	$14,023	$14,216
Less: Intragovernmental Earned Revenue	(2,030)	(2,601)
Intragovernmental Net Costs	11,993	11,615
Gross Costs with the Public	40,453	38,957
Less: Earned Revenues from the Public	(2,393)	(2,357)
Net Costs with the Public	38,060	36,600
Total Net Program Cost	$50,053	$48,215
PROTECT THE PUBLIC		
Program Costs		
Intragovernmental Gross Costs	$14,029	$14,549
Less: Intragovernmental Earned Revenue	(530)	(901)
Intragovernmental Net Costs	13,499	13,648
Gross Costs with the Public	40,468	39,870
Less: Earned Revenues from the Public	(625)	(817)
Net Costs with the Public	39,843	39,053
Total Net Program Cost	$53,342	$52,701
NET COST OF OPERATIONS (Note 13)	$103,395	$100,916

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
Cumulative Results of Operations		
Beginning Balances	$13,498	$15,851
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	13,498	15,851
Budgetary Financing Sources		
Appropriations Used	96,902	93,886
Transfers-in without reimbursement	900	-
Other Financing Sources (Non-exchange)		
Transfers-in without reimbursement	49	693
Imputed Financing from Costs Absorbed by Others (Note 12)	4,175	3,984
Total Financing Sources	102,026	98,563
Net Cost of Operations (Note 13)	(103,395)	(100,916)
Net Change	(1,369)	(2,353)
Cumulative Results of Operations	$12,129	$13,498
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$16,629	$16,377
Prior Period Adjustments	-	-
Beginning Balances, as Adjusted	16,629	16,377
Budgetary Financing Sources		
Appropriations Received	99,000	99,878
Other Adjustments	(1,004)	(5,740)
Appropriations Used	(96,902)	(93,886)
Total Budgetary Financing Sources	1,094	252
Total Unexpended Appropriations	$17,723	$16,629
TOTAL NET POSITION	$29,852	$30,127

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
BUDGETARY RESOURCES (Note 14)		
Unobligated Balance Brought Forward, Oct 1	$4,720	$3,116
Recoveries of Prior Year Obligations	1,465	2,079
Other Changes in Unobligated Balance	(1,005)	(516)
Unobligated Balance from Prior Year Budget Authority, Net	5,180	4,679
Appropriations (discretionary)	99,000	94,654
Spending Authority from Offsetting Collections (discretionary)	6,673	5,745
TOTAL BUDGETARY RESOURCES	$110,853	$105,078
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred (Note 15)	$106,580	$100,358
Unobligated Balance, End of Year		
Unobligated Balance Apportioned	400	845
Unobligated Balance Unapportioned	3,873	3,875
Total Unobligated Balance, End of Year	4,273	4,720
TOTAL STATUS OF BUDGETARY RESOURCES	$110,853	$105,078
CHANGE IN OBLIGATED BALANCE		
Unpaid Obligations:		
Unpaid Obligations Brought Forward, Oct 1	$17,121	$21,795
Obligations Incurred, Net (Note 15)	106,580	100,358
Outlays, Gross	(101,333)	(102,953)
Recoveries of Prior Year Unpaid Obligations, Actual	(1,465)	(2,079)
Unpaid Obligations , End of Year, Gross	20,903	17,121
Uncollected Payments:		
Uncollected Payments Brought Forward, Federal Sources, Oct 1	(2,211)	(3,609)
Change in Uncollected Customer Payments, Federal Sources	(1,019)	1,398
Uncollected Payments, Federal Sources, End of Year	(3,230)	(2,211)
OBLIGATED BALANCE, END OF YEAR	$17,673	$14,910
OBLIGATED BALANCE, START OF YEAR	$14,910	$18,186
BUDGET AUTHORITY AND OUTLAYS, NET		
Budget Authority:		
Budget Authority, Gross (discretionary)	$105,673	$100,399
Actual Offsetting Collections (discretionary)	(5,654)	(7,143)
Change in Uncollected Customer Payments, Federal Sources (discretionary)	(1,019)	1,398
BUDGET AUTHORITY, NET (discretionary)	$99,000	$94,654
Outlays, Gross (discretionary)	101,333	102,953
Actual Offsetting Collections (discretionary)	(5,654)	(7,143)
Outlays, Net (discretionary)	95,679	95,810
Distributed Offsetting Receipts	(3)	(2)
AGENCY OUTLAYS, NET (discretionary)	$95,676	$95,808

The accompanying notes are an integral part of these statements.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU
STATEMENTS OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2014 and 2013
(In Thousands)

	2014	2013
SOURCES OF CUSTODIAL REVENUE		
Revenue Received		
Excise Taxes (Note 16)	$22,246,451	$22,935,992
Interest, Fines and Penalties	935	1,651
Other Custodial Revenue	2	2
Total Revenue Received (Note 17)	22,247,388	22,937,645
Less Refunds and Drawbacks (Note 16)	(356,998)	(380,961)
Net Revenue Received	21,890,390	22,556,684
Accrual Adjustment	16,660	(4,331)
Total Sources of Custodial Revenue	$21,907,050	$22,552,353
DISPOSITION OF CUSTODIAL REVENUE		
Amounts Provided to:		
General Fund	$20,809,886	$21,436,310
Wildlife Restoration Fund	768,768	762,651
Amounts Provided to Fund the Federal Government (Note 17)	21,578,654	22,198,961
Amounts Provided to Non-Federal Entities (Note 16)	311,736	357,723
Increases/(Decreases) in Amounts Yet to be Provided:		
General Fund	11,511	(5,190)
Wildlife Restoration Fund	2,537	1,724
(Increase)/Decrease in Accrued Refunds	2,612	(865)
Total Disposition of Custodial Revenue	$21,907,050	$22,552,353
NET CUSTODIAL REVENUE ACTIVITY	$-	$-

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Alcohol and Tobacco Tax and Trade Bureau (TTB) was established on January 24, 2003, as a result of the Homeland Security Act of 2002. The Act transferred firearms, explosives, and arson functions of the Bureau of Alcohol, Tobacco and Firearms (ATF) to the Department of Justice and retained the tax collection and consumer protection provisions of the Internal Revenue Code (IRC) and Federal Alcohol Administration Act in TTB within the Department of the Treasury. While the agency has a new name, the history of TTB's regulatory responsibility dates back to the creation of the Department of the Treasury and the first Federal taxes levied on distilled spirits in 1791. TTB has two primary programs: Collect the Revenue and Protect the Public. Under the Collect the Revenue program, TTB collects alcohol, tobacco, firearms, and ammunition excise taxes, and under its Protect the Public program, TTB protects the consumer by ensuring that alcohol beverages are labeled, advertised, and marketed in accordance with the law, and facilitates trade in beverage and industrial alcohols.

B. Basis of Presentation

The financial statements were prepared to report the significant assets, liabilities, and net cost of operations, changes in net position, budgetary resources, and custodial activities of TTB. The financial statements have been prepared from the books and records of TTB in conformity with generally accepted accounting principles (GAAP) in the United States, and form and content guidance for entity financial statements issued by the Office of Management and Budget (OMB) in OMB Circular A-136. TTB's accounting policies are summarized in this note. GAAP for Federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

C. Basis of Accounting

Transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. However, under the budgetary basis, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary statements may not equal similar lines on the budgetary financial statements.

The Statement of Custodial Activity is presented on the net accrual basis. The related activity is detailed in Note 1.E.

D. Revenue and Financing Sources

(1) Exchange Revenue

Exchange Revenues are inflows of resources to a Government entity that the entity has earned by providing something of value to the public or another Government entity at a price. The majority of the Exchange Revenues earned by the Bureau result from providing services to the Government of Puerto Rico, as well as other Treasury entities.

(2) Financing Sources

Financing sources provide inflows of resources during the reporting period and include appropriations used and imputed financing. Unexpended appropriations are recognized separately in determining net position, but are not financing sources until used. Imputed financing sources are the result of other Federal entities financing costs on behalf of TTB.

TTB receives the majority of the funding needed to support the Bureau through congressional appropriations. The appropriations received are annual and multi-year funding that may be used, within statutory limits, for operating and capital expenditures.

(3) Imputed Financing Sources

Imputed financing sources are the result of Federal entities financing costs on behalf of TTB. Those entities pay future benefits for health insurance, life insurance, and pension benefits for TTB employees.

E. Custodial Revenue

For TTB, most custodial revenues result from collecting taxes on alcohol and tobacco products, which are transferred to the General Fund, and recognized as a nonexchange revenue on the Federal government's consolidated financial statements. The excise taxes collected by TTB come from businesses, and the taxes are imposed and collected at the producer and importer levels of operations. Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. These taxes are recorded on the records on a modified cash basis of accounting. The Statement of Custodial Activity is also presented on a modified cash basis.

F. Fund Balance with Treasury

The Fund Balance with Treasury is the undisbursed account balance with the Treasury, primarily resulting from undisbursed appropriations. The balance is available within statutory limits to pay current liabilities and finance authorized purchase obligations. The Fund Balance also includes a non-entity balance, primarily the result of custodial activities related to collecting escrow payments designed to finance Offers-in-Compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

G. Accounts Receivable

Intragovernmental accounts receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by TTB. Public accounts receivable consist of taxes, penalties, and interest that have been assessed but unpaid at year end.

Receivables due from Federal agencies are considered to be fully collectible. An allowance for doubtful accounts is established for public receivables primarily based on specific identification.

H. Property, Plant, and Equipment

Property, plant, and equipment purchased with a cost greater than or equal to $25,000 per unit and a useful life of two years or more, is capitalized and depreciated. Normal repairs and maintenance are charged to expense as incurred.

TTB also capitalizes internal use of software when the unit cost or development costs are greater than or equal to $25,000. The same threshold also applies to enhancements that add significant functionality to the software. TTB will amortize this software based on its classification. The classifications are as follows: 1) Enterprise and other business software (five years), and 2) Personal productivity and desktop operating software (three years).

Additionally, TTB also capitalizes like assets purchased in bulk when the unit price is greater than or equal to $5,000 and less than $25,000, with the aggregated purchase amount greater than or equal to $250,000.

Assets are depreciated on a straight-line basis beginning the month the asset was put in to use.

I. Advances

Advances are payments made to cover certain periodic expenses before those expenses are incurred. In accordance with Public Law 91-614, TTB participated in the Treasury's Working Capital Fund for which it receives services on a reimbursable basis. Payments from TTB to Treasury are made in advance and are authorized for services that have been deemed as more advantageous and more economical when provided centrally. The services provided include those for telecommunications, payroll/personnel systems, printing, and other centralized services. The amount reported represents the balance available at the end of the fiscal year after charges/expenses incurred by the fund are deducted.

J. Non-entity Assets

Non-entity assets consist primarily of cash and receivables for excise taxes and fees that are to be distributed to the Treasury, other Federal agencies, and other governments. Non-entity assets are not considered a financing source (revenue) available to offset the operating expenses of TTB.

K. Liabilities

Liabilities represent the amount of monies, or other resources, that are likely to be paid by TTB as the result of a transaction or event that has already occurred. However, no liability can be paid by TTB absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is uncertainty an appropriation will be enacted, are classified as a liability not covered by budgetary resources. Also, the Government, acting in its sovereign capacity, can abrogate liabilities of TTB that arise from other than contracts.

Intragovernmental liabilities consist of amounts payable to the Treasury for collections of excise tax, fees receivable, payments to other Federal agencies, and accrued Federal Employees' Compensation Act (FECA) charges. Liabilities also include amounts due to be refunded to taxpayers, as well as amounts held in escrow for Offers-in-Compromise and cash bonds held in guaranteeing payment of taxes.

L. Litigation Contingencies and Settlements

Probable and estimable litigation and claims against TTB are recognized as a liability and expense for the full amount of the expected loss. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of TTB and settlements to be paid from Bureau appropriations. The Judgment Fund pays Bivens-type tort claims. Settlements paid from the Judgment Fund for TTB are recognized as an expense and imputed financing source.

M. Annual, Sick, and Other Leave

Annual and compensatory leave earned by TTB employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to current pay rates. Any portions of the accrued leave, for which funding is not available, are recorded as an unfunded leave liability on the Balance Sheet. Sick and other leave are expensed as taken.

N. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods or services made to business concerns after their due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services.

O. Retirement Plan

Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, TTB also contributes the employers' matching share of Social Security. For the FERS basic benefit, employees contribute 0.8 to 4.4 percent of basic pay in FY 2014, up from a maximum of 3.1 percent in FY 2013. TTB contributes between 9.6 and 11.9 percent, for a total contribution rate of 12.7 to 14.0 percent in FY 2014, depending on employees' retirement categories. The total contribution rate in FY 2013 was 12.7 percent. The cost of providing a FERS basic benefit, as provided by the Office of Personnel Management (OPM), is equal to the amounts contributed by TTB and the employees.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and TTB makes a mandatory 1 percent contribution to this account. In addition, TTB makes matching contributions, ranging from 1 to 4 percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees.

TTB recognized the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by Statement of Federal Financial Accounting Standards (SFFAS) No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by OPM. Costs financed by OPM are reported in the accompanying financial statements as an imputed financing revenue source. Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of OPM.

P. Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) 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 future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method, which utilizes historical benefit patterns related to a specific incurred period to predict ultimate payments related to that period. The Department of Labor calculates Treasury's FECA actuarial liability. Treasury then allocates shares of the liability to its component organizations, including TTB.

Claims are paid for TTB employees by the Department of Labor (DOL) from the FECA fund, for which TTB reimburses DOL. The accrued liability represents claims paid by DOL for TTB employees, for which the fund has not been reimbursed. The actuarial liability is an estimate of future costs to be paid on claims made by TTB employees. The estimated future cost is not obligated against budgetary resources until the year in which the cost is billed to TTB.

Q. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent liabilities at the date of the financial statements, and the amount of revenues and cost reported during the period. Actual results could differ from those estimates.

R. Tax Exempt Status

As an agency of the Federal Government, TTB is exempt from all income taxes imposed by any governing body, whether it is a Federal, state, commonwealth, local, or foreign government.

S. Changes in Presentation

There were no changes in presentation between FY2013 and FY2014.

T. Subsequent Events

Subsequent events and transaction occurring after September 30, 2014 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available for issue.

Note 2. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Fund Balances:		
General Funds	$21,946	$19,630
Other Funds	13,599	12,512
Total	$35,545	$32,142
Status of Fund Balances:		
Unobligated Balance - Available	$400	$845
Unobligated Balance - Unavailable	3,873	3,875
Obligated Balance Not Yet Disbursed	17,673	14,910
Subtotal	21,946	19,630
Adjustment for Non-Budgetary Funds	13,599	12,512
Total Status of Fund Balances	$35,545	$32,142

The other funds and non-budgetary fund balance primarily represents cash bonds, which are cash payments made to the Bureau by taxpayers, in lieu of obtaining corporate surety bonds, guaranteeing payment of taxes. It also includes Offers-in-Compromise (OIC). OICs are payments made to the Bureau, being held in escrow, to finance offers from taxpayers to settle their tax debt at less than the assessed amount.

The unobligated balance that is unavailable is the balance of prior years' expired appropriations.

Note 3. Accounts Receivable

Accounts Receivable as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Intragovernmental Accounts Receivable:		
Due from Treasury Executive Office of Asset Forfieture	$983	$86
Due from Community Financial Development Institutions Fund	280	455
Total Intragovernmental Accounts Receivable	$1,263	$541
Due from the Government of Puerto Rico	$576	$414
Due from Employees	4	3
Total Accounts Receivable Due from the Public	$580	$417

No allowance for doubtful accounts has been recognized, nor have any accounts been written off in either FY2014 or FY2013. All intragovernmental accounts receivable are considered fully collectible. Additionally, other non-Federal receivables consist of a receivable from the government of Puerto Rico, which is collected via an offset to cover-over payments the Bureau remits to Puerto Rico, and employee accounts receivable, which can be collected via salary offsets.

Note 4. Tax and Trade Receivables, Net

Tax and Trade Receivables as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Tax and Trade Receivables	$158,406	$87,086
Interest Receivable	20,113	7,805
Penalties, Fines and Administrative Fees Receivable	70,602	23,457
Total Tax and Trade Receivables	249,121	118,348
Allowance for Doubtful Accounts	(218,206)	(101,480)
Total Tax and Trade Receivables, Net	$30,915	$16,868

All tax and trade receivables are non-entity assets. An allowance for uncollectible amounts has been established based on: 1) an analysis of individual receivable balances and 2) the application of historical non-collection rates for similar types of receivables. Because current laws governing the collection period for these tax assessments, 26 U.S.C. 6502, stipulate taxes are collectible for 10 years from the date the taxes were assessed, a large amount of aged receivables that are not likely to be collected have been offset with an allowance, but not written off. This is an offsetting liability reported as Due to the General Fund.

The increase in gross receivables is largely related to new receivables with one taxpayer, approximating $103 million.

Note 5. Due from the General Fund and Due to the General Fund

In addition to collecting taxes from the alcohol and tobacco industries, the Bureau also is responsible for paying refunds, when applicable, to those same industry members. Amounts due from the General Fund represent a receivable from appropriations to cover the Bureau's accrued refund liability to alcohol and tobacco excise taxpayers.

	2014	2013
Due from the General Fund (in thousands)	$1,127	$3,739

Amounts due to the General Fund primarily represent the balance of receivables related to Alcohol and Tobacco excise taxes. Receivables related to Firearms and Ammunition excise taxes are payable to the Department of Interior's Fish and Wildlife Restoration Fund, not the General Fund.

	2014	2013
Due to the General Fund (in thousands)	$25,172	$13,661

Note 6. Property, Plant, and Equipment, Net (PP&E)

Property, Plant and Equipment as of September 30, 2014 and 2013 consisted of the following (in thousands):

2014	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$13,644	$9,470	$4,174
Equipment	4 - 6	13,362	9,656	3,706
Leasehold Improvements	2 - 5	1,870	1,062	808
Building	40	9,772	2,609	7,163
Total PP&E		$38,648	$22,797	$15,851

2013	Estimated Useful Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
Internal Use Software	3 - 5	$13,644	$7,523	$6,121
Equipment	4 - 6	11,611	7,593	4,018
Leasehold Improvements	2 - 5	1,312	1,090	222
Building	40	9,772	2,356	7,416
Total PP&E		$36,339	$18,562	$17,777

Depreciation and amortization are calculated using the straight-line method.

The balance in the buildings account represents TTB's 13.2 percent equity interest in the National Laboratory Center facility in Beltsville, Maryland, which TTB co-owns with ATF.

Note 7. Advances

TTB did not have any intragovernmental advances at the end of FY2014. Treasury dissolved their Working Captial Fund, and all services for previously advanced funds at the end of FY2013 were provided. Advances with the public generally consist of prepaid services agreements for support or maintenance.

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Intragovernmental Non-entity Assets:		
Fund Balance with Treasury	$13,599	$12,512
Due from the General Fund	1,127	3,739
Total Intragovernmental Non-entity Assets	14,726	16,251
Accounts Receivable	2	-
Tax and Trade Receivables, Net	30,915	16,868
Total Non-Entity Assets	45,643	33,119
Total Entity Assets	39,672	38,847
Total Assets	$85,315	$71,966

Note 9. Other Liabilities

Other Liabilities as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Due to the Fish and Wildlife Fund	$5,745	$3,207
Other Intragovernmental Liabilities	5,745	3,207
Offers-in-Compromise not yet Accepted	949	1,345
Total Other Liabilities with the Public	949	1,345
Total Other Liabilities	$6,694	$4,552

All Other Liabilities are considered current liabilities.

Note 10. Liabilities Not Covered by Budgetary Resources

Liabilities not Covered by Budgetary Resources as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Accrued FECA Liability	$29	$31
Total Intragovernmental Liabilities not Covered by Budgetary Resources	29	31
FECA Actuarial Liability	176	206
Unfunded Leave	4,421	4,202
Total Liabilities with the Public not Covered by Budgetary Resources	4,597	4,408
Total Liabilities not Covered By Budgetary Resouces	4,626	4,439
Total Liabilities Covered by Budgetary Resources	50,837	37,400
Total Liabilities	$55,463	$41,839

Note 11. Future Funding Requirements

Total liabilities not covered by budgetary resources generally do not equal the total financing sources yet to be provided on the Reconciliation of Net Cost of Operations to Budget. The amounts reported on the Balance Sheet are period ending balances, while the amounts reported on the Reconciliation of Net Cost of Operations to Budget are activity for the period.

Generally, liabilities not covered by budgetary resources require future funding and can be liquidated only with the enactment of future appropriations.

Note 12. Imputed Financing

Imputed Financing as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Health Insurance	$2,130	$2,146
Life Insurance	8	8
Pension	2,037	1,830
Total Imputed Financing	$4,175	$3,984

Imputed financing recognizes actual cost of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHB), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes costs paid by the Judgment Fund. The Fund was established and funded by Congress under 31 U.S.C. 1304 to pay in whole or in part court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. The Judgment Fund did not pay out any awards on TTB's behalf during fiscal years 2014 or 2013.

TTB does not report CSRS assets, FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to retirement plans because the accounting for and reporting of such amounts is the responsibility of OPM. Based on cost factors provided by OPM, which vary by retirement plan, estimated future pension benefits for TTB employees, to be paid by OPM, totaled $2.0 million and $1.8 million for fiscal years 2014 and 2013 respectively. Similarly, OPM rather than TTB, reports liabilities for future payments to retired employees who participate in the FEHB and FEGLI programs. The FEHB cost factor applied to a weighted average number of employees enrolled in the FEHB program decreased slightly in FY 2014 to $5,169 from $5,190 in FY 2013, still resulting in $2.1 million of imputed cost for employees' health benefits in each respective year. The cost factor, as provided by OPM, for employees enrolled in the FEGLI program, remained unchanged from FY 2013 to FY 2014, at .02 percent of employees' basic pay. The FEGLI amounts totaling $8,000 each are also included as an expense and imputed financing source in TTB financial statements for fiscal years 2014 and 2013, respectively.

Note 13. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Gross Cost and Earned Revenue by Budget Function Classification as of September 30, 2014 and 2013 consisted of the following (in thousands):

Fiscal Year Ended September 30, 2014

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$28,052	$(2,560)	$25,492
With the Public	Central Fiscal Operations	803	80,921	(3,018)	77,903
Consolidated	Central Fiscal Operations	803	$108,973	$(5,578)	$103,395

Fiscal Year Ended September 30, 2013

Activity	Budget Function Classification (BFC)	BFC Code	Gross Costs	Earned Revenue	Net Costs
Intragovernmental	Central Fiscal Operations	803	$28,765	$(3,502)	$25,263
With the Public	Central Fiscal Operations	803	78,827	(3,174)	75,653
Consolidated	Central Fiscal Operations	803	$107,592	$(6,676)	$100,916

Note 14. Statement of Budgetary Resources vs. Budget of the United States Government

The following chart displays balances from the FY 2013 Statement of Budgetary Resources and actual fiscal year balances included in the FY 2015 President's Budget. There were no differences. The FY 2016 budget, which would include FY 2014 actuals, had not been published at the time of this report.

Fiscal Year Ended September 30, 2013 (In Millions / Unaudited)	Statement of Budgetary Resources	President's Budget
Budgetary Resources:		
Appropriations	$95	$95
Spending Authority from Offsetting Collections	5	5
Budgetary Resources Available for Obligation	$100	$100
Change in Obligated Balances:		
Unpaid Obligations brought forward, Beginning of Period	$22	$22
Obligations Incurred	100	100
Outlays, Gross	(103)	(103)
Recoveries of Prior Year Unpaid Obligations	(2)	(2)
Unpaid Obligations, End of Period	$17	$17
Uncollected Payments, Federal Sources, End of Period	(2)	(2)
Obligated Balance, End of Period	$15	$15
Outlays:		
Outlays, Gross	$103	$103
Actual Offsetting Collections	(7)	(7)
Outlays, Net	$96	$96

Additionally, the FY 2015 President's Budget disclosed budget authority of $349 million for FY 2013, funding cover-over payments to Puerto Rico, which is not reported in the Statement of Budgetary Resources.

The cover-over payments and associated tax revenues are reported as custodial activity of the Bureau. The tax revenues are not available for use in the operation of the Bureau and are not reported on the Statement of Net Cost. Likewise, the resultant cover-over payments are not recognized as an operating expense of the Bureau. Consequently, to present the refunds as an expense of the Bureau on the Statement of Net Cost would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Bureau in meeting its strategic objectives. Further, since this activity is not reported on the Statement of Net Cost, it would be contradictory to report the budget authority on the Statement of Budgetary Resources.

Note 15. Apportionment Categories of Obligations Incurred

Obligations Incurred as of September 30, 2014 and 2013 consisted of the following (in thousands):

Fiscal Year	Apportionment Category	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
2014	Category B	$100,377	$6,203	$106,580
2013	Category B	$94,939	$5,419	$100,358

The amount of direct and reimbursable obligations against amounts apportioned under Category B is reported in the table above. Apportionment categories are determined by the apportionment categories reported on the Standard Form 132 *Apportionment and Reapportionment Schedule*. Category B represents annual apportionments.

Obligations Incurred represents amounts that have been obligated or expended during the each of the respective years. Whereas, Undelivered Orders respresents the balance of obligations at the end of the respective years.

	2014	2013
Undelivered Orders, End of Period	$15,742	$13,322

Note 16. Net Custodial Revenue Activity

- **Excise Taxes**

  As an agent of the Federal Government and as authorized by 26 U.S.C., TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain alcohol and tobacco businesses. During FY 2014 and FY 2013, TTB collected $22.2 billion and $22.9 billion respectively in taxes, interest, and other custodial revenues.

  Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the Department of Treasury General Fund. The Department of Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

- **Refunds and Other Payments**

  During FY 2014 and FY 2013, TTB issued $669 million and $739 million in refunds, cover-over payments, and drawback payments in the respective years.

Tax Refunds

Tax Refunds result when taxpayers file returns for payments made for a given tax period and the result of the return is an overpayment.

Cover-over Payments

Federal excise taxes are collected under the Internal Revenue Code of 1986, 26 U.S.C., on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 U.S.C. 7652, such taxes collected on rum imported into the United States are custodial revenues and "covered over," or paid into, the treasuries of Puerto Rico and the Virgin Islands.

TTB maintains operations in Puerto Rico to enforce the provisions of chapter 51 in respect to items of Puerto Rican manufacture brought in to the United States. These operations include conducting annual revenue, application, and product integrity investigations of large alcohol and tobacco industry members. Except for application investigations, TTB investigates medium and small alcohol and tobacco producers in response to specific problems and risk indicators. Revenue inspections are used to verify that TTB is collecting all of the revenue that is rightfully due from the taxpayer. TTB staff in Puerto Rico also conducts qualification inspections of all distilled spirits producers/processors, wineries, wholesalers, importers, Manufacturer of Nonbeverage Products (MNBP) claimants, and Specially Denatured Alcohol permit applicants. All costs associated with the functioning and supporting of the Puerto Rico office, $3.0 and $3.2 million in FY 2014 and FY 2013 respectively, are offset against the cover-over payments made by the United States to Puerto Rico.

Drawbacks

Under current law, 26 U.S.C. 5134, MNBP permittees may be eligible to claim a refund of tax paid on distilled spirits used in their products. In the case of distilled spirits, on which the tax has been paid or determined, a drawback shall be allowed on each proof gallon at the rate of $1 less than the rate at which the distilled spirits tax had been paid or determined. The refund is due upon the claimant providing evidence that the distilled spirits on which the tax has been paid or determined were unfit for beverage purposes and were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, flavoring extracts, or perfume.

Refunds, Drawbacks and Cover-over Payments as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Alcohol and Tobacco Excise Tax Refunds	$40,600	$35,278
Drawbacks on MNBP Claims	316,040	345,231
Interest and Other Payments	358	452
Refunds and Drawbacks	356,998	380,961
Cover-over Payments - Puerto Rico	303,457	349,017
Cover-over Payments - Virgin Islands	8,279	8,706
Amounts Provided to Non-federal Entities	311,736	357,723
Total Refunds, Drawbacks and Coverover Payments	$668,734	$738,684

Note 17. Custodial Revenue

Collection and Disposition of Custodial Revenue as of September 30, 2014 and 2013 consisted of the following (in thousands):

FY 2014 Collections and Refunds by Tax Year and Type

Revenue Type	2014	2013	2012	Pre-2012	FY 2014 Total
Excise Taxes	16,173,032	6,066,859	1,647	4,913	22,246,451
Fines, Penalties, Interest and Other	266	37	98	536	937
Total Revenue Received	16,173,298	6,066,896	1,745	5,449	22,247,388
Less: Amounts Collected for Non-federal Entities	(311,736)	-	-	-	(311,736)
Total	15,861,562	6,066,896	1,745	5,449	21,935,652
Refund Type					
Excise Taxes	184,627	165,829	3,385	2,957	356,798
Fines, Penalties, Interest and Other	1	142	20	37	200
Total Refunds & Drawbacks	184,628	165,971	3,405	2,994	356,998
Amounts Provided to Fund the Federal Government	$15,676,934	$5,900,925	$(1,660)	$2,455	$21,578,654

FY 2013 Collections and Refunds by Tax Year and Type

Revenue Type	2013	2012	2011	Pre-2011	FY 2013 Total
Excise Taxes	$16,718,436	$6,213,206	$1,457	$2,893	$22,935,992
Fines, Penalties, Interest and Other	161	1,247	62	183	1,653
Total Revenue Received	16,718,597	6,214,453	1,519	3,076	22,937,645
Less: Amounts Collected for Non-federal Entities	(357,723)	-	-	-	(357,723)
Total	$16,360,874	$6,214,453	$1,519	$3,076	$22,579,922
Refund Type					
Excise Taxes	$190,370	$185,272	$4,767	$278	$380,687
Fines, Penalties, Interest and Other	12	51	191	20	274
Total Refunds & Drawbacks	$190,382	$185,323	$4,958	$298	$380,961
Amounts Provided to Fund the Federal Government	$16,170,492	$6,029,130	$(3,439)	$2,778	$22,198,961

Note 18. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations.

Reconciliation of Net Cost of Operations to Budget, as of September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$106,580	$100,358
Less: Spending Authority from Offsetting Collections and Recoveries	(8,138)	(7,824)
Obligations Net of Offsetting Collections and Recoveries	98,442	92,534
Less: Offsetting Receipts	(903)	(2)
Net Obligations	97,539	92,532
Other Resources		
Transfers-in without Reimbursement	49	693
Imputed Financing from Costs Absorbed by Others	4,175	3,984
Net Other Resources Used to Finance Activities	4,224	4,677
Total Resources Used to Finance Activities	$101,763	$97,209

	2014	2013
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 (+/-)	$2,284	$(1,206)
Resources that Fund Expenses Recognized in Prior Periods	32	55
Other Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations	(854)	691
Resources that Finance the Acquisition of Assets	2,279	1,787
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations (+/-)	(949)	(693)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	2,792	634
Total Resources Used to Finance the Net Cost of Operations	$98,971	$96,575
Components of the Net Cost of Operations Requiring or Generating Resources in Future Periods		
Components Requiring or Generating Resources in Future Periods:		
Other (+/-)	$218	$ -
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	$218	$ -
Components of the Net Cost of Operations not Requiring or Generating Resources		
Depreciation and Amortization	$4,119	$4,286
Revaluation of Assets or Liabilities	87	55
Total Components of Net Cost of Operations that will not Require or Generate Resources	$4,206	$4,341
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	$4,424	$4,341
NET COST OF OPERATIONS	$103,395	$100,916

Note 19: Contingent Liabilities

As of September 30, 2014, TTB is not party to any legal matters where the likelihood of a material loss is reasonably possible.

Required Supplementary Information (Unaudited)

Budgetary Information

Budgetary information aggregated for the purposes of the Statement of Budgetary Resources should be disaggregated for each of an entity's major budget accounts (i.e., Appropriated Funds, Trust Funds, Revolving Funds, or other funds) and presented as Supplementary Information. However, for proprietary reporting, TTB only has appropriated funds. Consequently, a Combining Statement of Budgetary Resources disaggregated by fund type has not been presented.

Excise Tax and Other Collections

Required Supplementary Information
Excise Tax and Other Collections by Fiscal Year
Unaudited (In Thousands)

Fiscal Year	Alcohol	Tobacco	FAET	SOT	FST	Other	Total
2005	$7,074,076	$7,409,608	$225,818	$10,190	$9	$141	$14,719,842
2006	7,182,940	7,350,058	249,578	2,895	638	146	14,786,255
2007	7,232,138	7,194,081	287,835	2,808	-	32	14,716,894
2008	7,420,576	6,851,705	312,622	448	-	634	14,585,985
2009	7,424,292	11,548,504	452,693	272	1,192,375	970	20,619,106
2010	7,476,789	15,913,479	360,813	300	8,558	180	23,760,119
2011	7,594,330	15,515,073	344,262	268	5,220	2,257	23,461,410
2012	7,856,391	15,002,616	514,622	249	5,942	61	23,379,881
2013	7,851,953	14,321,017	762,836	280	1,521	38	22,937,645
2014	7,924,951	13,552,711	768,927	332	465	2	22,247,388
Average	$7,503,844	$11,465,885	$428,001	$1,804	$121,473	$446	$19,521,453

FAET – Firearms and Ammunition Excise Tax

SOT – Special Occupational Tax

FST – Floor Stocks Tax

TTB collects FAET taxes on behalf of the Department of Interior, U.S. Fish and Wildlife Service, and deposits the collections directly into the Fish and Wildlife Restoration Fund. During fiscal years 2014 and 2013, TTB incurred $2.2 million and $1.8 million respectively of direct and indirect costs associated with collecting the FAET taxes. The law currently does not provide for TTB to recover these costs. The cost of the program was communicated to the U.S. Fish and Wildlife Service so the agency could properly record an imputed cost in its financial records.

Refunds, Cover-over Payments, and Drawback Payments

Required Supplementary Information
Refunds, Cover-over Payments and Drawback Payments by Fiscal Year
Unaudited (In Thousands)

Fiscal Year	Cover-over Puerto Rico	Cover-over Virgin Islands	A&T Excise Tax	Drawbacks MNBP Claims	Interest and Other	Total
2005	$419,602	$6,010	$18,504	$317,132	$2,100	$763,348
2006	358,664	6,491	17,524	337,632	699	721,010
2007	459,278	8,054	13,208	335,706	972	817,218
2008	373,418	7,615	14,125	283,462	2,938	681,558
2009	472,695	8,624	17,791	268,612	252	767,974
2010	378,186	8,871	28,232	297,596	315	713,200
2011	452,040	9,592	33,414	306,584	418	802,048
2012	376,373	9,337	30,293	289,330	3,824	709,157
2013	349,017	8,706	35,278	345,231	452	738,684
2014	303,457	8,279	40,600	316,040	358	668,734
Average	$394,273	$8,158	$24,897	$309,733	$1,233	$738,293

A&T – Alcohol and Tobacco

MNBP – Manufacturer of Nonbeverage Products

Other Accompanying Information (Unaudited)

Other Accompanying Information
Schedule of Spending
For the Years Ended September 30, 2014 and 2013
Unaudited (In Thousands)

	2014	2013
What Money is Available to Spend		
Total Resources	$110,853	$105,078
Less: Amount Available but not Agreed to be Spent	(400)	(845)
Less: Amount Not Available to Be Spent	(3,873)	(3,875)
Total Amounts Agreed to be Spent	$106,580	$100,358
How was the Money Spent		
Collect the Revenue		
Object Class 11: Personnel Compensation	$23,250	$24,284
Object Class 12: Personnel Benefits	6,834	7,098
Object Class 21: Travel	1,130	1,334
Object Class 23: Rent, Utilities, and Telecommunications Services	2,985	3,018
Object Class 25: Contractual Services	16,045	14,858
Object Class 31: Equipment and Software	1,819	2,145
Other	630	471
Total Collect the Revenue	52,693	53,208
Protect the Public		
Object Class 11: Personnel Compensation	24,026	24,164
Object Class 12: Personnel Benefits	6,898	6,898
Object Class 21: Travel	496	516
Object Class 23: Rent, Utilities, and Telecommunications Services	2,786	2,841
Object Class 25: Contractual Services	12,525	13,668
Object Class 31: Equipment and Software	1,376	1,344
Other	533	314
Total Protect the Public	48,640	49,745
Total Spending	101,333	102,953
Change in Amounts Remaining to be Spent	5,247	(2,595)
Total Amounts Agreed to be Spent	$106,580	$100,358

Intragovernmental Assets

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable	Advances
Department of the Treasury	20	$ -	$1,263	$ -
General Fund	99	35,545	1,127	-
Total		$35,545	$2,390	$ -

Other Accompanying Information
Intragovernmental Assets
As of September 30, 2013
Unaudited (In Thousands)

Trading Partner	Agency Code	Fund Balance W/ Treasury	Accounts Receivable	Advances
Department of the Treasury	20	$ -	$541	$460
General Fund	99	32,142	3,739	-
Total		$32,142	$4,280	$460

Intragovernmental Liabilities

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2014
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	$69	$ -	$ -
Department of the Interior	14	-	-	5,745
Department of Justice	15	543	-	-
Department of Labor	16	-	29	-
Office of Personnel Management	24	-	-	235
General Services Administration	47	294	-	-
Department of Homeland Security	70	46		-
Department of Defense	97	67	-	-
Treasury General Fund	99	-	-	25,257
Total		$1,019	$29	$31,237

Other Accompanying Information
Intragovernmental Liabilities
As of September 30, 2013
Unaudited (In Thousands)

Trading Partner	Agency Code	Accounts Payable	Accrued FECA	Custodial and Other Liabilities
Government Printing Office	04	$108	$ -	$ -
Department of the Interior	14	-	-	3,207
Department of Justice	15	469	-	-
Department of Labor	16	-	31	-
Office of Personnel Management	24	-	-	196
General Services Administration	47	168	-	-
Department of Defense	97	-		
Treasury General Fund	99	-	-	13,730
Total		$745	$31	$17,133

Intragovernmental Earned Revenue

Other Accompanying Information
Intragovernmental Earned Revenue
For the Fiscal Years Ended September 30, 2014 and 2013
Unaudited (In Thousands)

Trading Partner	Agency Code	2014	2013
Department of Treasury	20	$2,560	$3,502
Total		$2,560	$3,502

Budget Function Classification (BFC)	BFC Code	2014	2013
Central Fiscal Operations	803	$2,560	$3,502
Total		$2,560	$3,502

Intragovernmental Gross Cost

Other Accompanying Information
Intragovernmental Gross Cost
For the Fiscal Years Ended September 30, 2014 and 2013
Unaudited (In Thousands)

Trading Partner	Agency Code	2014	2013
Library of Congress	03	$72	$71
Government Printing Office	04	145	232
Department of Interior	14	40	-
Department of Justice	15	754	1,066
Department of Labor	16	33	8
United States Postal Services	18	41	44
Department of the Treasury	20	5,268	5,573
Office of Personnel Management	24	12,981	12,795
Federal Trade Commission	29	1	-
General Services Administration	47	5,229	5,480
Environmental Protection Agency	68	-	4
Department of Homeland Security	70	277	324
Department of Health and Human Services	75	24	22
National Archives Records Administration	88	44	39
Department of Defense	97	80	119
General Fund	99	3,063	2,988
Total		$28,052	$28,765

During fiscal years 2014 and 2013, TTB incurred costs with other Federal agencies totaling approximately $28.1 million and $28.8 million, in each year respectively. The majority of those costs were associated with the five entities detailed below.

- **Department of Justice:** TTB paid ATF $754,000 and $1.1 million in fiscal years 2014 and 2013 respectively for shared lab space and shared building services.
- **Department of the Treasury:** The Bureau received services from Treasury's Working Capital Fund, Franchise Fund, as well as administrative services from the Bureau of the Fiscal Service's Administrative

Resource Center, in fiscal years 2014 and 2013 in the amounts of $5.3 million and $5.6 million respectively.

- **Office of Personnel Management:** TTB incurred $13.0 million and $12.8 million in costs for employee benefits for fiscal years 2014 and 2013 respectively.
- **General Services Administration:** TTB paid $5.2 million and $5.5 million to GSA for rent and information technology services in fiscal years 2014 and 2013 respectively.
- **General Fund:** The Bureau paid $3.1 and $3.0 million in fiscal years 2014 and 2013 respectively for employee benefits and lockbox fees.

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Part IV
Appendices

Principal Officers of TTB

Administrator	John Manfreda
Deputy Administrator	Mary Ryan
Chief of Staff	Elisabeth Kann
Assistant Administrator, Field Operations	Tom Crone
Assistant Administrator, Headquarters Operations	Theresa McCarthy
Assistant Administrator, Management/CFO	Cheri Mitchell
Assistant Administrator, Information Resources/CIO	Robert Hughes
Executive Liaison for Industry and State Matters	Susan Evans
Equality, Diversity, and Inclusion	Tiara Ngo
Strategic Planning and Program Evaluation	Jill Murphy
Congressional and Public Affairs	Tom Hogue
Chief Counsel	Anthony Gledhill

For additional information, contact:

Alcohol and Tobacco Tax and Trade Bureau

1310 G Street, NW, Box 12

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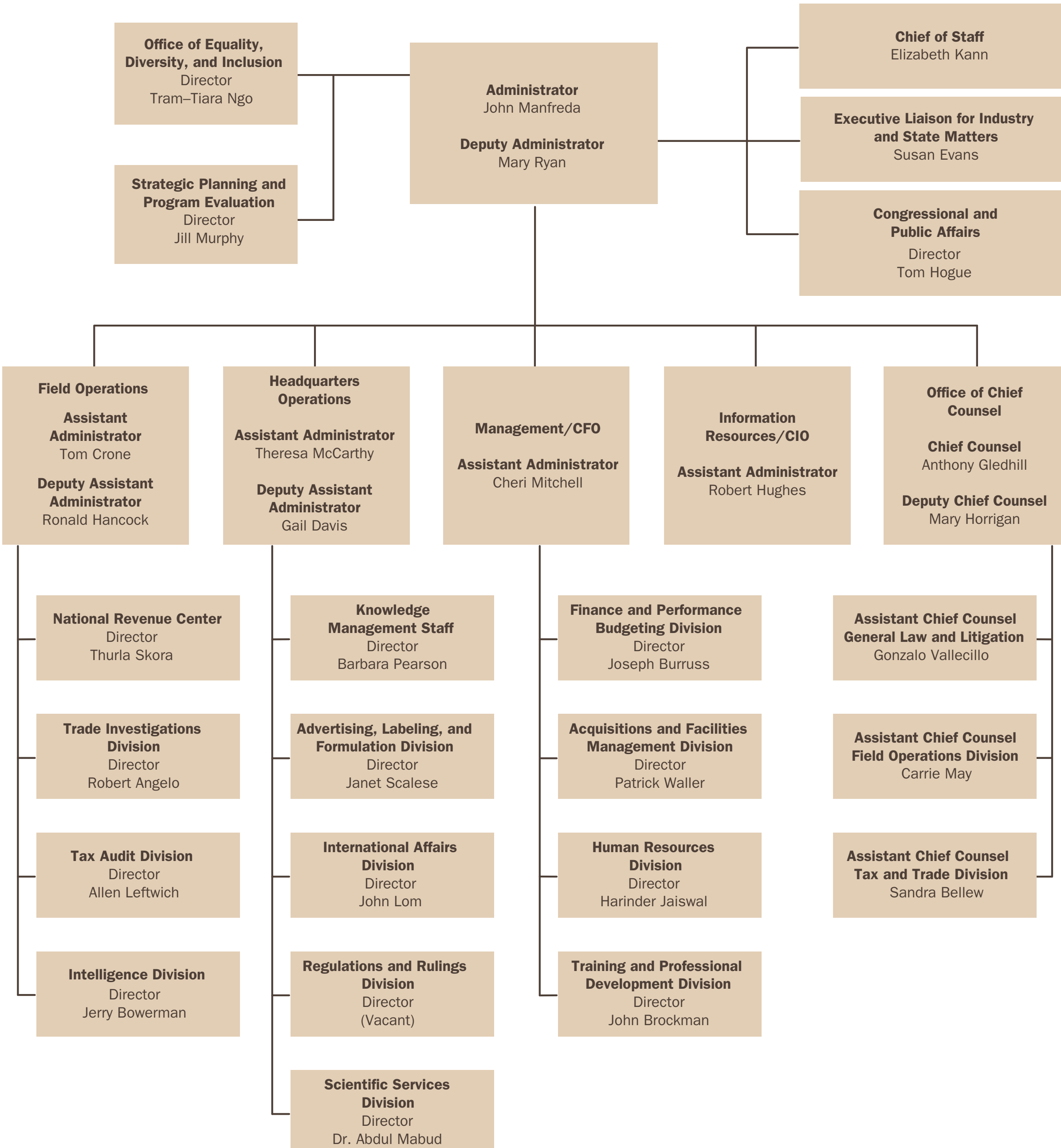
(202) 453-2000

http://www.ttb.gov

TTB Organization Chart



Connecting the Treasury and TTB Strategic Plans

TREASURY GOALS	TTB STRATEGIC GOALS	TTB OBJECTIVES
TREASURY STRATEGIC GOAL: Promote domestic economic growth and stability while continuing reforms of the financial system	**PROTECT THE PUBLIC (PTP):** Alcohol and tobacco industry operators meet permit qualifications, and alcohol beverage products comply with federal production, labeling, and marketing requirements	**PTP 1. BUSINESS INTEGRITY:** Ensure that only qualified persons and business entities operate within the industries TTB regulates **PTP 2. PRODUCT INTEGRITY:** Ensure that alcohol beverage products comply with federal production, labeling, and advertising requirements **PTP 3. MARKET INTEGRITY:** Ensure fair trade practices throughout the alcohol beverage marketplace
TREASURY STRATEGIC GOAL: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems	**COLLECT THE REVENUE (CTR):** Enforce the tax code to ensure proper federal tax payment on alcohol, tobacco, firearms, and ammunition products	**CTR 1. TAX VERIFICATION AND VALIDATION:** Assure voluntary compliance in the timely and accurate remittance of tax payments **CTR 2. CIVIL AND CRIMINAL ENFORCEMENT:** Detect and address noncompliance, excise tax evasion, and other criminal violations of the Internal Revenue Code in the industries TTB regulates
TREASURY STRATEGIC GOAL: Create a 21st–century approach to government by improving efficiency, effectiveness, and customer interaction	**MANAGEMENT AND ORGANIZATIONAL EXCELLENCE (MGT):** Maximize performance, efficiency, and program results through effective resource and human capital management	**MGT 1. HUMAN CAPITAL MANAGEMENT:** Maintain a qualified, engaged, and satisfied workforce **MGT 2. TECHNOLOGY SOLUTIONS:** Deliver effective, streamlined, and flexible IT solutions that add value and support program performance **MGT 3. FINANCE AND PERFORMANCE RESULTS:** Facilitate strategic management and financial accountability through the delivery of timely and reliable financial and performance information

Note: *TTB revised its goals and objectives in FY 2012, and is operating under these goals until the publication of its revised strategic plan in FY 2015.*

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ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

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