Financial Statements, Accompanying Notes and Required Supplemental Information

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Consolidated Balance Sheet

As of September 30, 2003

(Dollars in Thousands)

	2003
ASSETS (Note 8)	
Intragovernmental	
Fund Balance with U.S. Treasury (Note 2)	$ 223,817
Accounts Receivable, Net (Note 4)	7,212
Other (Note 7)	10,093
Total Intragovernmental	241,122
Cash and Other Monetary Assets (Note 3)	6,314
Accounts Receivable, Net (Note 4)	1,005
General Property, Plant, and Equipment, Net (Note 6)	235,316
Total Assets	**$ 483,757**
LIABILITIES (Note 11)	
Intragovernmental	
Accounts Payable	$ 20,018
Accrued FECA Liability (Note 1.P)	19,846
Custodial Liability (Note 16)	693
Other (Note 10)	2,818
Total Intragovernmental	43,375
Accounts Payable	43,705
Actuarial FECA Liabilities (Note 1.P)	107,446
Accrued Payroll and Benefits	11,325
Accrued Annual and Compensatory Leave	31,056
Seized Cash and Monetary Assets	4,090
Contingent Liabilities (Note 12)	81
Capital Lease Liability (Note 9)	5,037
Other (Note 10)	5,372
Total Liabilities	**$ 251,487**
NET POSITION	
Unexpended Appropriations	$ 187,641
Cumulative Results of Operations	44,629
Total Net Position	**$ 232,270**
Total Liabilities and Net Position	**$ 483,757**

The accompanying notes are an integral part of these financial statements.

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Consolidated Statement of Net Cost

For the Period From January 24, 2003 Through September 30, 2003

(Dollars in Thousands)

		Intragovernmental			With the Public			Net
	FY	Gross Cost	Less Earned Revenues	Net Cost	Gross Cost	Less Earned Revenues	Net Cost	Net Cost of Operations (Note 15)
Goal 2:	**2003**	$ 193,310	$ 34,272	$ 159,038	$ 425,695	$ 153	$ 425,542	$ 584,580

Goal 2: Enforce Federal Criminal Laws

The accompanying notes are an integral part of these financial statements.

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Consolidated Statement of Changes in Net Position

For the Period From January 24, 2003 Through September 30, 2003

(Dollars in Thousands)

	Cumulative Results of Operations 2003	Unexpended Appropriations 2003
Beginning Balances	$ —	$ —
Budgetary Financing Sources:		
Appropriations Transferred—In/Out (Note 19)	—	722,428
Other Adjustments	—	(332)
Appropriations Used	534,455	(534,455)
Other Financing Sources:		
Donations and Forfeitures of Property	140	—
Transfers—In/Out Without Reimbursement (Note 19)	74,121	—
Imputed Financing From Costs		
Absorbed by Others (Note 14)	20,493	—
Total Financing Sources	**629,209**	**187,641**
Net Cost of Operations	**(584,580)**	**—**
Ending Balances	**$ 44,629**	**$ 187,641**

The accompanying notes are an integral part of these financial statements.

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Combined Statement of Budgetary Resources

For the Period From January 24, 2003 Through September 30, 2003

(Dollars in Thousands)

	2003
Budgetary Resources:	
Budget Authority:	
Net Transfers (Note 19)	$ 552,051
Unobligated Balance:	
Beginning of Period	—
Net Transfers, Actual (Note 19)	14,238
Spending Authority From Offsetting Collections:	
Earned	
Collected	39,722
Receivable From Federal Sources	7,215
Change in Unfilled Customer Orders	
Without Advance From Federal Sources	(7,591)
Subtotal	39,346
Recoveries of Prior Year Obligations	29,098
Permanently Not Available	(333)
Total Budgetary Resources (Note 17)	**$ 634,400**
Status of Budgetary Resources:	
Obligations Incurred:	
Direct	$ 569,199
Reimbursable	42,297
Total Obligations Incurred (Note 18)	611,496
Unobligated Balance Apportioned	14,600
Unobligated Balances Not Available	8,304
Total Status of Budgetary Resources	**$ 634,400**
Relationship of Obligations to Outlays:	
Obligated Balance, Net—Beginning of Period	—
Obligated Balance Transferred, Net (Note 19)	243,398
Obligated Balance, Net—End of Period:	
Accounts Receivable	(7,215)
Unfilled Customer Orders From Federal Sources	(7,828)
Undelivered Orders	134,957
Accounts Payable	82,388
Outlays:	
Disbursements	$ 623,870
Collections	(39,722)
Net Outlays	**$ 584,148**

The accompanying notes are an integral part of these financial statements.

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Consolidated Statement of Financing

For the Period From January 24, 2003 Through September 30, 2003

(Dollars in Thousands)

	2003
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	$ 611,496
Less: Spending Authority From Offsetting Collections and Recoveries	(68,444)
Net Obligations	543,052
Other Resources	
Donations and Forfeitures of Property	140
Transfers—In/Out Without Reimbursement	74,121
Imputed Financing From Costs Absorbed by Others (Note 14)	20,493
Net Other Resources Used to Finance Activities	94,754
Total Resources Used to Finance Activities	**637,806**
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	36,602
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations	(7,591)
Resources That Finance the Acquisition of Assets	(285,226)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(409)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(256,624)
Total Resources Used to Finance the Net Cost of Operations	**$ 381,182**
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods:	
Increase in Annual Leave Liability	$ 31,056
Other	132,410
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods (Note 13)	163,466
Components Not Requiring or Generating Resources:	
Depreciation and Amortization	32,908
Other	7,024
Total Components of Net Cost of Operations Not Requiring or Generating Resources	39,932
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**203,398**
Net Cost of Operations	**$ 584,580**

The accompanying notes are an integral part of these financial statements.

Department of Justice—Bureau of Alcohol, Tobacco, Firearms and Explosives

Consolidated Statement of Custodial Activity

For the Period From January 24, 2003 Through September 30, 2003

(Dollars in Thousands)

	2003
Revenue Activity:	
Sources of Cash Collections:	
Fees and Licenses	$ 6,699
Fines, Penalties, and Restitution Payments	2
Other Revenue	226
Total Cash Collections	$ 6,927
Accrual Adjustments	(6)
Total Custodial Revenue	$ 6,921
Disposition of Collections:	
Transferred to Federal Agencies:	
U.S. Department of the Treasury	(6,605)
(Increase) Decrease in Amounts To Be Transferred	14
Refunds and Other Payments	(330)
Net Custodial Activity (Note 16)	$ —

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF or the Bureau), an enforcement agency, was transferred to the Department of Justice (DOJ) on January 24, 2003, pursuant to the Homeland Security Act of 2002, from the Department of the Treasury (Treasury). Prior to the transfer, ATF had two prominent missions, collecting taxes and fees from the alcohol and tobacco industries, as well as a law enforcement mission. ATF's new mission under DOJ is primarily to enforce the Federal laws and regulations relating to firearms, explosives, and arson. A new organization, the Alcohol and Tobacco Tax and Trade Bureau (TTB), was created within Treasury to assume the duties of collecting the taxes and fees from the alcohol and tobacco industries.

B. 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 accounting principles generally accepted in the United States of America (GAAP), form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, and DOJ's Financial Statement Requirements and Preparation Guide. ATF's accounting policies are summarized in this note. GAAP for Federal entities is primarily the standards 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. GAAP also includes Financial Accounting Standards Board (FASB) statements and concepts, Accounting Research Bulletins, Accounting Principles Board Opinions, as well as OMB, General Accounting Office, and agency guidance. 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.

Because ATF was a Treasury entity until January 24, 2003, its 2002 financial statements and activity as of and for the period October 1, 2002, through January 23, 2003, will be reported in Treasury's financial statements. Only activity from January 24, 2003, through September 30, 2003, will be reported in DOJ's financial statements. As such, ATF's financial statements will not present comparative information.

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. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements. Examples include, but are not limited to, the following:

- Total accounts receivable on the Balance Sheet may not equal accounts receivable on the Statement of Budgetary Resources because receivables due from the public are presented on the Balance Sheet but not on the Statement of Budgetary Resources;
- Total accounts payable on the Balance Sheet may not equal accounts payable on the Statement of Budgetary Resources because certain funded liabilities are presented separately on the Balance Sheet but included aggregately in accounts payable on the Statement of Budgetary Resources; and
- Appropriations received on the Statement of Changes in Net Position may not equal appropriations received on the Statement of Budgetary Resources because offsetting receipts for special funds are reported as appropriations received on the Statement of Budgetary Resources, but are reported as either exchange revenue on the Statement of Net Cost or non-exchange revenue on the Statement of Changes in Net Position.

D. Revenues and Other Financing Sources

(1) Exchange Revenues

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.

ATF provides a number of services, including enforcement, training and professional development, and science and information technology to other government agencies through reimbursable agreements.

Most of ATF's exchange revenues 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 in foreign countries to combat terrorism and protect American travelers abroad. Similarly, ATF is funded on a reimbursable basis for activity related to enforcement of the Controlled Substance Act.

(2) Non-exchange Revenues

Non-exchange revenues are inflows of resources that the government demands or receives by donation. For ATF, most non-exchange revenues result from collecting taxes and fees from firearms and ammunition industries.

(3) 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. The appropriations received are annual, multiple-year, and no-year funding that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture, and furnishings). Appropriations are also received to meet specific program objectives. The Bureau's activities are funded by the following:

- 15-3-0700—*Salaries and Expenses Appropriation and Reimbursable Authority*
- 15-X-0700—*No-year Appropriation for Anti Terrorism and Gang Resistance Education and Training*
- 15-3/4-0700—*Two-year Appropriation for High Intensity Drug Trafficking Area Initiative and ATF New HQ Building*
- 15-X-8526 and 15-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.

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 Statements of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government."

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

E. Fund Balance with U.S. Department of the Treasury and Cash

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.

F. Accounts Receivable

Intragovernmental accounts receivable consist of amounts due under reimbursable agreements with Federal entities for services provided by ATF. 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 based on specific identification and individual analysis.

G. General 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. Other equipment is expensed when purchased. Normal repairs and maintenance are charged to expense as incurred.

ATF also capitalizes internal use software when the development costs are greater than or equal to $500,000. The same threshold will also apply to enhancements that add significant functionality to the software. ATF will amortize this software based on its classification. The classifications are as follow: (1) Enterprise and Other Business Software; 5 years, and (2) Personal productivity and desktop operating software; 3 years.

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

H. 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's Working Capital Fund 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.

I. Seized and Forfeited Property

Property is seized in consequence of a violation of public law. Generally, seized property includes monetary instruments and various types of weapons, ammunition, and explosives.

ATF also participates in the DOJ Asset Forfeiture Fund. ATF is reimbursed by the fund for carrying out forfeiture activities. ATF also contributes forfeited property to the fund. Non-prohibited property that has a street value is liquidated with the proceeds going to the fund.

J. Non-entity Assets

Non-entity assets consist principally of 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 operating expenses of ATF.

K. 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, and for which there is uncertainty an appropriation will be enacted, are classified as liabilities not covered by budgetary resources. 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 receivable, payables to other Federal agencies, and accrued 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 lieu of corporate surety bonds guaranteeing payment of taxes.

L. 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. 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. Claims in excess of $2,500 are paid by the Judgment Fund.

Settlements paid from the Judgment Fund for ATF are recognized as an expense and imputed financing source.

M. Annual, Sick, and Other Leave

Annual and compensatory leave earned by ATF 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 liability. Sick leave 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 the 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

Most ATF employees hired prior to January 1, 1984 participate in the Civil Service Retirement System (CSRS), to which ATF contributes 7.00 percent of basic pay (7.50 percent for those personnel classified as law enforcement agents) and the employee contributes 7.00 percent (7.50 percent for those personnel classified as law enforcement agents) for a total contribution rate of 14.00 percent in FY 2003 (15.00 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 the 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 2003 (24.6 percent for those personnel classified as law enforcement agents). The cost of providing a FERS basic benefit as provided by the Office of Personnel Management (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 recognized 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 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 the 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 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.

Claims are paid for ATF employees by the Department of Labor (DOL) from the FECA fund, for which ATF reimburses DOL. The accrued liability represents claims paid by DOL for ATF 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 ATF employees. The estimated future cost is not obligated against budgetary resources until the year in which the cost is billed to ATF.

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

Note 2. Fund Balance With U.S. Treasury

Fund balance with Treasury as of September 30, 2003 consisted of the following:

	(in thousands)
Fund Balances:	
Trust Funds	$ 10,465
Appropriated Funds	212,515
Other Fund Types	837
Total Fund Balance with Treasury	$ 223,817
Status of Fund Balances:	
Unobligated Balance—Available	$ 14,600
Unobligated Balance—Unavailable	8,304
Obligated Balance not yet Disbursed	200,913
Total Status of Fund Balances	$ 223,817

Other fund types include proceeds from the sales of surplus vehicles, amounts held in suspense accounts, and collections of tax revenues that have not yet been paid to the general fund.

Note 3. Cash, Foreign Currency, and Other Monetary Assets

Cash as of September 30, 2003 consisted of the following:	*(in thousands)*
Imprest Funds	$ 2,224
Seized Monetary Instruments	4,090
Total Cash, Foreign Currency, and Other Monetary Assets	$ 6,314

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

Note 4. Accounts Receivable, Net

Accounts receivable as of September 30, 2003 were as follows:	*(in thousands)*
Intragovernmental	
Accounts Receivable	$ 7,212
Allowance for Uncollectible Accounts	—
Total Intragovernmental	7,212
With the Public	
Accounts Receivable	1,046
Allowance for Uncollectible Accounts	(41)
Total With the Public	1,005
Total Accounts Receivable, Net	$ 8,217

An allowance for uncollectible amounts has been recognized for these receivables. The allowance is based on an analysis of individual receivable balances, historical collection rates, and the application of estimated collectible amounts to categories of receivable balances at year end.

Note 5. Seized Property

Seized property is acquired during the course of an investigation. This property is considered contraband, evidence of a crime, or subject to forfeiture. Seized property includes monetary instruments, handguns, machine guns, rifles, shotguns, ammunition (components, magazines, and rounds), and explosives (blasting agents, blasting caps, detonating cords, explosive powder, and other explosives). Seized property that will be destroyed, such as explosives, are reported as the number of items seized, and is not considered to have a value. All other seized property is reported at its market value at the date of seizure.

Seized monetary instruments, valued at $4.1 million, were held as evidence and are included in cash and other monetary assets in the accompanying consolidated balance sheet.

	Balance as of September 30, 2003 *(in thousands)*	
Seized Property	**Units**	**Value**
Handguns	11,934	$ 2,906
Machine guns	1,735	1,111
Rifles	8,404	2,419
Shotguns	4,302	1,000
Ammunition	12,955	784
Other	1,956	727
Explosives	2,544	—
Total	43,830	$ 8,947

Because ATF was transferred to DOJ mid-year, the beginning balances necessary to fully disclose all activity related to seizures are not available. For fiscal 2003 ATF is only reporting the ending balances for each of its property categories and the estimated value for each type of weapon.

Note 6. General Property, Plant, and Equipment

General property, plant, and equipment consisted of the following as of September 30, 2003:

	(in thousands)			
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	$ 18,200	$ —	$ 18,200	N/A
Buildings, Improvements, and Renovations	95,453	(1,980)	93,473	40 yrs
Vehicles	27,902	(19,902)	8,000	3–6 yrs
Equipment	151,068	(80,652)	70,416	3–10 yrs
Assets Under Capital Leases	32,639	(25,358)	7,281	3–6 yrs
Leasehold Improvements	48,156	(16,623)	31,533	2–20 yrs
Internal Use Software	15,659	(11,346)	4,313	3–5 yrs
Internal Use Software in Development	2,100	—	2,100	N/A
Total	$ 391,177	$ (155,861)	$ 235,316	

Depreciation and amortization are calculated using the straight-line method. In addition to capital improvements to current leased facilities, leasehold improvements at September 30, 2003, also include the design and pre-engineering costs for the planned Headquarters building in Washington, DC. 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 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. 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 7. Other Assets

Other assets as of September 30, 2003 consisted of the following:

	(in thousands)
Due From General Fund	$ 4
Prepayments	10,089
Total Other Intragovernmental Assets	$ 10,093

Treasury's working capital fund was advanced $10.1 million. Federal Prison Industries and the General Services Administration have been paid $5,000 and $14,000, respectively, for goods or services that have not been received.

Note 8. Non-entity Assets

Non-entity Assets as of September 30, 2003 consisted of the following:

	(in thousands)
Cash and other monetary assets	$ 4,090
Accounts receivable, net	704
Total non-entity assets	4,794
Total entity assets	478,963
Total assets	$ 483,757

Accounts receivable with the public consist principally of outstanding taxes, penalties, and interest that have been assessed and remain unpaid at year end.

Note 9. Leases

Future Capital Lease Payments

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 1.4 to 13.9 percent.

The capital lease liability is expected to be funded from future sources and is considered a component of other liabilities not covered by budgetary resources. For assets under capital lease, the acquisition value of machinery and equipment, which represents computer hardware, laboratory, and other office equipment, is $27.9 million. The remaining $4.7 million is the acquisition value of related computer software.

Capital Leases:	
Summary of Assets Under Capital Lease:	*(in thousands)*
Machinery & Equipment	$ 32,639
Accumulated Amortization	(25,358)
Total	$ 7,281

Future minimum lease payments for capital leases on machinery, equipment, and related computer software as of September 30, 2003 are as follows:

Future Payments Due:

Fiscal Year	Equipment
2004	$ 3,605
2005	1,375
2006	204
2007	51
2008	19
After 2008	—
Subtotal	5,254
Less: Imputed Interest	(217)
Net Capital Lease Liability	$ 5,037

Net Capital Leases Liability Not Covered by Budgetary Resources	$ 5,037

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, 2003 are as follows:

Operating Leases:

Future Operating Lease Payments Due:	*(in thousands)*
Fiscal Year	**Equipment**
2004	$ 967
2005	946
2006	907
2007	903
2008	884
After 2008	—
Total Future Lease Payments	$ 4,607

Note 10. Other Liabilities

Other liabilities consisted of the following as of September 30, 2003:	*(in thousands)*
Intragovernmental Liabilities	
Other Accrued Liabilities	$ —
Employer Contributions and Payroll Taxes	2,818
Total Intragovernmental	2,818
Liability for Deposit Fund, Clearing Accounts, and Undeposited Collections	4,796
Other Liabilities	576
Total With the Public	5,372
Total Other Liabilities	$ 8,190

All other liabilities are considered current.

Note 11. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources consisted of the following as of September 30, 2003:

	(in thousands)
Intragovernmental	
Accrued FECA Liability	$ 19,846
Total Intragovernmental	19,846
FECA Actuarial Liabilities	107,446
Accrued Annual and Compensatory Leave	31,056
Capital Lease Liabilities	5,037
Contingent Liabilities	81
Total With the Public	143,620
Total Liabilities Not Covered by Budgetary Resources	163,466
Total Liabilities Covered by Budgetary Resources	88,021
Total Liabilities	$ 251,487

Note 12. 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. 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, 2003, ATF legal counsel was processing approximately 180 of these actions against the Bureau. ATF identified and accrued, at September 30, 2003, $81,000 as a contingent liability. These amounts represent those costs that ATF believes are probable and reasonably estimable. These liabilities result from administrative tort and employee claims.

ATF counsel identified at September 30, 2003, $148,000 for which ATF has not recorded an accrual, 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, 2003, there was one large group of Federal Tort Claims Act administrative claims involving the bombing of the Federal building in Oklahoma City, Oklahoma. This group entailed 655 individual claims seeking over $16 billion in damages.

There were several 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, Texas. The plaintiffs were seeking approximately $8 billion. The District Court issued a favorable decision for ATF and the Court of Appeals affirmed that favorable decision. Plaintiffs may seek Supreme Court review. ATF believes these cases are without merit and remote, and ATF is aggressively defending the cases.

Note 13. Future Funding Requirements

Total liabilities not covered by budgetary resources for FY 2003, in the amount of $163.5 million, generally do not equal the total financing sources yet to be provided on the Consolidated Statement of Financing for FY 2003 of $163.5 million. However, because ATF is a new entity within the DOJ, ATF does not have any beginning balances as of January 24, 2003. The unfunded expenses included in the Consolidated Statement of Financing will equal the liabilities not covered by budgetary resources.

Generally, liabilities not covered by budgetary resources require future funding and can only be liquidated with the enactment of future appropriations. These liabilities include accrued leave, actuarial liabilities, contingent liabilities, and the net present value of future lease payments.

Note 14. Imputed Financing

Imputed financing for the period ended September 30, 2003 included the following:

	(in thousands)
Judgment Fund	$ 177
Health Insurance	11,814
Life Insurance	38
Pension	8,464
Total	$ 20,493

Imputed financing recognizes actual costs of future benefits to be paid by other Federal entities. These benefits include Federal Employees Health and Benefits Program (FEHBP), Federal Employees Group Life Insurance Program (FEGLI), and pensions. Imputed financing also recognizes costs to be paid by the Judgment Fund, which was established by Congress and funded at 31 U.S.C. 1304 to pay in whole or part the court judgments and settlement agreements negotiated by Treasury on behalf of agencies, as well as certain types of administrative awards. During the period these costs total $177,000.

SFFAS No. 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. 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. Based on cost factors provided by OPM, estimated future pension benefits for ATF employees, to be paid by OPM, total $8.5 million. Similarly, OPM, rather than ATF, reports liabilities for future payments to retired employees who participate in the FEHBP and FEGLI Programs. The FY 2003 FEHBP cost factor applied to a weighted average number of employees enrolled in the FEHBP is $964, which is produced at a $11.8 million imputed cost. The FY 2003 FEGLI cost factor for employees enrolled in the FEGLI program, as provided by OPM, is .02 percent of their basic pay. The FEGLI amount totaling $38,000 is also included as an expense and imputed financing source in ATF's financial statements for FY 2003.

Note 15. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

Consolidated Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification		Gross Costs	Earned Revenue (in thousands)	Net Costs
Fiscal Period Ended September 30, 2003				
Administration of Justice	750	$ 619,005	$ (34,425)	$ 584,580

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification		Gross Costs	Earned Revenue	Net Costs
Fiscal Period Ended September 30, 2003				
Administration of Justice	750	$ 193,310	$ (34,272)	$159,038

Note 16. Net Custodial Revenue Activity

As an agent of the Federal Government and as authorized by 26 U.S.C. ß 6301, ATF collects excise taxes from firearms and ammunition industries, as well as permit and license fees. In addition, Special Occupational Taxes are collected from 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. As of September 30, 2003 the amount of custodial liability was $693,000.

Note 17. Statement of Budgetary Resources vs. Budget of the United States

As discussed in Note 1A, ATF transferred from Treasury to the DOJ on January 24, 2003. ATF's actual fiscal 2002 data is presented in the DOJ Budget Appendix; however, its Statement of Budgetary Resources is presented in Treasury's financial statements, therefore this comparison is not required.

Note 18. Apportionment Categories of Obligations Incurred

(in thousands)

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
Fiscal Period Ended September 30, 2003:			
Obligations Apportioned Under Category A	$ 569,199	$ 42,297	$ 611,496

The amount of direct and reimbursable obligations against amounts apportioned under Category A is reported in the table above. Apportionment categories are determined by the apportionment category reported on the Standard Form 132 *Apportionment and Reapportionment Schedule.* Category A represents resources appropriated for calendar quarters.

Note 19. Allocation Transfers of Appropriation

As a result of the Homeland Security Act, ATF was transferred from Treasury to DOJ on January 24, 2003. Because of the change in Departments, the Bureau was required to transfer the majority balance of its unexpended appropriations to DOJ. ATF's unexpended appropriations on January 23, 2003 were $802.8 million. Of the $802.8 million in unexpended appropriations, $749 million was transferred to DOJ and $53.9 million was transferred to a new entity created by Treasury called TTB.

In addition to the amounts transferred from Treasury, the Executive Office of the President—ONDCP also transferred $460,000 to ATF to fund programs for countering drug trafficking. ATF also subsequently transferred $27 million to the DOJ working capital fund.

Transfers—In/(Out) on the Statement of Changes in Net Position (SCNP):

	(in thousands) Cumulative Results of Operations	Unexpended Appropriations
Budgetary Financing Sources (BFS):		
BFS Transfers to DOJ pursuant to the Homeland Security Act of 2002	$ —	$ 748,968
Other BFS Transfers	—	(26,540)
Total BFS Transfers	—	722,428
Other Financing Sources (OFS):		
OFS Transfers to DOJ pursuant to the Homeland Security Act of 2002	59,803	—
Other OFS Transfers	14,318	—
Total OFS Transfers	74,121	—
Total Transfers on SCNP	$ 74,121	$ 722,428

Transfers—In/(Out) on the Statement of Budgetary Resources (SBR):

	Unobligated Balance	Obligated Balance
SBR Transfers to DOJ pursuant to the Homeland Security Act of 2002	$ 592,829	$ 243,398
Other SBR Transfers	(26,540)	—
Total Transfers on SBR	$ 566,289	$ 243,398