
Notes to Financial Statements

NOTE 1

Summary of Significant Accounting Policies

REPORTING ENTITY

The Bureau of Alcohol, Tobacco and Firearms (ATF or the Bureau), an enforcement agency within the Department of the Treasury, was given full Bureau status in 1972. ATF's mission is to enforce the Federal laws and regulations relating to alcohol, tobacco, firearms, explosives and arson. In addition, ATF is responsible for the collection of excise taxes and fees from the alcohol, tobacco, firearms and ammunition industries, as well as Special Occupational Taxes from certain businesses in the alcohol, tobacco and firearms industries.

BASIS OF PRESENTATION

The financial statements were prepared to report the significant assets, liabilities, net cost of operations, changes in net position, budgetary resources and custodial activity of ATF. The financial statements have been prepared from the books and records of ATF in conformity with generally accepted accounting principles (GAAP), and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. ATF's accounting policies are summarized in this note. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was recently designated the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by ATF, pursuant to OMB directives that are used to monitor and control ATF's use of budgetary resources.

Entity financial resources of ATF present only those resources which will be consumed in current or future operating cycles, while the non-entity categories contain resources relating to ATF fiduciary activities of revenue collection. The Bureau records entity accounting transactions on both an accrual basis of accounting as well as a budgetary basis. Under the accrual method, revenue is recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

BUDGETS AND BUDGETARY ACCOUNTING

Congressional appropriations provide financing sources on an annual, multiple-year and no-year basis. These appropriations finance operating expenses and the purchase of property and equipment as specified by law. Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 20-2-1000 – Salaries and Expenses Appropriation
- 20-X-1000 – No-year Appropriation
- 20-1/2-1000 – Prior-year Appropriation
- 20-0/1-1000 – Y2K Contingent Emergency Funds
- 20-2-1000 – Appropriation Transfers
- 20-2/3-1000 – High Intensity Drug Trafficking Area
- 20-X-1003 – Laboratory Facilities
- 20-X-8526 and 20-X-8528 – Violent Crime Trust Funds

All of these appropriations and the related gross costs, revenues and net cost as shown in the Statement of Net Cost are in Federal budget functional classification 750, Administration of Justice. The accompanying financial statements of ATF include the accounts of the above funds under ATF control.

EXCHANGE REVENUE, NON-EXCHANGE REVENUE AND OTHER FINANCING SOURCES

EXCHANGE REVENUES

Exchange revenues are inflows of resources to a Government entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. That is, exchange revenue arises and is recognized when a Government entity provides something of value to the public or another Government entity at a price.

ATF provides a number of services including enforcement, training and professional development, and science and information technology that are provided to other government agencies on reimbursable agreements. ATF does not make goods to order.

Most of the funds received by ATF on a reimbursable basis result from the Bureau's agreement with the U.S. Department of State to train explosives-detecting canines for foreign countries. The canines will be used overseas in the war against terrorism and protecting American travelers abroad. Similarly, ATF is funded on a reimbursable basis for activity related to drug enforcement activity through the Interagency Crime and Drug Enforcement (ICDE) program formerly managed by the Justice Department.

NON-EXCHANGE REVENUES

Non-exchange revenues are inflows of resources that the Government demands or receives by donation. Such revenue is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable (more likely than not) and the amount is reasonably estimable.

Non-exchange revenue is reported on the modified cash basis of accounting and is recognized when taxes are remitted or assessed. Refunds are also reported on the modified cash basis of accounting. Liabilities for approved but unpaid refunds of tax payments are accrued at year end.

As an agent of the Federal Government and as authorized by 26 U.S.C. § 6301, ATF collects excise taxes from the alcohol, tobacco, firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from businesses, including producers, distributors and retailers of liquor, dealers in industrial alcohol, and certain firearms businesses. ATF receives no dedicated collections.

Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the Department of the Treasury General Fund. The Department of the Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations. Revenue collected from firearms and ammunition taxes is transferred directly to the Interior Department's Federal Aid to Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937 to support their mission. ATF disburses refunds to taxpayers and license applicants as well as monthly payments to the Governments of Puerto Rico and the Virgin Islands. These payments are used to cover over (rebate) excise taxes collected for alcohol (mostly rum) produced in these territories and used by U.S. producers to support economic revitalization. The amount covered over (rebated) to these governments is based on the consolidation of figures obtained from the U.S. Customs Service, Census Bureau, domestic distilleries and the Puerto Rico field office. The Bureau also refunds excise taxes to taxpayers who use distilled spirits in the manufacture of non-beverage products such as medicines, food products and flavorings.

Receivables are established through assessments of taxes and the imposition of assessments when made for delinquent taxes or penalties and interest. ATF recognizes revenue when accounts receivable are established.

FINANCING SOURCES

Financing sources provide inflows of resources during the reporting period and include appropriations used and financing imputed with respect to any cost subsidies. Unexpended appropriations are recognized separately in determining net position but are not financing sources until used.

ATF receives the majority of the funding needed to support the Bureau through congressional appropriations. ATF receives both annual, multiple-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture and furnishings).

Appropriations are recognized as a financing source at the time the related program or administrative expense is incurred. Appropriations expended for property are recognized as a financing source when the asset is consumed in operations (depreciation).

Costs financed by other Federal entities on behalf of ATF are recognized as imputed financing sources as required by SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Other financing sources result from distributions ATF receives from the Treasury Asset Forfeiture Fund. These resources finance the Youth Crime Gun Interdiction Initiative (YCGII) and other law enforcement initiatives, including seizing and forfeiting property of parties engaged in unlawful activities.

ASSETS

Entity intragovernmental assets include the fund balance with Treasury, amounts due from other Federal agencies under contractual agreements or other arrangements for services or activities performed by ATF and prepayments for authorized goods and services for Treasury's Working Capital Fund. Entity assets include property and equipment, as well as other assets comprised of advances and amounts due from employees or vendors.

Non-entity intragovernmental assets also include the fund balance with Treasury and accounts receivable due from Treasury to disburse approved refund claims of excise taxes and fees. Non-entity assets consist principally of receivables for excise taxes and fees which are to be distributed to the Treasury, other Federal agencies and other governments. None of the non-entity assets are considered a financing source (revenue) available to offset operating expenses of ATF.

FUND BALANCE WITH TREASURY AND CASH

The Department of the Treasury processes the Bureau's cash receipts and disbursements. Entity fund balance with Treasury and cash are primarily appropriated funds available to pay current liabilities and to finance authorized purchase commitments. Non-entity fund balance with Treasury is primarily escrow accounts designated to finance offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

PREPAYMENTS

Prepayments are payments made to cover certain periodic expenses before those expenses are incurred. In accordance with Public Law 91-614, ATF participates in the Treasury Department's Working Capital Fund activity, for which it receives services on a reimbursable basis. Payments made in advance 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 central services. The amount reported represents the balance available at the end of the fiscal year after charges/expenses incurred by the fund are deducted.

PROPERTY AND EQUIPMENT

The General Services Administration provides the land and buildings in which ATF operates and charges ATF rent that approximates the commercial rent for similar properties. At September 30, 2002, ATF was in the process of constructing a laboratory in College Park, MD. These costs are capitalized as construction in progress and will be transferred to the appropriate property account upon completion. ATF owns the land upon which the laboratory is being constructed. ATF also owns buildings for the kennels and Canine Training Facility in Front Royal, VA. ATF has no deferred maintenance or cleanup costs.

At September 30, 2002, a new headquarters building for ATF in Washington, D.C., was also in the development stage. GSA will own the new headquarters building in which ATF will be housed. Because GSA will own the building and lease it to ATF, design costs and project oversight costs are being capitalized as leasehold improvements and will ultimately be amortized when ATF occupies the building.

Equipment purchased or donated with a cost or fair market value greater than or equal to \$25,000 per unit and a useful life of two or more years is capitalized at the lower of cost or fair market value and depreciated. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

Equipment with a unit price less than \$25,000 that is purchased in bulk, totaling \$250,000 or greater, for special projects or start up activities is also capitalized. Bulk purchases are grouped according to commodity type and depreciated using the same methodology as single capitalized purchases.

The Federal Accounting Standards Advisory Board promulgated SFFAS No. 10, Accounting for Internal Use Software, effective October 1, 2000. This standard requires the capitalization of commercial off-the-shelf (COTS), contractor developed and internally developed software. The ATF dollar threshold for capitalizing internal use software is \$500,000. The same threshold will also apply to enhancements which add significant functionality to the software. ATF will amortize this software based on its classification. The classifications are as follows: (1) Enterprise and Other Business Software, 5 years, and (2) Personal productivity and desktop operating software, 3 years.

LIABILITIES

Liabilities represent the amount of monies or other resources that are likely to be paid by ATF as the result of a transaction or event that has already occurred. However, no liability can be paid by ATF absent an appropriation. Liabilities for which an appropriation has not been enacted are classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that an appropriation will be enacted. Also, liabilities of ATF arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

Intragovernmental liabilities consist of amounts payable to the Treasury for collections of excise tax, fees receivables, payables to other Federal agencies and accrued FECA charges. Liabilities also consist of amounts due to be refunded to taxpayers, as well as amounts held in escrow for offers-in-compromise and cash bonds held in lieu of corporate surety bonds guaranteeing payment of taxes.

ANNUAL, OTHER AND SICK LEAVE

Annual and other types of leave are accrued as earned, and the accrual is reduced as leave is taken. The balance reflects current pay rates. Sick leave is expensed as taken.

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 is calculated over the next 37-year period. This method utilizes

historical benefit payment patterns related to a specific incurred period to predict ultimate payments related to that period.

LITIGATION CONTINGENCIES AND SETTLEMENTS

Probable and estimable unsettled litigation and claims against ATF are recognized as a liability and expense for the full amount of the expected loss as required by Interpretation of Federal Financial Accounting Standards No. 2. Expected litigation and claim losses include settlements to be paid from the Treasury Judgment Fund (Judgment Fund) on behalf of ATF and settlements to be paid from Bureau appropriations as required by Interpretation of Federal Financial Accounting Standards No. 2.

Settlements paid from the Judgment Fund for ATF are recognized as an expense and imputed financing source as required by Interpretation No. 2.

RETIREMENT PLAN

Most ATF employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which ATF contributes 8.51 percent of basic pay (9.01 percent for those personnel classified as law enforcement agents) and the employee contributes 7.00 percent (7.5 percent for those personnel classified as law enforcement agents) for a total contribution rate of 15.51 percent in FY 2002 (16.51 percent for those personnel classified as law enforcement agents). On January 1, 1984, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. For most employees hired after December 31, 1983, ATF also contributes the employer's matching share of Social Security. For FERS basic benefit, the employee contributes 0.8 percent of basic pay (1.3 percent for those personnel classified as law enforcement agents) while ATF contributes 10.7 percent (23.3 percent for those personnel classified as law enforcement agents) for a total contribution of 11.5 percent in FY 2002 (24.6 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by OPM is equal to the amounts contributed by ATF and the employees because the plan is fully funded.

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 ATF makes a mandatory 1 percent contribution to this account. In addition, ATF 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.

ATF recognizes the full cost of providing future pension and other retirement benefits (ORB) for current employees as required by SFFAS No. 5. Full cost includes pension and ORB contributions paid out of Bureau appropriations and costs financed by the Office of Personnel Management (OPM). Reporting amounts such as plan assets, accumulated plan benefits, or unfunded liabilities, if any, is the responsibility of the OPM.

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 costs reported during the period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform with current year's presentation.

NOTE 2

Non-Entity Assets

Non-entity Assets as of September 30, 2002 and 2001 consisted of the following:

Non-Entity Assets <i>(in thousands)</i>	FY2002	FY2001
Intragovernmental		
Due from the General Fund	\$ 9,933	\$ 11,025
Total Intragovernmental	<u>\$ 9,933</u>	<u>\$ 11,025</u>
Cash and Other Monetary Assets	\$ 2,982	\$ 2,514
Accounts Receivable	3,437	3,426
Taxes Receivable	3,792	2,522
Total Non-Entity Assets	<u>\$ 20,144</u>	<u>\$ 19,487</u>
Total Entity Assets	<u>\$ 516,486</u>	<u>\$ 461,778</u>
Total Assets	<u>\$ 536,630</u>	<u>\$ 481,265</u>

NOTE 3

Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2002 and 2001 consisted of the following:

A. Fund Balances	FY2002	FY2001
Trust Funds	\$ 13,707	\$ 21,063
Appropriated Funds	238,630	258,644
Other Funds	1,515	1,804
Total	<u>\$ 253,852</u>	<u>\$ 281,511</u>
B. Status of Fund Balance with Treasury		
Unobligated Balance Available	\$ 31,034	\$ 24,149
Unavailable	-	-
Obligated Balance	<u>222,818</u>	<u>257,362</u>
Total	<u>\$ 253,852</u>	<u>\$ 281,511</u>

NOTE 4

Cash and Other Monetary Assets

Cash as of September 30, 2002 and 2001 consisted of the following:

<i>(in thousands)</i>	FY2002	FY2001
Entity:		
Cash	\$ 2,051	\$ 2,041
Non-Entity:		
Cash	\$ 2,982	\$ 2,514
Total Cash	<u>\$ 5,033</u>	<u>\$ 4,555</u>

Cash available for ATF use represents agent cashier funds. The agent cashier funds are used to finance the purchase of evidence and information from informants in open ATF investigations and enforcement operations.

Non-entity cash consists of offers-in-compromise held in escrow accounts representing reduced payments received by ATF from parties assessed taxes, penalties, interest and fees awaiting resolution.

Non-entity cash also consists of cash bonds received (money orders or cash) in lieu of corporate surety bonds guaranteeing payment of taxes. These amounts are reflected as liabilities covered by budgetary resources, other liabilities on the Balance Sheet. These funds are restricted solely for the purposes described and are unavailable to fund ATF operations.

NOTE 5

Accounts Receivable

Accounts receivable as of September 30, 2002 and 2001 were as follows:

<i>(In Thousands)</i>	FY 2002		FY 2001	
	<i>Entity</i>	<i>Non-Entity</i>	<i>Entity</i>	<i>Non-Entity</i>
Intragovernmental Receivables	<u>\$10,486</u>	<u>\$9,933</u>	<u>\$11,192</u>	<u>\$11,025</u>
Receivables:				
Accounts Receivable	\$468		\$302	
Interest		\$5,852		\$16,015
Penalties		4,029		10,002
Restitution Cases		708		624
Taxes Receivable		<u>16,837</u>		<u>58,008</u>
	<u>\$468</u>	<u>\$27,426</u>	<u>\$302</u>	<u>84,649</u>
Less:				
Allowance for Uncollectible Accounts	<u>(10)</u>	<u>(20,197)</u>	<u>(10)</u>	<u>(78,701)</u>
Receivables, Net	\$458	<u>\$7,229</u>	\$292	<u>\$5,948</u>
Total Receivables, Net		<u>\$7,687</u>		<u>\$6,240</u>

Intragovernmental entity receivables represent amounts due under reimbursable agreements with Federal entities for services provided by ATF.

Intragovernmental non-entity receivables consist principally of funds due to ATF from the Treasury to refund certain excise tax and license fee claims.

An allowance for receivables deemed uncollectible was not established for these amounts because monies due from other Federal entities are considered fully collectible.

Non-entity receivables consist principally of outstanding taxes, penalties and interest that have been assessed and remain unpaid at year end.

An allowance for uncollectible amounts has been recognized for non-entity receivables. The allowance is based on an analysis of individual receivable balances, historical collections and the application of estimated collectible amounts to categories of receivable balances at year end. As of September 30, 2002 and 2001, approximately \$2.5 million and \$8.5 million of the allowance, respectively, was based on cases that ATF had entered into negotiations for payment through offers-in-compromise, which had not yet been finalized.

NOTE 6

Analyses of Changes in Seized and Forfeited Property

ATF uses FASTRAK to support its fiduciary stewardship responsibilities as they relate to seized and forfeited property. ATF is a full participating member of the Department of the Treasury Forfeiture Fund (TFF).

Accounting methodologies for seized and forfeited property reflect standards published in SFFAS No. 3, Accounting for Inventory and Related Property, OMB Bulletin No. 01-09, and Departmental accounting policy. All property seized or forfeited by ATF for Title 18 forfeiture is accounted for in the financial statements of the TFF. Seized and forfeited property activity is also reported in the notes to the TFF financial statements.

All contraband (prohibited) property such as illegal firearms, ammunition, and explosives which no longer have intrinsic economic value and will not be reintroduced into the open marketplace are subject to destruction. ATF does maintain fiduciary stewardship responsibility for contraband property from time of receipt through final disposition.

The following schedules represent an analysis of the changes in seized and forfeited property holdings for the years ended September 30, 2002 and 2001. ATF reports year-end seized and forfeited property balances based on the most recent information from the United States Attorneys and the Federal Courts on the legal status of this property. Net adjustments to previously recorded balances result primarily from the receipt of updated information on the legal status of this property.

Included in ATF's fiscal 2001 ending balance of seized and forfeited property are 428 items that were located in vaults in the World Trade Center. These assets were verified as being on hand during the annual inventory in August 2001. These items are no longer part of the seized and forfeited property inventories and are reflected as part of the net adjustments.

An analysis of change in Material Non-Valued seized property during FYs 2002 and 2001 is presented by number of items seized. For FY 2001, ammunition and explosives were reported as part of the general property prohibited units; however, neither was detailed as a category of Material Non-Valued Seized Property. For FY 2002, explosives are reported as a separate category of Material Non-Valued Seized Property. Ammunition should become a material category in FY 2003. The analysis is as follows:

NOTE 6(A) – Analyses of Seized Property

FY 2002 Analysis of Changes in Seized Property								
<i>(Number of Units)</i>								
	Balance 10/1/01	Net Adjustments	Seizures	Cash	Remissions Disposls	Other	Forfeitures	Balance 9/30/02
Handguns	11,764	706	3,998		(1,122)	(607)	(2,075)	12,664
Machineguns	1,591	55	1,003		(13)	(105)	(94)	2,437
Rifle	7,460	468	3,159		(687)	(429)	(1,370)	8,601
Shotguns	3,787	37	1,842		(255)	(213)	(823)	4,375
Explosives	2,388	575	830		(6)	(212)	(701)	2,874
Other	11,683	1,237	5,681		(151)	(796)	(2,494)	15,160
Total	<u>38,673</u>	<u>3,078</u>	<u>16,513</u>		<u>(2,234)</u>	<u>(2,362)</u>	<u>(7,557)</u>	<u>46,111</u>

NOTE 6(A) – Analyses of Seized Property (Continued)

FY 2001 Analysis of Changes in Seized Property

(Number of Units)

	Balance 10/1/00	Net Adjustments	Seizures	Cash	Remissions	Other Disposals	Forfeitures	Balance 9/30/01
Handguns	10,535	(344)	4,751		(148)	(107)	(2,923)	11,764
Machineguns	955	(275)	1,095		(10)	(3)	(171)	1,591
Rifle	9,824	(3,844)	3,343		(199)	(35)	(1,629)	7,460
Shotguns	3,472	(261)	1,655		(80)	(11)	(988)	3,787
Explosives		2,450	498		(1)	(32)	(527)	2,388
Other	5,240	5,691	4,476		(64)	(40)	(3,620)	11,683
Total	<u>30,026</u>	<u>3,417</u>	<u>15,818</u>		<u>(502)</u>	<u>(228)</u>	<u>(9,858)</u>	<u>38,673</u>

An analysis of change in Material Non-Valued forfeited property during FYs 2002 and 2001 is presented by number of items seized. For FY 2001, ammunition and explosives were reported as part of the general property prohibited units; however, neither was detailed as a category of Material Non-Valued Forfeited Property. For FY 2002, explosives are reported as a separate category of Material Non-Valued Forfeited Property. Ammunition should become a material category in FY 2003. The analysis is as follows:

NOTE 6(B) - Analysis of Forfeited Property

FY 2002 Analysis of Disposition of Forfeited Property

(Number of Units)

	Balance 10/1/01	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Party	Destructions	Balance 9/30/02
Handguns	1,573	(674)	2,075			(34)	(60)	(1,512)	1,368
Machineguns	188	(129)	94			(4)	(1)	(45)	103
Rifle	897	(226)	1,370			(9)	(30)	(885)	1,117
Shotguns	399	(132)	823			(1)	(19)	(551)	519
Explosives	225	59	701		(1)	(50)	(10)	(403)	521
Other	1,533	(265)	2,494			(4)	(9)	(1,850)	1,899
Total	<u>4,815</u>	<u>(1,367)</u>	<u>7,557</u>		<u>(1)</u>	<u>(102)</u>	<u>(129)</u>	<u>(5,246)</u>	<u>5,527</u>

FY 2001 Analysis of Disposition of Forfeited Property

(Number of Units)

	Balance 10/1/00	Net Adjustments	Forfeitures	Deposits	Sales	Transfers	Transfers to Third Party	Destructions	Balance 9/30/01
Handguns	1,660	(693)	2,923			(29)	(50)	(2,238)	1,573
Machineguns	83	69	171			(2)	(2)	(131)	188
Rifle	956	(388)	1,629			(6)	(87)	(1,207)	897
Shotguns	639	(350)	988			(3)	(35)	(840)	399
Explosives		151	527			(5)	(52)	(396)	225
Other	993	(139)	3,620				(31)	(2,910)	1,533
Total	<u>4,331</u>	<u>(1,350)</u>	<u>9,858</u>			<u>(45)</u>	<u>(257)</u>	<u>(7,722)</u>	<u>4,815</u>

NOTE 7

General Property, Plant and Equipment

General property, plant and equipment consisted of the following as of September 30, 2002 and 2001:

FY 2002 <i>(In Thousands)</i>	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	\$13,224	\$8,872	\$4,352
Internally Developed Software	3-5	2,532	-	2,532
Equipment	2-10	187,172	92,897	94,275
Leasehold Improvements	2-5	36,750	11,562	25,188
Assets Under Capital Lease	3-6	32,413	15,257	17,156
Construction in Progress	-	71,753	-	71,753
Land	-	18,200	-	18,200
Buildings	40	6,515	335	6,180
Total Property & Equipment		<u>\$368,559</u>	<u>\$128,923</u>	<u>\$239,636</u>

FY 2001 <i>(In Thousands)</i>	Service Life (Years)	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	3	\$10,507	\$6,917	\$3,590
Equipment	2-10	157,135	80,146	76,989
Leasehold Improvements	2-5	24,486	8,279	16,207
Assets Under Capital Lease	3-6	28,002	4,595	23,407
Construction in Progress	-	25,502	-	25,502
Land	-	3,200	-	3,200
Buildings	40	6,515	172	6,343
Total Property & Equipment		<u>\$255,347</u>	<u>\$100,109</u>	<u>\$155,23</u>

Depreciation and amortization are calculated using the straight-line method. Leasehold improvements are amortized over the lesser of the life of the lease or useful life of the asset. Assets under capital lease are capitalized at the lesser of present value of future payments or fair market value at the time of acquisition and depreciated under the guidelines of the respective property categories or the life of the lease, whichever is shorter. Construction in progress at September 30, 2002 and September 30, 2001 represents the initial costs of developing Bureau requirements for the construction of a laboratory in College Park, MD. The land located in College Park and New York Avenue is recorded at its acquisition value. There are no restrictions on the use or convertibility of property and equipment.

NOTE 8

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2002 and 2001:

Liabilities Not Covered by Budgetary Resources		
<i>(In Thousands)</i>		
	FY 2002	FY 2001
Intragovernmental		
Accrued FECA Liability	\$20,274	\$20,202
Total Intragovernmental	<u>\$20,274</u>	<u>\$20,202</u>
Benefits due and payable	\$34,582	\$31,183
FECA Actuarial Liability	116,412	119,687
Capital lease liability	13,801	22,241
Contingent liability	36	20,778
Total Liabilities Not Covered by Budgetary Resources	<u>\$185,105</u>	<u>\$214,091</u>
Total Liabilities Covered by Budgetary Resources	<u>104,071</u>	<u>102,338</u>
Total Liabilities	<u><u>\$289,176</u></u>	<u><u>\$316,429</u></u>

NOTE 9

Other Liabilities

Other liabilities consisted of the following as of September 30, 2002 and 2001:

Other Liabilities		
<i>(In Thousands)</i>		
	FY 2002	FY 2001
Covered by Budgetary Resources		
Withholdings Payable	\$1,991	\$1,562
Cash bond Liability	2,032	1,130
OIC Liability - IRC	751	343
OIC Liability - FAA	185	1,028
Deposit/Suspense Account	162	99
Other	579	156
Total Other Liabilities	<u><u>\$5,700</u></u>	<u><u>\$4,318</u></u>

Other Liabilities Covered by Budgetary Resources primarily consists of amounts withheld from employees' salaries for taxes, employee benefit contribution, wage garnishments and others.

Other Liabilities Not Covered by Budgetary Resources includes current amounts held for offers-in-compromise, cash bonds, and deposit fund amounts held in escrow.

NOTE 10

Leases

NOTE 10(A)

Future Capital Lease Payments (in thousands)

For Assets Under Capital Lease, the acquisition value of machinery and equipment, which represents computer hardware, laboratory and other office equipment, is \$27,687. The remaining \$4,726 is the acquisition value of related computer software.

Future minimum lease payments due for capital leases on machinery, equipment and related computer software as of September 30, 2002 and 2001 were as follows:

Future Capital Lease Payments			
<i>(In Thousands)</i>			
		FY 2002	FY 2001
Capital Leases:			
Summary of Assets Under Capital Lease:			
	Machinery and Equipment	\$27,687	\$23,277
	Computer software	4,726	4,725
	Accumulated Amortization	(15,257)	(4,595)
	Net assets under capital lease	<u>\$17,156</u>	<u>\$23,407</u>
Future Payments Due:			
		Asset Category	
Fiscal Year	Machinery and Equipment	Computer Software	Total
2003	\$ 8,024	\$1,735	\$ 9,759
2004	2,673	867	3,540
2005	1,310	-	1,310
2006	139	-	139
2007	-	-	-
After 5 years	-	-	-
	<u>\$12,146</u>	<u>\$2,602</u>	<u>\$14,748</u>
	Less: Imputed Interest (798)	(149)	(947)
	<u>\$11,348</u>	<u>\$2,453</u>	<u>\$13,801</u>
	Net Capital Lease Liability		

In FY 2001, ATF entered into a capital lease, modernizing its Information Technology through Bureau-wide deployment of its Enterprise Systems Architecture. Under this capital lease agreement, the contractor is providing computer and related software for ATF's strategic and day-to-day business requirements. In addition to this major program, the Bureau has entered into a number of smaller capital lease agreements for laboratory and other office equipment.

Assets acquired by capital lease agreements are reported on the accompanying Balance Sheet based on the lesser of the present value of the future minimum lease payments or the fair market value of the asset. Imputed interest rates range from 3.9 to 13.9 %.

The capital lease liability is expected to be funded from future sources and is presented on the Balance Sheet as a component of other liabilities not covered by budgetary resources.

NOTE 10(B)

Future Operating Lease Payments

The Bureau leases various copiers, fax machines and vehicles under agreements accounted for as operating leases. Future commitments under operating leases for equipment as of September 30, 2002 and 2001 were as follows:

Future Operating Lease Payments		
<i>(In Thousands)</i>		
Fiscal Year	FY 2002	FY 2001
2002	\$ -	\$ 746
2003	821	669
2004	750	598
2005	707	563
2006	666	526
2007	651	0
Total Future Lease Payments	<u><u>\$ 3,595</u></u>	<u><u>\$ 3,102</u></u>

NOTE 11

Contingent Liabilities

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. SFFAS No. 5 and SFFAS No. 12 contain the criteria for recognition and disclosure of contingent liabilities.

ATF is a party to various administrative proceedings, legal actions, and claims brought by or against it. These claims are of a nature considered normal for a government law enforcement agency. Most financial liabilities resulting from litigation and claims against ATF are payable from the permanent judgment appropriation established by 31 U.S.C. Section 1304 Treasury Judgment Fund (Judgment Fund). In the opinion of the Bureau's management, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or cost of operations of ATF.

At September 30, 2002, ATF legal counsel was processing approximately 276 of these actions against the Bureau. ATF identified and accrued, at September 30, 2002, \$35.7 thousand as a contingent liability. These amounts represent those costs which ATF believes are probable and reasonably estimable. These liabilities result from administrative tort and employee claims.

The change in contingent liabilities from September 30, 2001 resulted from the resolution of various administrative tort and employee claims, lawsuits filed under the Federal Tort Claims Act, and the reclassifying of a lawsuit filed under the Federal Tort Claims Act from probable to remote.

ATF counsel identified at September 30, 2002, \$521.0 thousand which ATF has not recorded an accrual for, because in management's opinion, an unfavorable outcome is reasonably possible but not probable. These cases result from administrative tort and employee claims, contract takings, patent infringement and tax claims lawsuits, administrative EEO/personnel cases, and lawsuits filed under the Federal Tort Claims Act.

As of September 30, 2002, there was one large group of Federal Tort Claims Act administrative claims involving the bombing of the Federal building in Oklahoma City, OK. This group entailed 655 individual claims seeking over \$16 billion in damages. The Department of Justice is the lead agency and is handling the claims as they involve allegations of negligence by a number of Federal agencies, including ATF. ATF believes that it has meritorious defenses to these claims and that ATF acted properly at all times in these matters. There were fifteen lawsuits filed under the Federal Tort Claims Act against the United States involving actions by ATF employees acting within the scope of their employment at the Branch Davidian compound near Waco, TX. The plaintiffs were seeking approximately \$7.4 billion. The district court issued a favorable decision, but the plaintiffs have filed an appeal. ATF believes these cases are without merit and is aggressively defending the cases on appeal. ATF believes that it has strong arguments that the district court's decision was proper and that ATF's agents acted properly.

Accordingly, ATF has not recorded any loss provision relative to damages sought by the plaintiffs for these cases. Public Law 101-510, enacted November 5, 1990, requires Federal agencies to automatically cancel obligated balances on annual appropriated funds after specific future time periods, even though the agency remains contingently liable to pay valid contractor invoices for services received under contracts signed in the year of obligation. Legitimately incurred obligations that have not been paid at the time an appropriation is canceled must be paid from current appropriations available for the same purpose. ATF canceled approximately \$151 thousand of obligations relating to appropriations canceled at the end of FY 2001. ATF estimates obligations relating to canceled appropriations that will be paid from future appropriations will not exceed \$1.0 million in any fiscal year.

NOTE 12

Net Position

Net position of the Bureau as of September 30, 2002 and 2001 was as follows:

FY 2002 <i>(In Thousands)</i>	Trust Funds	Appropriated Funds	Other	Total
Unexpended Appropriations:				
Unobligated - Available	\$ 2,377	\$ 27,990	-	\$ 30,367
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	7,382	144,871	-	152,253
Total Unexpended Appropriations	9,759	172,861	-	182,620
Cumulative Results of Operations	4,954	59,880	-	64,834
Net Position	\$ 14,713	\$ 232,741	-	\$ 247,454

FY 2001 <i>(In Thousands)</i>	Trust Funds	Appropriated Funds	Other	Total
Unexpended Appropriations:				
Unobligated - Available	\$ 5,438	\$ 18,948	-	\$ 24,386
Unobligated - Unavailable	-	-	-	-
Undelivered Orders	11,483	176,171	-	187,654
Total Unexpended Appropriations	16,921	195,119	-	212,040
Cumulative Results of Operations	8,215	(55,419)	-	(47,204)
Net Position	\$ 25,136	\$ 139,700	-	\$ 164,836

Unexpended appropriations represent the amount of spending authorized as of year-end that is unliquidated or unobligated and which has not lapsed, been rescinded, or been withdrawn. No-year appropriations remain available for obligation until expended. Annual and multiple-year appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative results of operations are the net results of operations since inception plus the cumulative amount of prior period adjustments.

NOTE 13

Earned Revenue

Earned revenue represents amounts earned for services provided by the Bureau to other government agencies under reimbursable agreements. ATF has entered into a variety of reimbursable agreements to provide services such as enforcement, training and professional development, science and information technology, and the management of common areas. These agreements are with agencies such as the Secret Service, the Department of Justice, the National Drug Intelligence Center, the Department of Housing and Urban Development, the Department of State, the Environmental Protection Agency, and other components of the Department of the Treasury. ATF maintains a reimbursable agreement with the governments of Puerto Rico and the Virgin Islands which stipulates that any expenses incurred by the Department of the Treasury at these sites are to be fully offset from tax collections related to distilled spirits production or manufacture in those territories.

NOTE 14

Imputed Financing

Imputed financing for the year ended September 30, 2002 and 2001 included the following:

<i>(In Thousands)</i>	FY 2002	FY 2001
Funds paid by the Judgment Fund	\$1,202	\$1,397
Future pension and other retirement benefits financed by OPM	<u>26,803</u>	<u>23,624</u>
Total Imputed Financing	<u>\$28,005</u>	<u>\$25,021</u>

Imputed financing sources represent amounts paid in FY 2002 by the Judgment Fund to settle lawsuits and claims against the Bureau. Additional imputed financing is recognized for amounts financed in FY 2002 by OPM to provide future pension and other retirement benefits to current ATF employees.

The cost of providing a CSRS benefit is more than the amounts contributed by ATF and its employees. In accordance with SFFAS No. 5, bureaus are required to report the full cost of providing pension benefits to include the cost financed by OPM. This additional expense totaling \$11.5 million is included as an expense and as an imputed financing source in the financial statements for FY 2002.

ATF 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. Total contributions by ATF of \$56.3 million related to these plans were made for FY 2002. OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. In accordance with SFFAS No. 5, ATF is required to report the full cost of providing other retirement benefits (ORB). Currently, ATF does not recognize expenses or contribute funds for the cost to provide health benefits and life insurance to its retirees. The FY 2002

FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is \$3,473, which is provided by OPM. The FEHBP ORB amount totaling \$15.2 million is included as an expense and imputed financing source in ATF's financial statements for FY 2002. The FY 2002 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI ORB amount totaling \$59,000 is included as an expense and imputed financing source in ATF's financial statements for FY 2002.

Total imputed financing sources for FY 2002 equal about \$26.8 million (the sum of \$11.5 million for pension expense, \$15.2 million for FEHBP ORB and \$59,000 for FEGLI ORB).

ATF's contributions for active employees who participate in the FEHBP were \$19.0 million for FY 2002. ATF's contributions for active employees who participate in the FEGLI programs were \$634,000 for FY 2002.

NOTE 15

Transfers-In

Transfers-in consist of funds received by ATF from Treasury's Executive Office for Asset Forfeiture (EOAF) to carry out the Bureau's role as a law enforcement entity supporting law enforcement initiatives. EOAF, also known as the Treasury Asset Forfeiture Fund, was established pursuant to the Treasury Forfeiture Fund Act of 1992 and 31 U.S.C. 9703. The Fund serves as the Department's central funding source for financing asset seizure and forfeiture law enforcement initiatives. Although the Fund is the Department's central funding source for these initiatives, EOAF cannot undertake asset seizure and forfeiture. Only law enforcement agencies, including ATF, are lawfully authorized to perform these duties. Consequently, EOAF distributes a portion of the Fund's resources to ATF.

NOTE 16

Budgetary Resource Information

Budgetary resource information as of September 30, 2002 and 2001 consisted of the following:

FY 2002

(In Thousands)

Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$169,606
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 37,486
Amount of Contributed Capital Received During the Reporting Period	\$ -

FY 2001

(In Thousands)

Net Amount of Budgetary Resources Obligated for Undelivered Orders at Year End	\$228,868
Available Borrowing and Contract Authority at Year End	\$ -
Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year	\$ 21,272
Amount of Contributed Capital Received During the Reporting Period	\$ -

Adjustments during the period included recovery of prior year obligations and cancellation of FY 1997 and 1996 appropriations in the amount of \$2.8 and \$2.5 million, respectively. Based on reviews conducted by ATF at mid-year and year-end, recoveries include any open obligation where all goods and services were received and final payments made were liquidated. On September 30th of the 5th fiscal year after the period of availability for obligation of an annual appropriation (FY 1997), the account is closed and funds returned to Treasury's general fund.

NOTE 17

Non-Exchange Revenue

As of September 30, 2002 and 2001, Non-exchange revenue collections and refunds consisted of the following:

<i>(In Thousands)</i>					
Tax Year	Cumulative Cash Collections				Prior Years
	Received FY 2002	2002	2001	2000	
Excise Taxes	\$ 14,856,818	\$ 11,113,677	\$ 3,735,057	\$ 1,565	\$ 6,519
Fees and Licenses	224,061	222,971	862	107	121
Fines, Penalties, Interest and Other Revenue	2,066	863	258	263	682
Total Non-exchange Revenue Collections	\$ 15,082,945	\$ 11,337,511	\$ 3,736,177	\$ 1,935	\$ 7,322

<i>(In Thousands)</i>					
Tax Year	Cumulative Cash Collections				Prior Years
	Received FY 2001	2001	2000	1999	
Excise Taxes	\$ 13,970,054	\$ 10,248,276	\$ 3,719,034	\$ 481	\$ 2,263
Fees and Licenses	109,948	108,788	863	122	175
Fines, Penalties, Interest and Other Revenue	1,197	497	384	32	284
Total Non-exchange Revenue Collections	\$ 14,081,199	\$ 10,357,561	\$ 3,720,281	\$ 635	\$ 2,722

<i>(In Thousands)</i>					
Tax Year	Refunds Disbursed				Prior Years
	FY 2002	2002	2001	2000	
Excise Taxes	\$ 371,951	\$ 206,588	\$ 161,085	\$ 3,127	\$ 1,151
Fees and Licenses	1,966	1,570	189	80	127
Fines, Accounts Receivable and Other Revenue	315	315	-	-	-
Total Non-Exchange Revenue Refunds	\$ 374,232	\$ 208,473	\$ 161,274	\$ 3,207	\$ 1,278

<i>(In Thousands)</i>					
Tax Year	Refunds Disbursed				Prior Years
	FY 2001	2001	2000	1999	
Excise Taxes	\$ 302,515	\$ 135,868	\$ 158,873	\$ 6,725	\$ 1,049
Fees and Licenses	2,392	2,180	147	38	27
Fines, Accounts Receivable and Other Revenue	103	103	-	-	-
Total Non-exchange Revenue Refunds	\$ 305,010	\$ 138,151	\$ 159,020	\$ 6,763	\$ 1,076

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Information

Budgetary Information as of September 30, 2002 and 2001 consisted of the following:

FY 2002

(In Thousands)

	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds Types	Total
Budgetary Resources:					
Budget Authority	\$ 856,849	\$ -	\$ -	\$ -	\$ 856,849
Unobligated Balance - Beginning of Period	4,336	-	21,063	-	25,399
Net Transfers, Prior Year Balance	-	-	-	-	-
Spending Authority from Offsetting Collections Earned					
Collected	47,901	-	-	-	47,901
Receivable from Federal sources	(639)	-	-	-	(639)
Change in unfilled customer orders					
Advance received	-	-	-	-	-
Without advance from Federal sources	(24,417)	-	-	-	(24,417)
Adjustments, Anticipated for Rest of Year	-	-	-	-	-
Recoveries of prior year obligations	31,936	-	475	-	32,411
Total Budgetary Resources	<u>\$ 915,966</u>	<u>\$ -</u>	<u>\$ 21,538</u>	<u>\$ -</u>	<u>\$ 937,504</u>
Status of Budgetary Resources:					
Obligations Incurred					
Direct	\$ 854,558	\$ -	\$ 19,161	\$ -	\$ 873,719
Reimbursable	32,929	-	-	-	32,929
Unobligated Balances - Available					
Apportioned	12,912	-	2,140	-	15,052
Exempt from apportionment	-	-	-	-	-
Other available	-	-	-	-	-
Unobligated Balances - Not Available	15,567	-	237	-	15,804
Total Status of Budgetary Resources	<u>\$ 915,966</u>	<u>\$ -</u>	<u>\$ 21,538</u>	<u>\$ -</u>	<u>\$ 937,504</u>
Outlays:					
Obligated Balance, Net-Beginning of the Period	\$ 256,349	\$ -	\$ -	\$ -	\$ 256,349
Obligated balance, Transferred, net (+/-)	-	-	-	-	-
Obligated Balance, Net-End of the Period					
Accounts receivable	10,644	-	-	-	10,644
Unfilled customer orders from Federal sources	17,843	-	-	-	17,843
Undelivered orders	(162,224)	-	(7,382)	-	(169,606)
Accounts payable	(78,464)	-	(3,948)	-	(82,412)
Outlays					
Disbursements	920,270	-	6,766	-	927,035
Collections	(47,901)	-	-	-	(47,901)
Subtotal	<u>872,368</u>	<u>-</u>	<u>6,766</u>	<u>-</u>	<u>879,134</u>
Less: Offsetting receipts	-	-	-	-	-
Total Outlays	<u>\$ 872,368</u>	<u>\$ -</u>	<u>\$ 6,766</u>	<u>\$ -</u>	<u>\$ 879,134</u>

FY 2001

(In Thousands)

	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds Types	Total
Budgetary Resources:					
Budget Authority	\$ 776,640	\$ -	\$ -	\$ -	\$ 776,640
Unobligated Balance - Beginning of Period	21,427	-	8,929	-	30,356
Net Transfers, Prior Year Balance	-	-	-	-	-
Spending Authority from Offsetting Collections Earned					
Collected	38,774	-	-	-	38,774
Receivable from Federal sources	(12,435)	-	-	-	(12,435)
Change in unfilled customer orders					
Advance received	-	-	-	-	-
Without advance from Federal sources	14,428	-	-	-	14,428
Adjustments, Anticipated for Rest of Year	-	-	-	-	-
Recoveries of prior year obligations	13,157	-	2,032	-	15,189
Total Budgetary Resources	\$ 851,992	\$ -	\$ 10,961	\$ -	\$ 862,952
Status of Budgetary Resources:					
Obligations Incurred					
Direct	\$ 832,030	\$ -	\$ 5,523	\$ -	\$ 837,553
Reimbursable	-	-	-	-	-
Unobligated Balances - Available					
Apportioned	5,826	-	3,407	-	9,233
Exempt from apportionment	-	-	-	-	-
Other available	-	-	-	-	-
Unobligated Balances - Not Available	14,135	-	2,032	-	16,166
Total Status of Budgetary Resources	\$ 851,991	\$ -	\$ 10,961	\$ -	\$ 862,952
Outlays:					
Obligated Balance, Net-Beginning of the Period	\$ 147,592	\$ -	\$ 27,663	\$ -	\$ 175,255
Obligated balance, Transferred, net (+/-)	-	-	-	-	-
Obligated Balance, Net-End of the Period					
Accounts receivable	11,284	-	-	-	11,284
Unfilled customer orders from Federal sources	42,260	-	-	-	42,260
Undelivered orders	(217,385)	-	(11,483)	-	(228,868)
Accounts payable	(76,882)	-	(4,142)	-	(81,024)
Outlays					
Disbursements	717,665	-	15,530	-	733,195
Collections	(38,773)	-	(1)	-	(38,774)
Subtotal	678,892	-	15,529	-	694,421
Less: Offsetting receipts	-	-	-	-	-
Total Outlays	\$ 678,892	\$ -	\$ 15,529	\$ -	\$ 694,421

Claims for Refunds not Accrued

At September 30, 2002 and 2001, ATF had approximately \$30.9 and \$38.4 million, respectively, in refund claims under audit by the Tax Processing Center and the Technical Services offices. Refunds are payable upon approval.

Abatements/Write-offs

At September 30, 2002 and 2001, ATF had approximately \$4.2 and \$15.5 million, respectively, of assessments the entity still has statutory authority to collect at the end of the period, but has no future collection potential and are therefore defined as write-offs.