# Notes to the Principal Financial Statements (Dollars in Thousands)

## Note 1. Summary of Significant Accounting Policies

**A. Reporting Entity**

The Department has a wide range of responsibilities which include: detecting, apprehending, prosecuting, and incarcerating criminal offenders; operating Federal prison factories; upholding the civil rights of all Americans; enforcing laws to protect the environment; ensuring healthy competition of business in the United States' free enterprise system; safeguarding the consumer from fraudulent activity; carrying out the immigration laws of the United States; and representing the American people in all legal matters involving the United States Government. Under the direction of the Attorney General, these responsibilities are discharged by the components of the Department.

For purposes of these consolidated/combined financial statements, the following components comprise the Department's reporting entity:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Working Capital Fund (WCF)
- Offices, Boards and Divisions (OBDs)
- Bureau of Prisons (BOP)
- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Federal Prison Industries, Inc. (FPI)
- Federal Bureau of Investigation (FBI)
- Drug Enforcement Administration (DEA)
- Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) (Transferred to Department of Justice effective January 24, 2003)

Transferred to Department of Homeland Security effective March 1, 2003:

- Immigration and Naturalization Service (INS)

**B. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of the Department as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515. These financial statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements." These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the Department's budgetary resources. The accompanying financial statements include the accounts of all funds under the Department's control.

FPI, a reporting component of the Department of Justice, operates as a government corporation and does not receive annual appropriations. The budgetary accounting data is presented to best represent the budget activity of FPI based solely on proprietary accounting data.

**C. Basis of Accounting**

Transactions are recorded on an 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, similar line items on the proprietary financial statements, budgetary financial statements, and notes may not equal. 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;
- Total Accounts Payable on the Balance Sheet may not equal 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.

Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis. For example, Civil and Criminal Debt Collections are recorded when the Department receives payment from debtors to the Federal Government.

**D. Revenues and Other Financing Sources**

The Department receives the majority of funding needed to support its programs through Congressional appropriations. The Department receives annual, no-year, and multi-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenues, non-exchange revenues and transfers-in.

Appropriations are recognized as budgetary financing sources at the time the related program or administrative expenses are incurred. Exchange revenues are recognized when earned, for example, when goods have been delivered or services rendered. Non-exchange revenues are resources that the Government demands or receives, for example, forfeiture revenue and fines and penalties.

The Department's exchange revenue consists of the following activities: licensing fees to manufacture and distribute controlled substances; services rendered for legal activities; space management; data processing services; sale of merchandise and telephone services to inmates; sale of manufactured goods and services to other federal agencies; fees for inspecting commercial and/or sea vessel passengers; processing various immigration applications; and other services. Fees are set by law and are periodically evaluated in accordance with OMB guidance. The pricing policy for FPI goods and services provided is based on cost plus a predetermined gross margin ratio.

The Department's non-exchange revenue consists of forfeiture income resulting from the sale of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management cost, judgment collections, and other miscellaneous income. Other non-exchange revenue includes the OJP Crime Victims Fund receipts, ATF taxes and fees from firearms and ammunition industries, and AFF/SADF interest on investments with the Department of the Treasury (Treasury).

The Department's deferred revenue includes fees received for processing various applications and licenses mostly with INS (FY 2002 only) and DEA. Deferred revenue represents monies received to process applications and licenses for which the process was not completed at the end of fiscal year or monies received for licenses that are valid for multiple years. These monies are recorded as liabilities in the financial statements. Deferred revenue also includes forfeited property held for sale. When the property is sold, the deferred revenue is reversed and forfeiture revenue in the amount of the gross proceeds of the sale is recorded.

**E. Fund Balance with the Treasury and Cash**

Funds with the Treasury represent primarily appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases. The Treasury as directed by authorized certifying officers processes cash receipts and disbursements. The Department does not, for the most part, maintain cash in commercial bank accounts. Certain receipts, however, are processed by commercial banks for deposit into individual accounts maintained at the Treasury. The Department's cash and other monetary assets consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, and seized cash.

### F. Investments in U.S. Government Securities

Investments are Federal debt securities issued by the Bureau of Public Debt. When securities are purchased, the investment is recorded at par value (the value at maturity). Premiums and/or discounts are amortized through the end of the reporting period. The Department's intent is to hold investments to maturity, unless securities are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity.

### G. Accounts Receivable

Net accounts receivable includes reimbursement and refund receivables due from Federal agencies and others, less the allowance for doubtful accounts. Generally, most intragovernmental accounts receivable are considered fully collectible. The allowance for doubtful accounts for public receivables is estimated based on past collection experience and analysis of outstanding receivable balances at year end.

### H. Property, Plant and Equipment

Real property, except for land, and leasehold improvements are capitalized when the cost of acquiring and/or improving the asset is $100 or more and the asset has a useful life of two or more years. Land is capitalized regardless of the acquisition cost.

Except for BOP and FPI, Department acquisitions of personal property, excluding internal use software, $25 and over are capitalized if the asset has an estimated useful life of two or more years. Personal property is depreciated, based on historical cost, using the straight-line method over the estimated useful lives of the assets. BOP and FPI capitalize personal property acquisitions over $5.

Internal use software is capitalized when developmental phase costs or enhancement costs are $500 or more and the asset has an estimated useful life of two or more years. Aircraft is capitalized when the initial cost of acquiring those assets is $100 or more.

### I. Advances and Prepayments

Advances and prepayments, classified as assets on the balance sheet, consist primarily of funds disbursed to grantees in excess of total expenditures made by those grantees to third parties, funds advanced to state and local participants in the Domestic Cannabis Eradication and Suppression Program, and travel advances issued to Federal employees for official travel. Travel advances are limited to meals and incidental expenses expected to be incurred by the employees during official travel. Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of payment and are recognized as expenses when the goods and services are received.

### J. Seized and Forfeited Property

Property is seized in consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. Most non-cash property is held by the USMS from the point of seizure until its disposition. This property is recorded at the estimated fair market value at the time of seizure.

Forfeited property is property for which the title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture. The value of the property is reduced by the estimated liens of record.

### K. Non-Entity Assets

Non-entity assets are not available for use by the Department and consist of restricted undisbursed civil and criminal debt collections, cash bonds, and seized cash and other monetary assets.

**L. Liabilities, Loans and Interest Payable to the Treasury**

Liabilities represent the monies or other resources that are likely to be paid by the Department as the result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 15.

Congress granted the FPI borrowing authority pursuant to Public Law 100-690. Under this authority, the FPI borrowed $20,000 from the Treasury with a lump-sum maturity date of September 30, 2008.

**M. Contingencies and Commitments**

The Department is involved in various legal actions, including administrative proceedings, lawsuits, and claims. A liability is generally recognized as an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "possible" are disclosed in the notes to the financial statements. Liabilities that are considered "remote" are not recognized in the financial statements or disclosed in the notes to the financial statements.

**N. Annual, Sick and Other Leave**

Annual and compensatory leave is expensed with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

**O. Interest on Late Payments**

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Department of Justice pays 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, whichever is later.

**P. Retirement Plan**

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees hired after that date are covered by the Federal Employees Retirement System (FERS). For employees covered by the CSRS, the Department contributes 8.5 percent of the employees' gross pay for normal retirement or 9 percent for hazardous duty retirement. For employees covered by the FERS, the Department contributes approximately 11 percent of employees' gross pay. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP is automatically established, and the Department is required to contribute an additional 1 percent of gross pay to this plan and match employee contributions up to 4 percent. No matching contributions are made to the TSPs established by the CSRS employees. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM). Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 18 - Imputed Financing Sources for additional details.

**Q. Federal Employee Compensation Benefits**

The Federal Employees Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The U.S. Department of Labor (DOL) calculates the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by agency. The Department portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the Department employees. The Department liability is further allocated to component reporting entities on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total Department payments made over the same period.

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost which will not be obligated against budgetary resources until the FY in which the cost is actually billed to the Department. The cost associated with this liability cannot be met by the Department without further appropriation action.

Accrued Liability: The accrued FECA liability is the amount owed to the DOL for the benefits paid from the FECA SBF.

**R. Principles of Consolidation**

The consolidated/combined financial statements of the Department include the accounts of the AFF/SADF, WCF, OBD, USMS, OJP, DEA, FBI, ATF, INS, BOP, and FPI. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statement of Budgetary Resources and Statement of Custodial Activity are combined statements for FYs 2003 and 2002, and as such, intra-entity transactions have not been eliminated. The ATF and INS are only presented for approximately eight and five months, respectively.

**S. Use of Estimates**

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**T. Reclassifications**

The FY 2002 Departmental financial statements were reclassified to conform with the FY 2003 Departmental financial statement presentation requirements. The reclassifications had no effect on total assets, liabilities, net position, the change in net position or budgetary resources as previously reported.

## Note 2. Fund Balance with Treasury

The Fund Balance with the Treasury amount reported in the financial statements represents the unexpended cash balance on the Department's books for all the Department's Treasury Symbols:

| | FY 2003 | FY 2002 |
|---|---|---|
| Fund Balances: | | |
| Trust Funds | $ 1,182,298 | $ 1,786,921 |
| Revolving Funds | 56,472 | 54,201 |
| Appropriated Funds | 13,731,865 | 16,039,972 |
| Other Fund Types | 3,124,083 | 2,981,986 |
| Total Fund Balance with Treasury | $ 18,094,718 | $ 20,863,080 |
| Status of Fund Balances: | | |
| Unobligated Balance - Available | $ 2,358,429 | $ 3,560,354 |
| Unobligated Balance - Unavailable | 1,502,890 | 1,488,816 |
| Obligated Balance not yet Disbursed | 14,233,399 | 15,813,910 |
| Total Status of Fund Balances | $ 18,094,718 | $ 20,863,080 |

The unobligated balance for annual and multi-year budget authority may be used to incur new obligations for the purpose specified by the appropriation act. Annual and multi-year budget authority expires at the end of its period of availability. During the first through the fifth expired years, the unobligated balance becomes unavailable and may be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a legitimate or bona fide need arising in the fiscal year for which the appropriation was made. The unobligated balance for no-year budget authority may be used to incur obligations indefinitely for the purpose specified by the appropriation act. No-year budget authority unobligated balances are still subject to the annual apportionment and allotment process.

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

| | FY 2003 | FY 2002 |
|---|---|---|
| Cash: | | |
| Undeposited Collections | $ 20,267 | $ 40,890 |
| Imprest Funds | 10,447 | 8,528 |
| Seized Cash Deposited | 51,115 | 9,533 |
| Other Cash | 2,272 | 1,136 |
| Total Cash | 84,101 | 60,087 |
| Foreign Currency | 207 | 218 |
| Other Monetary Assets: | | |
| Other Monetary Assets | 2,286 | 2,103 |
| Seized Monetary Instrument | 49,849 | 53,548 |
| Total Other Monetary Assets | 52,135 | 55,651 |
| Total Cash, Foreign Currency and Other Monetary Assets | $ 136,443 | $ 115,956 |

## Note 4. Investments - Federal Securities, Net

| | Acquisition Cost | Unamortized Premium | Unamortized Discount | Investments Net | Market Value |
|---|---|---|---|---|---|
| As of September 30, 2003: | | | | | |
| Intragovernmental | | | | | |
| Non-Marketable Securities: | | | | | |
| Market Based | $ 1,451,060 | $ 134 | $ (1,321) | $ 1,449,873 | $ 1,451,133 |
| Sub-Total | 1,451,060 | $ 134 | $ (1,321) | $ 1,449,873 | 1,451,133 |
| Accrued Interest | 546 | | | | 546 |
| Total | $ 1,451,606 | | | | $ 1,451,679 |
| As of September 30, 2002: | | | | | |
| Intragovernmental | | | | | |
| Non-Marketable Securities: | | | | | |
| Market Based | $ 1,293,741 | $ 146 | $ (2,415) | $ 1,291,472 | $ 1,294,024 |
| Sub-Total | 1,293,741 | $ 146 | $ (2,415) | $ 1,291,472 | 1,294,024 |
| Accrued Interest | 468 | | | | 468 |
| Total | $ 1,294,209 | | | | $ 1,294,492 |

## Note 5. Accounts Receivable, Net

| | FY 2003 | FY 2002 |
|---|---|---|
| Intragovernmental | | |
| Accounts Receivable | $ 271,028 | $ 247,493 |
| Allowance for Uncollectible Accounts | (4,329) | (4,447) |
| Total Intragovernmental | 266,699 | 243,046 |
| With the Public | | |
| Accounts Receivable | 130,726 | 270,457 |
| Allowance for Uncollectible Accounts | (45,800) | (87,474) |
| Total With the Public | 84,926 | 182,983 |
| Total Accounts Receivable, Net | $ 351,625 | $ 426,029 |

These notes are an integral part of the financial statements.

## Note 6. Inventory and Related Property

Inventories consist of new and rehabilitated office furniture, equipment and supplies used for the repair of airplanes, administrative supplies and materials, commission sales to inmates (sundry items), metals, plastics, electronics, graphics, and optics.

The value of new stock is determined on the basis of acquisition cost, whereas, the value of rehabilitated stock is determined on the basis of rehabilitation and transportation costs. Inventory on hand at year end is reported at the lower of original cost (using the first-in, first-out method) or current market value. Recorded values of inventories are adjusted for the results of physical inventories conducted throughout and at the close of the fiscal year.

An allowance for inventory valuation and obsolescence is recorded for anticipated inventory losses of contracts where the current estimated cost to manufacture the item exceeds the total sales price, as well as estimated losses for inventories that may not be utilized in the future.

| | FY 2003 | FY 2002 |
|---|---|---|
| Inventory: | | |
| Raw Materials | $ 68,970 | $ 71,115 |
| Work-In-Process | 29,321 | 39,362 |
| Finished Goods | 58,109 | 43,166 |
| Inventory Purchased for Resale | 15,563 | 13,058 |
| Allowances: | | |
| Excess, Obsolete and Unserviceable | (6,339) | (9,791) |
| Inventory Costs in Excess of Market Value | (3,359) | (2,005) |
| Operating Materials and Supplies: | | |
| Held for Current Use | 20,026 | 41,449 |
| Total Inventory and Related Property | $ 182,291 | $ 196,354 |

These notes are an integral part of the financial statements.

## Note 7. Forfeited and Seized Property

**Equitable Sharing Payments:**

The statute governing the use of the AFF (28 U.S.C. § 524(c)) permits the payment of equitable shares of forfeiture proceeds to participating foreign governments and state and local law enforcement agencies. The statute does not require such sharing and permits the Attorney General wide discretion in determining those transfers. Actual sharing is difficult to predict because many factors influence both the amount and timing of disbursement of sharing payments, such as the length of time required to move an asset through the forfeiture process to disposition, the amount of net proceeds available for sharing, the elapse of time for Departmental approval of equitable sharing requests for cases with asset values exceeding $1 million, and appeal of forfeiture judgments. Because of uncertainties surrounding the timing and amount of any equitable sharing payment, an obligation and expense are recorded only when the actual disbursement of the equitable sharing payment is imminent. From FYs 1998 through 2003, equitable sharing allocation levels averaged $246,045. The anticipated equitable sharing allocation level for FY 2004 is $236,000.

**Analysis of Change in Forfeited Property:**

Pursuant to Federal Financial Accounting and Auditing Technical Release 4, "Reporting on Non-Valued Seized and Forfeited Property," the value of forfeited property with no legal market in the United States (e.g., weapons, chemicals, drug paraphernalia, gambling devices) is not included in the net forfeited property value, although the item count of non-valued items is disclosed.

The following table represents the analysis of change in forfeited property for FY 2003:

| Forfeited Property Category | | Beginning Balance | Adjust-ments FY 2003 | Forfeited During FY 2003 | Disposed During FY 2003 | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial & Other Monetary Instruments | Number | 66 | (9) | 146 | 105 | 98 | - | 98 |
| | Value | $ 3,801 | $ 306 | $ 3,626 | $ 5,038 | $ 2,695 | $ - | $ 2,695 |
| Real Property | Number | 283 | 49 | 364 | 358 | 338 | - | 338 |
| | Value | $ 37,299 | $ 7,615 | $ 62,541 | $ 56,161 | $ 51,294 | $ 87 | $ 51,207 |
| Personal Property | Number | 3,595 | 20 | 16,192 | 15,983 | 3,824 | - | 3,824 |
| | Value | $ 26,068 | $ (540) | $ 76,795 | $ 74,162 | $ 28,161 | $ 1,280 | $ 26,881 |
| Non-Valued | Number | 791 | 8,803 | 17,875 | 7,817 | 19,652 | - | 19,652 |
| Total | Number | 4,735 | 8,863 | 34,577 | 24,263 | 23,912 | - | 23,912 |
| | Value | $ 67,168 | $ 7,381 | $ 142,962 | $ 135,361 | $ 82,150 | $ 1,367 | $ 80,783 |

During FY 2003, $73,562 of forfeited property was sold, $39,474 was returned to owners, and $22,325 was disposed of by other means. Other means of distribution include property transferred to other federal agencies for official use or equitable sharing, property distributed to a state or local agency, or property that is destroyed.

The number of items represents quantities calculated using many different units of measure. Adjustments include property status and valuation changes as a result of fair market appraisals and/or court orders received during FY 2003.

These notes are an integral part of the financial statements.

## Note 7. Forfeited and Seized Property- Continued

The following table represents the analysis of change in forfeited property for FY 2002:

| Forfeited Property Category | | Beginning Balance | Adjust-ments FY 2002 | Forfeited During FY 2002 | Disposed During FY 2002 | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial & Other | Number | 77 | 5 | 93 | 109 | 66 | - | 66 |
| Monetary Instruments | Value | $ 3,884 | $ 139 | $ 11,377 | $ 11,598 | $ 3,802 | $ 1 | $ 3,801 |
| Real Property | Number | 244 | 40 | 325 | 326 | 283 | - | 283 |
| | Value | $ 27,670 | $ 5,412 | $ 52,105 | $ 47,761 | $ 37,426 | $ 127 | $ 37,299 |
| Personal Property | Number | 2,462 | 474 | 11,705 | 11,046 | 3,595 | - | 3,595 |
| | Value | $ 25,089 | $ 1,558 | $ 62,011 | $ 59,224 | $ 29,434 | $ 3,366 | $ 26,068 |
| Non-Valued | Number | 886 | (132) | 705 | 668 | 791 | - | 791 |
| Total | Number | 3,669 | 387 | 12,828 | 12,149 | 4,735 | - | 4,735 |
| | Value | $ 56,643 | $ 7,109 | $ 125,493 | $ 118,583 | $ 70,662 | $ 3,494 | $ 67,168 |

During FY 2002, $71,452 of forfeited property was sold, $19,913 was returned to owners, and $27,218 was disposed of by other means. Other means of distribution include property transferred to other federal agencies for official use or equitable sharing, property distributed to a state or local agency, or property that is destroyed.

The number of items represents quantities calculated using many different units of measure. Adjustments include property status and valuation changes as a result of fair market appraisals and/or court orders received during FY 2002.

**Analysis of Change in Seized Property and Evidence:**

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property consists of monetary instruments, real property and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. Such property is not legally owned by the Department until judicially or administratively forfeited. Seized evidence includes cash, financial instruments, non-monetary valuables and illegal drugs.

Pursuant to Federal Financial Accounting and Auditing Technical Release 4, “Reporting on Non-Valued Seized and Forfeited Property,” the value of seized property with no legal market in the United States (e.g., explosives, chemicals, drug paraphernalia, gambling devices) is not included in the net seized property value, although the item count of non-valued items is disclosed. The gross value of seized property, less estimated liens, equals the net seized property value.

## Note 7. Forfeited and Seized Property - Continued

The following table represents the analysis of change in seized property for FY 2003:

| Seized Property Category | | Beginning Balance | Adjust-ments FY 2003 | Seized During FY 2003 | Disposed During FY 2003 | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial & Other Monetary Instruments | Number | 432 | (218) | 323 | 158 | 379 | - | 379 |
| | Value | $ 38,433 | $ (21,186) | $ 27,959 | $ 3,162 | $ 42,044 | $ 208 | $ 41,836 |
| Real Property | Number | 301 | 15 | 312 | 305 | 323 | - | 323 |
| | Value | $ 47,385 | $ 2,132 | $ 57,338 | $ 57,230 | $ 49,625 | $ 7,992 | $ 41,633 |
| Personal Property | Number | 8,123 | 781 | 19,027 | 18,940 | 8,991 | - | 8,991 |
| | Value | $ 83,977 | $ (3,182) | $ 129,249 | $ 113,551 | $ 96,493 | $ 14,456 | $ 82,037 |
| Non-Valued | Number | 625 | 44,007 | 13,508 | 18,194 | 39,946 | - | 39,946 |
| Total Seized for Forfeiture | Number | 9,481 | 44,585 | 33,170 | 37,597 | 49,639 | - | 49,639 |
| | Value | $ 169,795 | $ (22,236) | $ 214,546 | $ 173,943 | $ 188,162 | $ 22,656 | $ 165,506 |
| Seized for Evidence | Number | 40,581 | (346) | 101,408 | 9,513 | 132,130 | - | 132,130 |
| | Value | $ 60,246 | $ (12,607) | $ 61,176 | $ 54,065 | $ 54,750 | $ - | $ 54,750 |
| Total | Number | 50,062 | 44,239 | 134,578 | 47,110 | 181,769 | - | 181,769 |
| | Value | $ 230,041 | $ (34,843) | $ 275,722 | $ 228,008 | $ 242,912 | $ 22,656 | $ 220,256 |

ATF amounts reported as Seized for Evidence are reported at the September 30, 2003 balance as Seized During FY 2003 and no value shown as Disposed During FY 2003.

During FY 2003, $129,071 of seized property was forfeited, $81,349 was returned to owners, and $17,588 was disposed of by other means. Other means of distribution include seized property that is sold, converted to cash, or destroyed.

Seized cash deposited (see Note 3) in the SADF of $51,115 is not presented in this note. Also, the number of items represents quantities calculated using many different units of measure. Adjustments include property status and valuation changes as a result of fair market appraisals and/or court orders received during FY 2003.

## Note 7. Forfeited and Seized Property - Continued

The following table represents the analysis of change in seized property for FY 2002:

| Seized Property Category | | Beginning Balance | Adjust-ments FY 2002 | Seized During FY 2002 | Disposed During FY 2002 | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial & Other Monetary Instruments | Number | 429 | (24) | 145 | 118 | 432 | - | 432 |
| | Value | $ 38,753 | $ (1,398) | $ 6,011 | $ 4,705 | $ 38,661 | $ 228 | $ 38,433 |
| Real Property | Number | 203 | 125 | 275 | 302 | 301 | - | 301 |
| | Value | $ 46,416 | $ 17,033 | $ 38,234 | $ 46,533 | $ 55,150 | $ 7,765 | $ 47,385 |
| Personal Property | Number | 5,307 | 1,483 | 15,192 | 13,859 | 8,123 | - | 8,123 |
| | Value | $ 63,707 | $ 4,034 | $ 121,391 | $ 91,977 | $ 97,155 | $ 13,178 | $ 83,977 |
| Non-Valued | Number | 822 | (203) | 722 | 716 | 625 | - | 625 |
| Total Seized for Forfeiture | Number | 6,761 | 1,381 | 16,334 | 14,995 | 9,481 | - | 9,481 |
| | Value | $ 148,876 | $ 19,669 | $ 165,636 | $ 143,215 | $ 190,966 | $ 21,171 | $ 169,795 |
| Seized for Evidence | Number | 26,556 | 10,348 | 13,486 | 9,809 | 40,581 | - | 40,581 |
| | Value | $ 80,890 | $ (30,160) | $ 36,033 | $ 26,517 | $ 60,246 | $ - | $ 60,246 |
| Total | Number | 33,317 | 11,729 | 29,820 | 24,804 | 50,062 | - | 50,062 |
| | Value | $ 229,766 | $ (10,491) | $ 201,669 | $ 169,732 | $ 251,212 | $ 21,171 | $ 230,041 |

During FY 2002, $109,017 of seized property was forfeited, $46,184 was returned to owners, and $14,531 was disposed of by other means. Other means of distribution include seized property that is sold, converted to cash, or destroyed.

Seized cash deposited (see Note 3) in the SADF of $9,533 is not presented in this note. Also, the number of items represents quantities calculated using many different units of measure. Adjustments include property status and valuation changes as a result of fair market appraisals and/or court orders received during FY 2002.

**Analysis of Drug Evidence:**

The DEA and FBI have custody of illegal drugs taken as evidence for legal proceedings. In accordance with Federal Financial Accounting and Auditing Technical Release No. 4, "Reporting on Non-Valued Seized and Forfeited Property," the Department reported the total amount of seized drugs below by quantity (kilograms) only, as illegal drugs have no value and are destroyed upon resolution of legal proceedings.

The following table represents the analysis of change in Seized Narcotics Held for Evidence for FYs 2003 and 2002:

| Analyzed Drug Evidence | Beginning Balance KG | Analyzed During FY 2003 KG | Disposed During FY 2003 KG | Ending Balance KG |
|---|---|---|---|---|
| Cocaine | 321,724 | 85,595 | 37,553 | 369,766 |
| Heroin | 3,075 | 8,518 | 745 | 10,848 |
| Marijuana | 41,115 | 83,959 | 23,844 | 101,230 |
| Methamphetamine | 5,160 | 1,632 | 1,420 | 5,372 |
| Other narcotics | 67,017 | 88,049 | 15,758 | 139,308 |
| Total | 438,091 | 267,753 | 79,320 | 626,524 |

These notes are an integral part of the financial statements.

## Note 7. Forfeited and Seized Property - Continued

| Analyzed Drug Evidence | Beginning Balance KG | Analyzed During FY 2002 KG | Disposed During FY 2002 KG | Ending Balance KG |
|---|---|---|---|---|
| Cocaine | 290,059 | 69,159 | 37,494 | 321,724 |
| Heroin | 2,509 | 1,044 | 478 | 3,075 |
| Marijuana | 46,258 | 12,607 | 17,750 | 41,115 |
| Methamphetamine | 4,832 | 1,653 | 1,325 | 5,160 |
| Other narcotics | 57,277 | 19,530 | 9,790 | 67,017 |
| Total | 400,935 | 103,993 | 66,837 | 438,091 |

Unanalyzed drug evidence is qualitatively different from analyzed drug evidence because unanalyzed drug evidence includes the weight of packaging and drug categories are based on the determination of Special Agents instead of laboratory chemists. Unanalyzed drug evidence also includes bulk drugs housed in secured storage facilities of which only a sample is taken for laboratory analysis. For these reasons, unanalyzed drug evidence is not included in the tables above.

## Note 8. General Property, Plant and Equipment, Net

Items are generally depreciated using the straight line method.

| As of September 30, 2003 | Acquisition Cost | Accumulated Depreciation | Net Book Value | Service Life |
|---|---|---|---|---|
| Land and Land Rights | $ 198,912 | $ - | $ 198,912 | N/A |
| Construction in Progress | 959,068 | - | 959,068 | N/A |
| Buildings, Improvements and Renovations | 6,767,628 | (1,729,683) | 5,037,945 | 24-50 yrs |
| Other Structures & Facilities | 505,577 | (176,790) | 328,787 | 10-50 yrs |
| Aircraft | 200,027 | (65,611) | 134,416 | 7-25 yrs |
| Boats | 3,017 | (1,256) | 1,761 | 18 yrs |
| Vehicles | 262,082 | (160,978) | 101,104 | 2-25 yrs |
| Equipment | 881,544 | (475,122) | 406,422 | 2-25 yrs |
| Assets Under Capital Leases | 155,038 | (66,660) | 88,378 | 5-20 yrs |
| Leasehold Improvements | 371,018 | (143,875) | 227,143 | 2-20 yrs |
| Internal Use Software | 72,550 | (27,435) | 45,115 | 5 yrs |
| Internal Use Software in Development | 59,346 | - | 59,346 | N/A |
| Other General Property, Plant and Equipment | 4,616 | (1,779) | 2,837 | 10-20 yrs |
| Total | $ 10,440,423 | $ (2,849,189) | $ 7,591,234 | |

These notes are an integral part of the financial statements.

## Note 8. General Property, Plant and Equipment, Net - Continued

| As of September 30, 2002 | Acquisition Cost | Accumulated Depreciation | Net Book Value | Service Life |
|---|---|---|---|---|
| Land and Land Rights | $ 182,631 | $ - | $ 182,631 | N/A |
| Construction in Progress | 1,795,646 | - | 1,795,646 | N/A |
| Buildings, Improvements and Renovations | 5,665,845 | (1,549,000) | 4,116,845 | 24-50 yrs |
| Other Structures & Facilities | 464,523 | (164,935) | 299,588 | 10-50 yrs |
| Aircraft | 245,715 | (83,016) | 162,699 | 7-25 yrs |
| Boats | 3,440 | (1,307) | 2,133 | 18 yrs |
| Vehicles | 440,982 | (258,447) | 182,535 | 2-25 yrs |
| Equipment | 732,340 | (408,846) | 323,494 | 2-25 yrs |
| Assets Under Capital Leases | 125,959 | (37,093) | 88,866 | 5-20 yrs |
| Leasehold Improvements | 295,992 | (107,422) | 188,570 | 2-20 yrs |
| Internal Use Software | 36,559 | (10,955) | 25,604 | 5 yrs |
| Internal Use Software in Development | 59,000 | - | 59,000 | N/A |
| Other General Property, Plant and Equipment | 5,215 | (2,950) | 2,265 | 10-20 yrs |
| Total | $ 10,053,847 | $ (2,623,971) | $ 7,429,876 | |

## Note 9. Other Assets

| | FY 2003 | FY 2002 |
|---|---|---|
| Intragovernmental | | |
| Advances to Others | $ 103,319 | $ 61,446 |
| Prepayments | 12,043 | 980 |
| Other | 4 | 43,823 |
| Total Intragovernmental | 115,366 | 106,249 |
| | | |
| Other Assets | 3,236 | 4,199 |
| Total Other Assets | $ 118,602 | $ 110,448 |

Other Intragovernmental includes $43,745 disbursed from the Treasury General Fund during FY 2002. The disbursements from the Treasury General Fund resulted because during prior FYs, the Department was instructed to deposit the proceeds from a case settlement into the Treasury General Fund. A subsequent change in application document required the distribution of the funds to another Federal Agency instead of the General Fund of the Treasury.

## Note 10. Non-Entity Assets

| | FY 2003 | FY 2002 |
|---|---|---|
| Intragovernmental | | |
| Fund Balance with U.S. Treasury | $ 1,069,890 | $ 481,607 |
| Investments, Net | 497,490 | 517,359 |
| Other | - | 43,745 |
| Total Intragovernmental | 1,567,380 | 1,042,711 |
| Cash and Other Monetary Assets | 103,251 | 65,143 |
| Accounts Receivable, Net | 5,006 | 9,443 |
| Total Non-Entity Assets | 1,675,637 | 1,117,297 |
| Total Entity Assets | 26,796,467 | 30,026,510 |
| Total Assets | $ 28,472,104 | $ 31,143,807 |

See description of Other in Note 9 above.

## Note 11. Debt

In FY 1998, Congress granted FPI borrowing authority pursuant to Public Law 100-690. Under this authority, FPI borrowed $20,000 from the Treasury with an extended lump-sum maturity date of September 30, 2008. The funds received under this loan were internally restricted for use in the construction of factories and the purchase of equipment. The loan accrues interest, payable March 31 and September 30 of each year, at 5.5 percent (the rate equivalent to the yield of Treasury obligations of comparable maturities which existed on the date of the loan extension). Accrued interest payable under the loan is either fully or partially offset to the extent the non-interest bearing cash deposits are maintained with the Treasury. In this regard, there is no accrual of interest unless the cash balance, on deposit with the Treasury, falls below $20,000. When this occurs, interest is calculated on the difference between the loan amount ($20,000) and the cash balance.

The loan agreement provides for certain restrictive covenants and a prepayment penalty for debt retirements prior to FY 2008. Additionally, the agreement limits authorized borrowings in an aggregate amount not to exceed 25 percent of the FPI's net equity. There were no net interest expenses for the years ended September 30, 2003 and 2002.

## Note 12. Environmental Cleanup Costs

The FIST-5 (Fuel In Storage Tank 5-Year) Program is a nation-wide effort begun in FY 1995 to upgrade and optimize automotive and aviation bulk fueling capabilities. The INS monitored the environmental cleanup and any required remediation for all its known underground storage tanks. The total estimated remediation costs decreased to $18,800 in FY 2001 and remained $18,800 as of September 30, 2002 and February 28, 2003. Of the $18,800, $16,200 was disbursed through February 28, 2003. For FY 2002, $2,933 in liabilities had been accrued with $2,698 covered and $235 not covered by budgetary resources. Projects still involved in active remediation will be pursued until successfully completed. However, as the INS was transferred to the Department of Homeland Security on March 1, 2003, the Department no longer manages or has a liability with respect to this program as of September 30, 2003.

The DEA owns a section of land located in Chicago, Illinois. Soil samples taken from this land, after removal of underground storage tanks, indicated levels of benzene, ethyl benzene, and lead that were above soil remediation standards. Phase I of an environmental site assessment was conducted on January 15, 2002, for this site. The assessment revealed evidence of a potential environmental condition and recommended the study be extended to determine the extent of the contamination. Phase II of the environmental site assessment was

## Note 12. Environmental Cleanup Costs - Continued

completed in FY 2003 and filed with the Illinois Environmental Protection agency. This assessment indicated that the soil contained lead. There are no costs reflected in the financial statements at this time because DEA can not determined the potential cleanup costs until the Illinois Environmental Protection agency determines whether further remediation is necessary.

## Note 13. Leases

Capital leases include a Federal Detention Center (25 year lease term) and an airplane hangar (20 year lease term) in Oklahoma City, Oklahoma and a training facility (16 year lease term) in Pineville, Louisiana.

| Capital Leases: | FY 2003 | FY 2002 |
|---|---|---|
| Summary of Assets Under Capital Lease: | | |
| Land & Buildings | $ 104,070 | $ 104,070 |
| Machinery & Equipment | 50,968 | 21,889 |
| Accumulated Amortization | (66,660) | (37,093) |
| Total | $ 88,378 | $ 88,866 |

Future Payments Due:

| Fiscal Year | Land & Buildings | Machinery & Equipment | Total |
|---|---|---|---|
| 2004 | $ 10,577 | $ 6,566 | $ 17,143 |
| 2005 | 10,577 | 2,315 | 12,892 |
| 2006 | 10,577 | 776 | 11,353 |
| 2007 | 10,577 | 296 | 10,873 |
| 2008 | 10,577 | 31 | 10,608 |
| After 2008 | 57,861 | - | 57,861 |
| Subtotal | $ 110,746 | $ 9,984 | $ 120,730 |
| Less: Imputed Interest | (37,401) | (679) | (38,080) |
| FY 2003 Net Capital Lease Liability | $ 73,345 | $ 9,305 | $ 82,650 |
| FY 2002 Net Capital Lease Liability | $ 77,767 | $ 8,024 | $ 85,791 |

| | FY 2003 | FY 2002 |
|---|---|---|
| Net Capital Lease Liability Covered by Budgetary Resources | $ 1,668 | $ 3,882 |
| Net Capital Lease Liability Not Covered by Budgetary Resources | $ 80,982 | $ 81,909 |

Operating Leases:

Future Operating Lease Payments Due:

| Fiscal Year | Buildings | Equipment | Total |
|---|---|---|---|
| 2004 | $ 1,085,795 | $ 14,568 | $ 1,100,363 |
| 2005 | 1,184,612 | 14,882 | 1,199,494 |
| 2006 | 1,286,464 | 15,527 | 1,301,991 |
| 2007 | 1,399,006 | 16,331 | 1,415,337 |
| 2008 | 1,525,901 | 17,190 | 1,543,091 |
| After 2008 | 23,747 | 5 | 23,752 |
| Total Future Lease Payments | $ 6,505,525 | $ 78,503 | $ 6,584,028 |

These notes are an integral part of the financial statements.

## Note 13. Leases – Continued

Operating leases have been established for multiple years. Many of the operating leases that expire over an extended period of time include an option to purchase the equipment at the current fair market value, or to renew the lease for additional periods. Approximately $6,505,525 was for office space, parking facilities, and warehouses, and the remainder for office equipment and vehicles. Vehicles are leased from vendors for 12 months or less.

The majority of space occupied by the Department is leased from the General Services Administration (GSA). The space is assigned to the Department by the GSA based on the Department's square footage requirements. The rent charged to the Department is intended to approximate commercial rates. Most of these leases may be terminated without incurring termination charges, however, it is anticipated that the Department will continue to lease space from the GSA in future years. Total future operating lease payments of $6,584,028 include GSA leases.

## Note 14. Other Liabilities

| | FY 2003 | FY 2002 |
|---|---|---|
| Intragovernmental Liabilities | | |
| Other Accrued Liabilities | $ 62 | $ 159 |
| Employer Contributions and Payroll Taxes | 52,535 | 66,750 |
| Advances from Others | 293,978 | 187,638 |
| Advances from Others (Non - Current) | 22,530 | 5,971 |
| Liability for Deposit Fund, Clearing Accounts & Undeposited Collections | 19,638 | 19,586 |
| Other Liabilities | 72,562 | 6,667 |
| Total Intragovernmental | 461,305 | 286,771 |
| Other Accrued Liabilities | 3,399 | 2,635 |
| Advances from Others | 3,158 | 5,378 |
| Liability for Deposit Fund, Clearing Accounts & Undeposited Collections | 65,749 | 272,119 |
| Custodial Liabilities | 141,963 | 34,220 |
| Other Liabilities | 9,243 | 8,896 |
| Total With the Public | 223,512 | 323,248 |
| Total Other Liabilities | $ 684,817 | $ 610,019 |

Intragovernmental other liabilities primarily represent civil debt collections where the Treasury General Fund is designated as the recipient of either a portion of a collection or the entire amount of a collection.

These notes are an integral part of the financial statements.

## Note 15. Liabilities Not Covered by Budgetary Resources

| | FY 2003 | FY 2002 |
|---|---|---|
| Intragovernmental | | |
| Custodial Liability | $ 806,906 | $ 236,747 |
| Accrued FECA Liability | 162,613 | 216,852 |
| Other Liabilities | 6,903 | 3,598 |
| Total Intragovernmental | 976,422 | 457,197 |
| | | |
| Environmental Cleanup Cost | - | 235 |
| FECA Actuarial Liabilities | 839,749 | 1,204,284 |
| Accrued Annual and Compensatory Leave | 586,650 | 628,818 |
| Capital Lease Liabilities (Note 13) | 80,982 | 81,909 |
| Contingent Liabilities (Note 16) | 67,919 | 142,996 |
| Deferred Revenue | 1,298 | 1,223 |
| Other Liabilities | 145,873 | 37,280 |
| Total With the Public | 1,722,471 | 2,096,745 |
| Total Liabilities Not Covered by Budgetary Resources | 2,698,893 | 2,553,942 |
| Total Liabilities Covered by Budgetary Resources | 3,778,410 | 4,986,913 |
| Total Liabilities | $ 6,477,303 | $ 7,540,855 |

Generally, liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. However, some of the liabilities not covered by budgetary resources do not require appropriations and will be liquidated by the assets of the entities holding these liabilities. They include civil and criminal debt collections and revolving fund operations.

## Note 16. Contingencies and Commitments

The Department is party to various administrative proceedings, legal actions, and claims, including environmental damage claims, equal opportunity matters, and contractual bid protests. The balance sheet includes an estimated liability for those legal actions where the Chief Counsel considers adverse decisions "probable." Management has determined that it is probable that some of these proceedings and actions will result in the incurrence of liabilities, and the amounts are reasonably estimable. The estimated liabilities for these cases at September 30, 2003 and 2002 were $67,919 and $142,996, respectively and recorded in the financial statements. There also are legal actions pending where adverse decisions are considered to be reasonably possible. The range for potential loss is undetermined at this time.

## Note 17. Future Funding Requirements

The total liabilities not covered by budgetary resources presented in Note 15 for FYs 2003 and 2002 of $2,698,893 and $2,553,942, respectively do not equal the Components of net cost of operations requiring or generating resources in future periods on the Statement of Financing for FYs 2003 and 2002 of $142,861 and $97,385, respectively. Total components requiring or generating resources in future periods on the Statement of Financing include only current unfunded expense amounts and increases in exchange revenue receivable from the public, while the unfunded liabilities included on the Balance Sheet represent both current and prior year unfunded expense amounts including the unfunded annual and compensatory leave balances for FYs 2003 and 2002 of $586,650 and $628,818, respectively. The actuarial/accrued FECA liability for FYs 2003 and 2002 were $1,002,362 and $1,421,136, respectively.

## Note 18. Imputed Financing Sources

Imputed financing recognizes actual cost of future benefits, the Federal Employees Health Benefits Program (FEHB), the Federal Employees Group Life Insurance Program (FEGLI), and the Pension that are paid by other Federal entities. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. § 1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of SFFAS No. 2, "Accounting for Treasury Judgment Fund Transactions," requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

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. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees. For "regular" and "law enforcement" employees of Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS), OPM calculated that 12.0% and 25.0% for FERS and 24.4% and 38.9% for CSRS respectively of each employee's salary would be sufficient to fund these projected pension benefits.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, other retirement benefits, which include health and life insurance that are paid by other Federal entities, must also be disclosed.

Imputed financing sources:

| | FY 2003 | FY 2002 |
|---|---|---|
| Judgment Fund | $ 16,496 | $ 30,697 |
| Health Insurance | 374,182 | 380,261 |
| Life Insurance | 1,153 | 1,281 |
| Pension | 240,852 | 172,632 |
| Total | $ 632,683 | $ 584,871 |

These notes are an integral part of the financial statements.

## Note 19. Consolidated Gross Cost and Earned Revenue by Budget Functional Classification

**Consolidated Gross Cost and Earned Revenue by Budget Functional Classification**

| Budget Functional Classification | | Gross Costs | Earned Revenue | Net Costs |
|---|---|---|---|---|
| Fiscal Year Ended September 30, 2003 | | | | |
| National Defense | 050 | $ 140,219 | $ - | $ 140,219 |
| International Affairs | 150 | 1,086 | - | 1,086 |
| Administration of Justice | 750 | 26,158,547 | (2,793,320) | 23,365,227 |
| Total | | $ 26,299,852 | $ (2,793,320) | $ 23,506,532 |
| Fiscal Year Ended September 30, 2002 | | | | |
| National Defense | 050 | $ 224,614 | $ - | $ 224,614 |
| International Affairs | 150 | 946 | - | 946 |
| Administration of Justice | 750 | 27,889,711 | (3,492,571) | 24,397,140 |
| General Government | 800 | 15 | - | 15 |
| Total | | $ 28,115,286 | $ (3,492,571) | $ 24,622,715 |

**Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification**

| Budget Functional Classification | | Gross Costs | Earned Revenue | Net Costs |
|---|---|---|---|---|
| Fiscal Year Ended September 30, 2003 | | | | |
| National Defense | 050 | $ 1,197 | $ - | $ 1,197 |
| International Affairs | 150 | 473 | - | 473 |
| Administration of Justice | 750 | 5,333,028 | (1,473,368) | 3,859,660 |
| Total | | $ 5,334,698 | $ (1,473,368) | $ 3,861,330 |
| Fiscal Year Ended September 30, 2002 | | | | |
| National Defense | 050 | $ 1,052 | $ - | $ 1,052 |
| International Affairs | 150 | 375 | - | 375 |
| Administration of Justice | 750 | 5,967,185 | (1,235,665) | 4,731,520 |
| Total | | $ 5,968,612 | $ (1,235,665) | $ 4,732,947 |

These notes are an integral part of the financial statements.

## Note 20. Net Custodial Revenue Activity

Debt Collection Management (DCM) is responsible for implementing the provisions of the Federal Debt Recovery Act of 1986, which authorizes the Attorney General to contract with private counsel to help the U.S. Attorneys collect delinquent Federal civil debts. Since FY 1994, the Attorney General has been authorized to credit the WCF up to 3 percent of the total civil cash collections to be used for paying the costs of "processing and tracking" such litigation. DCM is responsible for the operation of the Nationwide Central Intake Facility, the private counsel pilot project, and other projects funded by the 3 percent of the civil debt collections.

Collections that INS reported in the Statement of Custodial Activity are summarized as follows:

- H-IB Nonimmigrant Petitioner Fee - Payments received from nonimmigrant petitioners under INA section 214(9) and collected by INS are deposited into the General Fund of the Treasury. INS receives 4 percent of the proceeds while the Department of Labor and National Science Foundation share the balance. The Treasury makes distribution form this Special Fund Receipt account quarterly to the respective agencies.
- Miscellaneous Receipts – INS collects monies from a variety of sources. Collections include interest, fines, penalties, forfeitures, and miscellaneous fees.

The DEA also collected fines, penalties, and restitution payments that were incidental to its mission. DEA has no statutory authority to use these funds and they are transmitted to the General Fund of the Treasury upon receipt.

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. Substantially all of the taxes and fees collected by ATF net of related refund disbursements are remitted to the General Fund of the Treasury. The Treasury further distributes this revenue to Federal agencies in accordance with various laws and regulations.

The custodial liabilities presented on the Balance Sheet represent funds held by the Department that have yet to be disbursed to the appropriate Federal agency or individual.

## Note 21. Permanent Indefinite Appropriations

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

Congress enacted a permanent indefinite appropriation to fund the expenses of Independent Counsel investigations and prosecutions in the 1988 Department of Justice Appropriations Act (P.L. 100-202). Under this appropriation, all necessary costs and expenses incurred in the pursuit of these investigations were funded from amounts available in the Treasury. On June 30, 1999, the Reauthorization Act of 1994 expired. To date there has been no reauthorization; however, several investigations are ongoing. This account also pays for appointed Special Counsel.

28 U.S.C. § 524(c)(4) authorized the Attorney General to retain AFF receipts to pay operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders.

Congress established the BOP Trust Fund in 1932 to allow inmates a means to purchase additional products and services above the necessities provided by appropriated federal funds. The BOP Trust Fund is now a self-sustaining revolving account that is funded through the sales of goods and services, rather than annual or no-year appropriations.

## Note 22. Statement of Budgetary Resources vs Budget of the United States Government

The reconciliation as of September 30, 2003 is not presented, because the submission of the Budget of the United States occurs after publication of these financial statements. The Department of Justice Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2004.

| As of September 30, 2002 | Budgetary Resources | Obligations Incurred | Outlays |
|---|---|---|---|
| Statement of Budgetary Resourses (SBR) | $ 38,279,000 | $ 34,149,000 | $ 26,715,000 |
| Funds not Reported in Budget of the U.S.: | | | |
| USMS Court Security Funds | (290,000) | (275,000) | (223,000) |
| OBDs Health Care Fraud and Abuse Funds | (59,000) | (55,000) | (52,000) |
| OBDs Victims Compensation Unobligated Balance | (72,000) | - | - |
| DEA, FBI, USMS, OBD and BOP Expired Funds | (427,000) | (124,000) | - |
| OBD Deobligation Audit Adjustment | - | 43,000 | - |
| AFF Forfeiture Activity | (85,000) | (40,000) | (45,000) |
| AFF Unavailable Collections | (113,000) | - | - |
| Transfers Pursuant to P.L. 107-296: | | | |
| INS | (8,535,000) | (7,991,000) | (5,340,000) |
| OJP - Office of Domestic Preparedness | (770,000) | (763,000) | (134,000) |
| FBI - National Infrastructure Protection Center | (50,000) | (51,000) | (42,000) |
| OBDs - Narrowband Communication | (45,000) | (39,000) | (34,000) |
| ATF | 808,000 | 795,000 | 805,000 |
| Other | 14,000 | 3,000 | (28,000) |
| Budget of the United States (excluding Full Funding for Federal Retiree Costs) | $ 28,655,000 | $ 25,652,000 | $ 21,622,000 |
| Full Funding for Federal Retiree Costs | 406,000 | 406,000 | 406,000 |
| Budget of the United States | $ 29,061,000 | $ 26,058,000 | $ 22,028,000 |

Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the Department SBR and the Budget of the United States.

In addition to the above, a reconciliation with the SF-133, "Report on Budget Execution and Budgetary Resources," was also performed and confirmed that differences between the Statement of Budgetary Resources and the SF-133 are also the result of the adjustments identified above.

These notes are an integral part of the financial statements.

## Note 23. Apportionment Categories of Obligations Incurred

| | Direct Obligations | Reimbursable Obligations | Total Obligations Incurred |
|---|---|---|---|
| Fiscal Year Ended September 30, 2003 | | | |
| Obligations Apportioned Under: | | | |
| Category A | $ 23,633,613 | $ 5,018,184 | $ 28,651,797 |
| Category B | 1,603,634 | 12,326 | 1,615,960 |
| Total | $ 25,237,247 | $ 5,030,510 | $ 30,267,757 |
| Fiscal Year Ended September 30, 2002 | | | |
| Obligations Apportioned Under: | | | |
| Category A | $ 26,615,809 | $ 5,877,342 | $ 32,493,151 |
| Category B | 1,649,560 | 6,164 | 1,655,724 |
| Total | $ 28,265,369 | $ 5,883,506 | $ 34,148,875 |

Category A obligations represent resources apportioned for calendar quarters. Category B obligations represent resources apportioned for other time periods; for activities, projects, objectives or for combination thereof.

## Note 24. Dedicated Collections

In 1984, Congress enacted the Victims of Crime Act (VOCA), which authorized the establishment of a Crime Victims Fund and direct services programs and national-scope training and technical assistance efforts on behalf of crime victims. In support of VOCA, OJP provides federal leadership for the rights and needs of crime victims through policy development, funding promising practices, monitoring compliance with federal victims' rights statutes, public awareness, and educational activities intended to promote justice for crime victims. The funds or revenue are inflows from the public provided by U.S. Courts, Army, Debt Management and collections for criminal fines. FYs 2003 and 2002 condensed financial information about assets, liabilities, net position, gross cost, exchange revenues and net cost of operations is presented below:

| | FY 2003 | FY 2002 |
|---|---|---|
| Assets: | | |
| Fund Balance with U.S. Treasury | $ 1,954,316 | $ 2,097,678 |
| Other Assets | 9,722 | 8,561 |
| Liabilities | 78,653 | 60,360 |
| Net Position | 1,885,385 | 2,045,879 |
| Gross Cost of Operations | 571,215 | 561,610 |
| Exchange Revenues | 50 | 469 |
| Net Cost of Operations | 571,165 | 561,141 |

These notes are an integral part of the financial statements.

## Note 25. Allocation Transfers of Appropriation

During both FY 2003 and 2002, the Department transferred $17,000 from the Crime Victims Fund to the Department of Health and Human Services (HHS). This transfer is required by law and is used for child abuse prevention and treatment grants. These amounts are obligated and expended by the Secretary of HHS for grants. However, because the amounts transferred to HHS are not material to HHS they are included as part of these financial statements.

28 U.S.C. §524(c)(9)(E) provides authority for the Attorney General to use excess end-of-year monies, without fiscal year limitation, in the AFF for authorized purposes of the Department of Justice. For FY 2003 and FY 2002 transfers of $11,699 and $18,937 were made, respectively. In addition, during FY 2003 and FY 2002, the AFF transferred out forfeited property for official use of $8,403 and $6,134.

The Department also allocated funds from BOP to Public Health Services (PHS) that provides a portion of medical treatment for federal inmates. The money is designated and expended for current year obligation of PHS staff salaries, benefits, and applicable relocation expenses. The amounts transferred to PHS are not material to PHS and are therefore included as part of these financial statements.

The OBD allocation transfer of appropriations includes the Health Care Fraud and Abuse Funds transferred from the HHS appropriation 75_8393. The transfer amount for FY 02 was $59,000. Since the allocation transfer of appropriations received from HHS is material to the OBDs, the activity has been reported in all the financial statements, including the SBR. Beginning FY 03, the OBDs no longer received an allocation transfer of appropriations from HHS, instead the activity was reported as offsetting collections (reimbursable) by the OBDs.

## Note 26. Government Acknowledged Events

**Status of the September 11th Victim Compensation Fund**

The Air Transportation Safety and System Stabilization Act of 2001 (P.L. 107-42) created the September 11th Victim Compensation Fund to provide compensation to those physically injured or to personal representatives of those killed as a result of the terrorist attacks of September 11, 2001. It created a program that is administered by a Special Master appointed by the Attorney General. Its mission is to fairly and expeditiously resolve claims, consistent with the Act and associated regulations. All claims must be filed within two years of the publication of regulations by December 22, 2003.

The Act established an indefinite appropriation for making payments on approved claims. The Department of Justice received appropriations of $2,700,000.0 for FY 2003. Claimants have 2l days to accept the award or request a hearing. In total, benefit payments of $708,536.0 and $20,200.4 were disbursed in FYs 2003 and 2002 respectively.

OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget," requires indefinite appropriation accounts to return to the Treasury any unobligated balances as of September 30. The amount returned to the Treasury is recorded as Authority Withdrawn below. The Department will receive an FY 2004 indefinite appropriation to cover new obligations.

Summarized financial information about appropriated funds received, donations received from the public, benefit payments disbursed and payable, and the Fund balance is presented below:

## Note 26. Government Acknowledged Events - Continued

| | FY 2003 | FY 2002 |
|---|---|---|
| Fund Balance With Treasury - Beginning of the Period | $ 111,800.0 | $ - |
| Appropriated Funds Received | 2,700,000.0 | 132,000.0 |
| Donations Received From The Public | 56.5 | 0.4 |
| Total Funding | 2,811,856.5 | 132,000.4 |
| Less: Benefit Payments Disbursed | 708,536.0 | 20,200.4 |
| Less: Authority Withdrawn | 1,998,210.7 | - |
| Fund Balance With Treasury - End of the Period | $ 105,109.8 | $ 111,800.0 |
| | | |
| Accounts Payable | $ 105,109.8 | $ 39,996.8 |

**Radiation Exposure Compensation Program**

On October 15, 1990, Congress passed the Radiation Exposure Compensation Act (the "Act"), 42 U.S.C. § 2210 (1994), providing for compassionate payments to individuals who contracted certain cancers and other serious diseases as a result of their exposure to radiation released during above-ground nuclear weapons tests or as a result of their exposure to radiation during employment in underground uranium mines. Implementing regulations were issued by the Department of Justice and published in the Federal Register on April 10, 1992, establishing procedures to resolve claims in a reliable, objective, and non-adversarial manner, with little administrative cost to the United States or to the person filing the claim. Revisions to the regulations, published in the Federal Register on March 22, 1999, served to greater assist claimants in establishing entitlement to an award.

On July 10, 2000, P.L. 106-245, the "Radiation Exposure Compensation Act Amendments of 2000," was enacted. Some of the widespread changes include new claimant populations, additional compensable diseases, lower radiation exposure thresholds, modified medical documentation requirements, and removal of certain disease restrictions.

There are now five categories of claimants: uranium miners, uranium millers, ore transporters, downwinders, and onsite participants. Each category requires similar eligibility criteria: exposure to radiation and existence of a compensable disease.

Summarized financial information about appropriated funds received, benefit payments disbursed and payable, and the Fund balance is presented below:

## Note 27. Homeland Security Act of 2002 Transfers

| | FY 2003 | FY 2002 |
|---|---|---|
| Fund Balance With Treasury - Beginning of the Period | $ 59,603 | $ 81,975 |
| Appropriated Funds Received | 143,000 | 172,000 |
| Total Funding | 202,603 | 253,975 |
| Less: Benefit Payments Disbursed | 151,052 | 194,372 |
| Fund Balance With Treasury - End of the Period | $ 51,551 | $ 59,603 |
| | | |
| Accounts Payable | $ 30,861 | $ 38,731 |

Pursuant to the Homeland Security Act of 2002, Public Law (P.L.) 107-296, the Immigration and Naturalization Service (INS), the Office of Domestic Preparedness (ODP) program of the OJP and the National Infrastructure Protection Center (NIPC) program of the FBI were transferred to the Department of Homeland Security (DHS) effective March 1, 2003. Unobligated balances from the WCF and the OBDs were also transferred to the DHS effective March 1, 2003. The ATF was transferred from the Department of the Treasury to the Department of Justice effective January 24, 2003.

In accordance the FASAB Technical Bulletin 2003-1, "Certain Questions and Answers Related to The Homeland Security Act of 2002," the Statement of Net Cost includes a section for amounts related to the transferred operations pursuant to P.L. 107-296. The net transfers of assets and liabilities for these programs are presented on the Statement of Changes in Net Position (SCNP). The net transfers of budgetary authority are presented on the Statement of Budgetary Resources (SBR). Included in the amounts on the SBR and Statement of Financing are amounts from discontinued operations related to INS. See the consolidating and combining financial statements for the amounts related to discontinued operations. Additional line item detail for FY 03 transfers presented on the SBR and SCNP are displayed below and on the following page:

| **Transfers-In\(Out) on SBR:** | Unobligated Balance | Obligated Balance |
|---|---|---|
| INS | $ (3,094,251) | $ (1,639,534) |
| NIPC | (37,019) | (1,119) |
| ODP | (992,670) | (671,691) |
| ATF | 592,829 | 243,398 |
| OBDs | (19,179) | - |
| WCF | (68,000) | - |
| Total Transfers Related to the Homeland Security Act | (3,618,290) | (2,068,946) |
| Other Transfers | (161,356) | - |
| Total Tranfers on SBR | $ (3,779,646) | $ (2,068,946) |

These notes are an integral part of the financial statements.

## Note 27. Homeland Security Act of 2002 Transfers - Continued

| **Transfers-In\(Out) on SCNP:** | Cumulative Results of Operations | Unexpended Appropriations |
|---|---|---|
| Budgetary Financing Sources (BFS): | | |
| INS | $ - | $ (4,034,849) |
| NIPC | - | (38,138) |
| ODP | - | (1,646,208) |
| ATF | - | 748,968 |
| OBDs | - | (19,179) |
| WCF | (68,000) | - |
| Total BFS Transfers Related to the Homeland Security Act | (68,000) | (4,989,406) |
| Other BFS Transfers | 186,484 | 133,140 |
| Total BFS Tranfers | 118,484 | (4,856,266) |
| Other Financing Sources (OFS): | | |
| INS | (44,765) | - |
| ODP | (12,031) | - |
| ATF | 59,803 | - |
| Total OFS Transfers Related to the Homeland Security Act | 3,007 | - |
| Other OFS Transfers | (21,211) | - |
| Total OFS Transfers | (18,204) | - |
| Total Transfers on SCNP | $ 100,280 | $ (4,856,266) |

These notes are an integral part of the financial statements.

## Note 28. OMB Form and Content Consolidated Balance Sheet Presentation

**DEPARTMENT OF JUSTICE**
**Consolidated Balance Sheets**
**As of September 30, 2003 and 2002**

| Dollars in Thousands | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| Intragovernmental | | |
| Fund Balance with U.S. Treasury | $ 18,094,718 | $ 20,863,080 |
| Investments, Net | 1,449,873 | 1,291,472 |
| Accounts Receivable, Net | 266,699 | 243,046 |
| Other | 115,366 | 106,249 |
| Total Intragovernmental | 19,926,656 | 22,503,847 |
| Accounts Receivable, Net | 84,926 | 182,983 |
| Cash and Other Monetary Assets | 136,443 | 115,956 |
| Inventory and Related Property | 182,291 | 196,354 |
| General Property, Plant and Equipment, Net | 7,591,234 | 7,429,876 |
| Other Assets | 550,554 | 714,791 |
| **Total Assets** | **$ 28,472,104** | **$ 31,143,807** |
| **LIABILITIES** | | |
| Intragovernmental | | |
| Accounts Payable | $ 192,720 | $ 328,437 |
| Debt | 20,000 | 20,000 |
| Other | 1,431,517 | 741,097 |
| Total Intragovernmental | 1,644,237 | 1,089,534 |
| Accounts Payable | 2,100,849 | 2,368,765 |
| Environmental and Disposal Liabilities | - | 2,933 |
| Contingent Liabilities | 67,919 | 142,996 |
| Other | 2,664,298 | 3,936,627 |
| **Total Liabilities** | **$ 6,477,303** | **$ 7,540,855** |
| **NET POSITION** | | |
| Unexpended Appropriations | $ 12,787,888 | $ 14,835,234 |
| Cumulative Results of Operations | 9,206,913 | 8,767,718 |
| **Total Net Position** | **$ 21,994,801** | **$ 23,602,952** |
| **Total Liabilities and Net Position** | **$ 28,472,104** | **$ 31,143,807** |

These notes are an integral part of the financial statements.