Notes to the Principal Financial Statements – Unaudited
(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 pursuant to the Homeland Security Act of 2002 effective March 1, 2003:

- Immigration and Naturalization Service (INS)

Notes to the Principal Financial Statements – Unaudited
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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 accounting principles generally accepted in the United States of America issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the 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 Consolidation

The consolidated/combined financial statements of the Department include the accounts of the AFF/SADF, WCF, OBDs, USMS, OJP, DEA, FBI, ATF, INS, BOP, and FPI. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources and Statements of Custodial Activity are combined statements for FYs 2004 and 2003, and as such, intra-entity transactions have not been eliminated. For FY 2003, the ATF and INS are only presented for approximately eight and five months, respectively.

D. 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

D. Basis of Accounting - Continued

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.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

E. 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, nonexchange 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. Nonexchange 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 nonexchange 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 nonexchange 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 with 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

F. Fund Balance with the U.S. 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.

G. Investments

Investments are Federal debt securities issued by the Bureau of Public Debt. When securities are purchased, the investment is recorded at face 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.

H. 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.

I. 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

J. General 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. Real property is depreciated, based on historical cost, using the straight-line method over the estimated useful lives of the assets.

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 are capitalized when the initial cost of acquiring those assets is $100 or more.

K. 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 DEA 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.

L. Forfeited and Seized Property

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.

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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

M. 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.

N. Liabilities, Loans and Interest Payable to the U.S. 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.

O. 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.

P. 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.

Q. 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

R. 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 CSRS, the Department contributes 7% of the employees' gross pay for regular and 7.5% for law enforcement officers retirement. For employees covered by FERS, the Department contributes 10.7% of employees' gross pay for regular and 22.7% for law enforcement officers retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP account is automatically established, and the Department is required to contribute an additional 1% of gross pay to this plan and match employee contributions up to 4%. No matching contributions are made to the TSPs accounts 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.

S. 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

S. Federal Employee Compensation Benefits - Continued

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 fiscal year 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.

T. 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 2. Fund Balance with U.S. Treasury

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

	2004	2003
Fund Balances:		
Trust Funds	$ 525,556	$ 737,850
Revolving Funds	431,884	500,920
Appropriated Funds	12,216,446	13,731,865
Other Fund Types	3,124,046	3,124,083
Total Fund Balance with Treasury	$ 16,297,932	$ 18,094,718
Status of Fund Balances:		
Unobligated Balance - Available	$ 2,197,018	$ 2,704,766
Unobligated Balance - Unavailable	507,554	536,326
Obligated Balance not yet Disbursed	12,178,587	13,459,216
Other Funds (With)/Without Budgetary Resources	1,414,773	1,394,410
Total Status of Fund Balances	$ 16,297,932	$ 18,094,718

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.

Other Funds (With)/Without Budgetary Resources primarily represents the net difference of 1) Investments in short-term securities with budgetary resources, 2) Resources temporary not available pursuant to public law, 3) Custodial liabilities, and 4) Miscellaneous receipts.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 3. Cash, Foreign Currency, and Monetary Assets

	2004	2003
Cash:		
Undeposited Collections	$ 3,226	$ 20,267
Imprest Funds	8,096	10,447
Seized Cash Deposited	31,550	51,115
Other Cash	1,105	2,272
Total Cash	43,977	84,101
Foreign Currency	330	207
Monetary Assets:		
Seized Monetary Instruments	60,465	49,849
Other Monetary Assets	2,782	2,286
Total Monetary Assets	63,247	52,135
Total Cash, Foreign Currency, and Monetary Assets	$ 107,554	$ 136,443

Note 4. Investments, Net

	Face Value	Unamortized Premium	Unamortized Discount	Investments Net	Market Value
As of September 30, 2004:					
Intragovernmental					
Non-Marketable Federal Securities:					
Market Based	$ 1,508,171	$ 75	$ (1,623)	$ 1,506,623	$ 1,506,002
Subtotal	1,508,171	$ 75	$ (1,623)	$ 1,506,623	1,506,002
Accrued Interest	553				553
Total	$ 1,508,724				$ 1,506,555
As of September 30, 2003:					
Intragovernmental					
Non-Marketable Federal Securities:					
Market Based	$ 1,451,060	$ 134	$ (1,321)	$ 1,449,873	$ 1,451,163
Subtotal	1,451,060	$ 134	$ (1,321)	$ 1,449,873	1,451,163
Accrued Interest	546				546
Total	$ 1,451,606				$ 1,451,709

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 5. Accounts Receivable, Net

	2004	2003
Intragovernmental		
Accounts Receivable	$ 333,379	$ 271,028
Allowance for Uncollectible Accounts	(3,102)	(4,329)
Total Intragovernmental	330,277	266,699
With the Public		
Accounts Receivable	130,644	130,726
Allowance for Uncollectible Accounts	(35,571)	(45,800)
Total With the Public	95,073	84,926
Total Accounts Receivable, Net	$ 425,350	$ 351,625

Note 6. Inventory and Related Property

	2004	2003
Inventory:		
Raw Materials	$ 78,348	$ 68,970
Work in Process	37,941	29,321
Finished Goods	63,084	58,109
Inventory Purchased for Resale	16,099	15,563
Inventory Allowances:		
Excess, Obsolete and Unserviceable	(8,545)	(6,339)
Allowance	(5,110)	(3,359)
Operating Materials and Supplies:		
Held for Current Use	15,664	20,026
Total Inventory and Related Property	$ 197,481	$ 182,291

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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 1999 through 2004, equitable sharing allocation levels averaged $232,017. The anticipated equitable sharing allocation level for FY 2005 is $270,000.

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, etc.) is not included in the net forfeited property value, although the item count of non-valued items is disclosed.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property- Continued

Fiscal Year Ended September 30, 2004:

Forfeited Property Category		Beginning Balance	Adjust-ments FY 2004	Forfeited During FY 2004	Disposed During FY 2004	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial & Other	Number	98	(23)	119	155	39	-	39
Monetary Instruments	Value	$ 2,695	$ 537	$ 24,200	$ 25,449	$ 1,983	$ 7	$ 1,976
Real Property	Number	338	31	313	394	288	-	288
	Value	$ 51,207	$ 5,383	$ 51,221	$ 66,818	$ 40,993	$ 345	$ 40,648
Personal Property	Number	3,824	(82)	8,001	9,602	2,141	-	2,141
	Value	$ 26,881	$ (2,512)	$ 54,683	$ 55,112	$ 23,940	$ 932	$ 23,008
Non-Valued	Number	19,652	(4,265)	16,199	14,797	16,789	-	16,789
Total	Number	23,912	(4,339)	24,632	24,948	19,257	-	19,257
	Value	$ 80,783	$ 3,408	$130,104	$147,379	$ 66,916	$ 1,284	$ 65,632

During FY 2004, $95,247 of forfeited property was sold, $18,861 was returned to owners, and $33,271 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 2004.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property- Continued

Fiscal Year Ended September 30, 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	Number	66	(9)	146	105	98	-	98
Monetary Instruments	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. The addition of ATF as a departmental law enforcement participant in the Asset Forfeiture Program (AFP) was effective January 24, 2003.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property - Continued

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, etc.) 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.

Fiscal Year Ended September 30, 2004:

Seized Property Category		Beginning Balance	Adjust-ments FY 2004	Seized During FY 2004	Disposed During FY 2004	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized for Forfeiture:								
Financial & Other Monetary Instruments	Number	379	500	396	1,009	266	-	266
	Value	$ 41,836	$(13,844)	$ 31,703	$ 37,027	$ 22,668	$ 270	$ 22,398
Real Property	Number	323	4	358	272	413	-	413
	Value	$ 41,633	$ 13,723	$ 53,819	$ 45,898	$ 63,277	$ 12,360	$ 50,917
Personal Property	Number	8,991	656	6,188	10,196	5,639	-	5,639
	Value	$ 82,037	$ 1,608	$ 93,117	$ 82,235	$ 94,527	$ 9,721	$ 84,806
Non-Valued	Number	39,946	1,286	19,997	18,004	43,225	-	43,225
Total Seized for Forfeiture	Number	49,639	2,446	26,939	29,481	49,543	-	49,543
	Value	$165,506	$ 1,487	$178,639	$165,160	$180,472	$ 22,351	$ 158,121
Seized for Evidence	Number	536,696	(1,851)	259,786	13,397	781,234	-	781,234
	Value	$ 97,320	$ 47	$ 43,627	$ 19,967	$121,027	$ -	$ 121,027
Total	Number	586,335	595	286,725	42,878	830,777	-	830,777
	Value	$262,826	$ 1,534	$222,266	$185,127	$301,499	$ 22,351	$ 279,148

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property - Continued

During FY 2004, $108,898 of seized property was forfeited, $49,703 was returned to owners, and $26,526 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 $31,550 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 the FY 2004.

Fiscal Year Ended September 30, 2003:

Seized Property Category		Beginning Balance	Adjust-ment FY 2003	Seized During FY 2003	Disposed During FY 2003	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized for Forfeiture:								
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	48,458	(346)	498,528	9,944	536,696	-	536,696
	Value	$ 62,188	$(12,607)	$102,058	$ 54,319	97,320	$ -	$ 97,320
Total	Number	57,939	44,239	531,698	47,541	586,335	-	586,335
	Value	$231,983	$(34,843)	$316,604	$228,262	$285,482	$ 22,656	$ 262,826

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property - Continued

During FY 2003, $129,071 of seized property was forfeited, $81,349 was returned to owners, and $17,842 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.

Analysis of Drug Evidence:

The DEA, FBI, and ATF 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 FYs Ended September 30, 2004 and 2003. The amounts presented in the table represent actual laboratory tested classification and weight.

Analyzed Drug Evidence	Beginning Balance	Analyzed During FY 2004	Disposed During FY 2004	Ending Balance
	KG	KG	KG	KG
Cocaine	369,804	758,371	119,319	1,008,856
Heroin	10,850	911	780	10,981
Marijuana	101,364	18,088	21,053	98,399
Methamphetamine	5,829	2,019	1,354	6,494
Other narcotics	138,864	16,468	18,822	136,510
Total	626,711	795,857	161,328	1,261,240

Analyzed Drug Evidence	Beginning Balance	Analyzed During FY 2003	Disposed During FY 2003	Ending Balance
	KG	KG	KG	KG
Cocaine	321,724	85,633	37,553	369,804
Heroin	3,075	8,520	745	10,850
Marijuana	41,115	84,093	23,844	101,364
Methamphetamine	5,160	2,089	1,420	5,829
Other narcotics	67,017	87,605	15,758	138,864
Total	438,091	267,940	79,320	626,711

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 7. Forfeited and Seized Property - Continued

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 (PP&E), Net

Items are generally depreciated using the straight line method.

As of September 30, 2004:	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	$ 200,128	$ -	$ 200,128	N/A
Construction in Progress	496,546	-	496,546	N/A
Buildings, Improvements and Renovations	7,607,738	(1,982,596)	5,625,142	24-50 yrs
Other Structures and Facilities	565,110	(202,369)	362,741	10-50 yrs
Aircraft	189,628	(62,326)	127,302	7-25 yrs
Boats	2,882	(1,339)	1,543	18 yrs
Vehicles	333,947	(203,380)	130,567	2-25 yrs
Equipment	983,133	(526,431)	456,702	2-25 yrs
Assets Under Capital Lease	111,840	(42,226)	69,614	5-20 yrs
Leasehold Improvements	457,893	(191,199)	266,694	2-20 yrs
Internal Use Software	85,850	(38,166)	47,684	5 yrs
Internal Use Software in Development	76,464	-	76,464	N/A
Other General Property, Plant and Equipment	329	(94)	235	10-20 yrs
Total	$ 11,111,488	$ (3,250,126)	$ 7,861,362	

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 8. General Property, Plant and Equipment (PP&E), Net - Continued

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 and 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 Lease	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	

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 9. Other Assets

	2004	2003
Intragovernmental		
Advances to Others	$ 88,362	$ 103,319
Prepayments	13,747	12,043
Other Intragovernmental Assets	35	4
Total Intragovernmental	102,144	115,366
Other Assets With the Public	3,594	3,236
Total Other Assets	$ 105,738	$ 118,602

Other Assets With the Public primarily consists of farm livestock held by the Bureau of Prisons.

Note 10. Non-Entity Assets

	2004	2003
Intragovernmental		
Fund Balance with U.S. Treasury	$ 799,057	$ 1,069,890
Investments, Net	561,867	497,490
Total Intragovernmental	1,360,924	1,567,380
Cash and Monetary Assets	93,174	103,251
Accounts Receivable, Net	11,344	5,006
Total With the Public	104,518	108,257
Total Non-Entity Assets	1,465,442	1,675,637
Total Entity Assets	25,662,846	27,008,197
Total Assets	$ 27,128,288	$ 28,683,834

Notes to the Principal Financial Statements – Unaudited (Dollars in Thousands)

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% (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% of the FPI's net equity. There were no net interest expenses for the years ended September 30, 2004 and 2003.

Note 12. Environmental and Disposal Liabilities

The DEA owns a small 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 completed in FY 2003 and filed with the Illinois Environmental Protection Agency. This assessment indicated that the soil contained lead. There are no clean-up costs reflected in the financial statements at this time because the Illinois Environmental Protection Agency requested further testing in order to define the limits of the impacted soil and groundwater. The General Services Administration (GSA) is currently in the process of contracting for these additional tests.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 13. Leases

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

Capital Leases:	2004	2003
Summary of Assets Under Capital Lease:		
Land and Buildings	$ 104,070	$ 104,070
Machinery and Equipment	7,770	50,968
Accumulated Amortization	(42,226)	(66,660)
Total	$ 69,614	$ 88,378

Future Payments Due:

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2005	$ 10,577	$ 1,657	$ 12,234
2006	10,577	387	10,964
2007	10,577	171	10,748
2008	10,577	87	10,664
2009	10,196	5	10,201
After 2009	47,771	-	47,771
Subtotal	$ 100,275	$ 2,307	$ 102,582
Less: Imputed Interest	(31,702)	(131)	(31,833)
FY 2004 Net Capital Lease Liability	$ 68,573	$ 2,176	$ 70,749
FY 2003 Net Capital Lease Liability	$ 73,345	$ 9,305	$ 82,650

	2004	2003
Net Capital Lease Liability Covered by Budgetary Resources	$ 869	$ 1,668
Net Capital Lease Liability Not Covered by Budgetary Resources	$ 69,880	$ 80,982

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 13. Leases – Continued

Operating Leases:
Future Operating Lease Payments Due:

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2005	$ 1,255,032	$ 58,961	$ 1,313,993
2006	1,353,404	41,460	1,394,864
2007	1,439,791	44,675	1,484,466
2008	1,534,210	42,769	1,576,979
2009	1,638,137	42,791	1,680,928
After 2009	110,238	37,123	147,361
Total Future Lease Payments	$ 7,330,812	$ 267,779	$ 7,598,591

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.

The majority of space occupied by the Department is leased from the 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 $7,598,591 include GSA leases.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 14. Other Liabilities

	2004	2003
Intragovernmental Liabilities		
Other Accrued Liabilities	$ 142	$ 62
Employer Contributions and Payroll Taxes Payable	73,924	52,535
Advances from Others	273,060	316,508
Liability for Deposit Fund, Clearing Accounts and Undeposited Collections	15,884	19,686
Other Liabilities	128,681	72,514
Total Intragovernmental	491,691	461,305
Other Accrued Liabilities	3,556	3,399
Advances from Others	1,156	3,158
Liability for Deposit Fund, Clearing Accounts and Undeposited Collections	77,932	65,749
Custodial Liabilities (Note 20)	476,215	141,963
Other Liabilities	2,782	9,243
Total With the Public	561,641	223,512
Total Other Liabilities	$ 1,053,332	$ 684,817

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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 15. Liabilities Not Covered by Budgetary Resources

	2004	2003
Intragovernmental		
Accrued FECA Liabilities (Note 1.S)	$ 176,813	$ 162,551
Other Liabilities	50	-
Total Intragovernmental	176,863	162,551
Actuarial FECA Liabilities (Note 1.S)	829,337	839,749
Accrued Annual and Compensatory Leave	608,640	586,650
Deferred Revenue (Note 1.E)	101,977	66,589
Contingent Liabilities (Note 16)	106,881	67,919
Capital Lease Liabilities (Note 13)	69,880	80,982
Future Radiation Exposure Compensation Act Liabilities (Note 26)	588,617	-
Other Liabilities	3,553	3,399
Total With the Public	2,308,885	1,645,288
Total Liabilities Not Covered by Budgetary Resources	2,485,748	1,807,839
Total Liabilities Covered by Budgetary Resources	4,451,338	4,660,037
Total Liabilities	$ 6,937,086	$ 6,467,876

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

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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, 2004 and 2003 were $106,881 and $67,919, respectively, and recorded in the financial statements.

There are also legal actions pending where adverse decisions are considered to be reasonably possible. As of September 30, 2004, 58 legal actions were reported as reasonably possible. Of the 58 legal actions, 37 reported a potential loss in the range of $160,538 to $223,238. For the remaining 21 legal actions an estimate of potential loss could not be determined.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 17. Relationship Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Liabilities that are not covered by realized budgetary resources and for which there is not certainty that budgetary authority will be realized, such as the enactment of an appropriation, are considered liabilities not covered by budgetary resources. These liabilities totaling $2,485,748 and $1,807,839 on September 30, 2004 and 2003, respectively, are discussed in Note 15, Liabilities Not Covered by Budgetary Resources. These liabilities do not equal Components of Net Cost of Operations Requiring or Generating Resources in Future Periods on the Consolidated Statement of Financing. Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods include only current unfunded expense amounts and changes in unfunded exchange revenue receivables from the public, while the unfunded liabilities represent both current and prior year unfunded expense amounts. The increases and decreases below represent the absolute value of the changes in the various Department components rather than a net number. Some of those liabilities represent current year activity to be funded by future resources and are comprised of the following:

	FY 2004	FY 2003
Decreases in Liabilities Not Covered by Budgetary Resources		
Decrease in Accrued FECA Liabilities	$ (765)	$ (1,200)
Decrease in Actuarial FECA Liabilities	(25,242)	(32,731)
Decrease in Accrued Annual and Compensatory Leave	(5,858)	(524)
Decrease in Contingent Liabilities	(11,452)	(31,701)
Decrease in Capital Lease Liabilities	(11,102)	(6,019)
Other	-	(40)
Resources that Fund Expenses Recognized in Prior Periods	$ (54,419)	$ (72,215)
Increases in Liabilities Not Covered by Budgetary Resources		
Increase in Accrued Annual and Compensatory Leave	$ 27,848	$ 83,843
Increase in Accrued FECA Liabilities	15,026	26,952
Increase in Actuarial FECA Liabilities	14,832	107,446
Increase in Deferred Revenue	35,388	3,310
Increase in Radiation Exposure Compensation Act Liabilities	588,617	-
Increase in Contingent Liabilities	50,414	19,061
Increase in Capital Lease Liabilities	207	5,037
Other	205	(42,940)
(Increase)/Decrease in Exchange Revenue Receivable from the Public	7,722	(42,284)
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	$ 740,259	$ 160,425

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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 Federal Pension plans 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, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by Civil Service Retirement System (CSRS), the cost factors are 25% of basic pay for regular, 40.3% law enforcement officers, 19.5% regular offset, and 35.7% law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 12% of basic pay for regular and 25.1% for law enforcement officers.

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 2004	FY 2003
Judgment Fund	$ 31,355	$ 16,496
Health Insurance	390,523	374,182
Life Insurance	1,420	1,153
Pension	239,136	240,852
Total Imputed Financing Sources	$ 662,434	$ 632,683

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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, 2004				
National Defense	050	$ 3,207	$ -	$ 3,207
International Affairs	150	1,147	-	1,147
Administration of Justice	750	32,305,050	(2,630,324)	29,674,726
Total		$ 32,309,404	$ (2,630,324)	$ 29,679,080
Fiscal Year Ended September 30, 2003				
National Defense	050	$ 140,219	$ -	$ 140,219
International Affairs	150	1,086	-	1,086
Administration of Justice	750	26,157,074	(2,793,320)	23,363,754
Total		$ 26,298,379	$ (2,793,320)	$ 23,505,059

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification		Gross Costs	Earned Revenue	Net Costs
Fiscal Year Ended September 30, 2004				
International Affairs	150	$ 496	$ -	$ 496
Administration of Justice	750	5,443,498	(1,842,434)	3,601,064
Total		$ 5,443,994	$ (1,842,434)	$ 3,601,560
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

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 20. Net Custodial Revenue Activity

WCF collects funds on behalf of Federal Agencies and other aggrieved parties through the financial litigation activities of the Department. Currently, the primary sources of collections are civil litigated matters (i.e., student loan defaults, health care fraud, etc.). The Debt Accounting Operations Group (DAOG) also processes certain payments on criminal debts as accommodations for the BOP and the Clerks of the U.S. District Courts. The BOP aggregates inmate criminal debt payments by correction facility, and the DAOG re-sorts the payments by judicial district and disburses these payments to the respective Clerks of the U.S. District Court. The DAOG also accepts wire transfers or other payments on a criminal debt if a Clerk of the U.S. District Court is unable or unwilling to do so.

OBDs collect civil fines, penalties, and restitution payments that are incidental to its mission. For the fiscal year ended September 30, 2004, OBDs collected a total settlement fund of $560,000, of which $375,000 and $185,000 were paid by French bank Credit Lyonnais and French company Artemis, respectively. $110,000 of the settlement fund was disbursed for compensation of benefits lost and $450,000 was held in reserve pending the outcome of the lawsuits. By court order, OBDs were given the investment authority and the settlement funds must be invested. OBDs invested these funds with the Department of Treasury, Bureau of the Public Debt. The settlement funds including the investment revenue were reported as Custodial Liabilities. The investments for FY 2004 were redeemed at September 30, 2004 and new investments will continue in FY 2005.

DEA collects civil monetary penalties related to violations of the Controlled Substances Act that are incidental to its mission. DEA has no statutory authority to use these funds and they are transmitted to the General Fund of Treasury upon receipt.

ATF collects civil 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.

Collections that INS reported in the Statement of Custodial Activity in FY 2003 are summarized as follows:

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

The custodial liabilities presented on the Balance Sheet and Note 14 represent funds held by the Department that have yet to be disbursed to the appropriate Federal agency or individual.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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.

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.

Notes to the Principal Financial Statements – Unaudited (Dollars in Thousands)

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

The reconciliation as of September 30, 2004 is not presented, because the submission of the FY 2006 Budget of the United States, which presents the execution of the FY 2004 budget, 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 2005.

Fiscal Year Ended September 30, 2003	**Budgetary Resources**	**Obligations Incurred**	**Outlays**
Statement of Budgetary Resourses (SBR)	$ 33,509,000	$ 30,268,000	$ 24,367,000
Funds not Reported in Budget of the U.S.:			
USMS Court Security Funds	(280,000)	(265,000)	(258,000)
AFF Forfeiture Activity	(63,000)	-	12,000
OBDs, FBI, DEA & BOP Expired Funds	(506,000)	(173,000)	-
Funds not Reported in SBR:			
OBDs Victims Compensation Unobligated Balance Withdrawn	1,998,000	-	-
FPI Change in Deferred Revenue	-	-	52,000
Transfers Pursuant to P.L. 107-296:			
INS	(2,166,000)	(2,166,000)	(2,207,000)
OJP - Office of Domestic Preparedness	(48,000)	(50,000)	(176,000)
FBI - National Infrastructure Protection Center	(56,000)	(17,000)	(17,000)
ATF	216,000	179,000	206,000
Other	20,000	27,000	(19,000)
Budget of the United States	$ 32,624,000	$ 27,803,000	$ 21,960,000

OBDs Victim Compensation Fund (15X0340) Unobligated Balances Withdrawn represents FY 2003 unexpended appropriations withdrawn by Treasury on the SBR and SF-133 however reported for budget purposes in the Program and Financing Schedule on a different line.

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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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

In addition to the reconciliation on the previous page, 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 on the previous page.

Note 23. Apportionment Categories of Obligations Incurred

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
Fiscal Year Ended September 30, 2004			
Obligations Apportioned Under:			
Category A	$ 27,801,107	$ 5,523,700	$ 33,324,807
Category B	1,364,394	21,269	1,385,663
Total	$ 29,165,501	$ 5,544,969	$ 34,710,470
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

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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

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, 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 the U.S. Courts, U.S. Army, Debt Management, and collections for criminal fines. FYs 2004 and 2003 condensed financial information about assets, liabilities, net position, gross cost, exchange revenues and net cost of operations is presented below:

	2004	2003
Assets:		
Fund Balance with the U.S. Treasury	$ 2,223,002	$ 1,954,316
Other Assets	4,426	9,722
Liabilities	75,963	78,653
Net Position	2,151,465	1,885,385
Gross Cost of Operations	566,139	571,215
Nonexchange Revenues	832,222	359,539
Exchange Revenues	-	50
Net Cost of Operations	566,139	571,165

Note 25. Allocation Transfers of Appropriation

During FYs 2004 and 2003, 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. During FYs 2004 and 2003 transfers of $94,050 and $11,699 were made, respectively. In addition, during FYs 2004 and 2003, the AFF transferred out forfeited property for official use of $5,855 and $8,403.

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.

Note 26. Government-Acknowledged and Government-Related Events

Government-Acknowledged Events

Government-acknowledged events are those nontransaction-based events that are of financial consequence to the federal government because it chooses to respond to the event. The federal government has broad responsibility to provide for the public's general welfare. The federal government has established programs to fulfill many of the general needs of the public and often assumes responsibilities for which it has no prior legal obligation.

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 (the 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. A Special Master who was appointed by the Attorney General administers the Fund. Its mission is to fairly and expeditiously resolve claims, consistent with the Act and associated regulations. The law required that all claims be filed by December 22, 2003. By June 2004, all claims had been reviewed and associated award determinations had been accomplished.

The Act established an indefinite appropriation for making payments on approved claims. The Department of Justice received appropriations of $6,366,000 and $2,700,000 for FYs 2004 and 2003, respectively. Benefit payments of $6,308,672 and $708,536 were disbursed for in FYs 2004 and 2003, 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. As of September 30, 2004 and 2003, $161,230 and $1,998,211 respectively were returned to the Treasury and recorded as Authority Withdrawn on the following page. These amounts constitute the majority of the "Other Adjustments" balances presented on the Statement of Changes in Net Position. The Department will receive an FY 2005 indefinite appropriation to cover any new obligations associated with adjustments to prior determinations.

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

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 26. Government-Acknowledged and Government-Related Events – Continued

	2004	2003
Fund Balance With Treasury - Beginning of the Period	$ 105,110	$ 111,800
Appropriated Funds Received	6,366,000	2,700,000
Donations Received From the Public	-	57
Total Funding	6,471,110	2,811,857
Less: Benefit Payments Disbursed	6,308,672	708,536
Less: Authority Withdrawn	161,230	1,998,211
Fund Balance With Treasury - End of the Period	$ 1,208	$ 105,110
Accounts Payable	$ 1,208	$ 105,110

Government-Related Events

Government-related events are nontransaction-based events that involve interaction between the federal government and its environment. The event may be beyond the control of the federal entity. In general, a liability is recognized in connection with government-related events on the same basis as those that arise in exchange transactions. Events, such as a federal entity accidentally causing damage to private property, would create a liability when the event occurred, to the extent that existing law and policy made it probable that the federal government would pay for the damages and to the extent that the amount of the payment could be estimated reliably. Government-related events also include hazardous waste spills on federal property caused by federal operations or accidents and catastrophes that affect government-owned property.

Radiation Exposure Compensation Program

On October 15, 1990, Congress passed the Radiation Exposure Compensation Act (RECA), 42 U.S.C. § 2210 note (1990), 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 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.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 26. Government-Acknowledged and Government-Related Events – Continued

On July 10, 2000, the 'Radiation Exposure Compensation Act Amendments of 2000,' P.L. 106-245, 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. Pursuant to the 2000 Amendments, the Department was directed to issue implementing regulations. The Department published two related rulemakings in the Federal Register to implement the legislation. Subsequent action by Congress required modification to those rulemakings. Therefore, the Department published a "final" rule in the Federal Register on March 23, 2004, which went into effect on April 22, 2004.

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.

The OBDs recognized a $588,617 liability for estimated future benefits payable by the Department at September 30, 2004 to eligible individuals under the Act through FY 2022. The September 30, 2004 estimated liability is based on historical data collected since the Program commenced operations in 1992, and management's assumptions concerning receipt and approval of claims in the future. Key factors in determining future liability are the number of claims filed, the number of claims approved, and estimates for these factors through FY 2022. These estimates are then discounted in accordance with the discount rates set by the Office of Management and Budget.

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

	2004	2003
Fund Balance With Treasury - Beginning of the Period	$ 51,551	$ 59,603
Appropriated Funds Received	107,000	143,000
Total Funding	158,551	202,603
Less: Benefit Payments Disbursed	128,235	151,052
PY Funds Returned to Treasury	18,869	-
Fund Balance With Treasury - End of the Period	$ 11,447	$ 51,551
Accounts Payable	$ 8,668	$ 30,861

Accounts Payable represents approved claims that have yet to be disbursed.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 27. Transfers

For the fiscal years ended September 30, 2004 and 2003, line item detail for transfers presented on the Statement of Budgetary Resources (SBR) and the Statement of Changes in Net Position (SCNP) are displayed on the below and the following page. The unapplied total amounts primarily represent transfers of appropriated unobligated funds to the Department's Working Capital Fund pursuant to Public Law 102-140. Upon transfer to the WCF, these funds are available for future obligations, therefore not subject to intra-Departmental elimination.

Transfers-In/(Out) on SBR:	Unobligated Balance		Obligated Balance	
	FY 2004	FY 2003	FY 2004	FY 2003
The Judiciary	$ 270,219	$ 260,295	$ -	$ -
Executive Office of the President	21,598	25,049	-	-
Environmental Protection Agency	35	-	-	-
Department of State	-	(589)	-	-
Department of the Treasury	-	592,829	-	243,398
Department of Homeland Security	5,441	(4,698,217)	-	(2,312,344)
Agency for International Development	-	200	-	-
Department of Health and Human Services	-	(41)	-	-
Independent Agencies	59,730	40,805	-	-
Unapplied Total	(931)	23	-	-
Total Transfers on SBR	$ 356,092	$ (3,779,646)	$ -	$ (2,068,946)

Notes to the Principal Financial Statements – Unaudited (Dollars in Thousands)

Note 27. Transfers – Continued

Transfers-In/(Out) on SCNP:	Cumulative Results of Operations		Unexpended Appropriations	
	FY 2004	FY 2003	FY 2004	FY 2003
Budgetary Financing Sources (BFS):				
The Judiciary	$ -	$ -	$ 270,219	$ 260,295
Executive Office of the President	-	-	21,598	25,049
Environmental Protection Agency			35	-
Department of State	-	-	-	(589)
Department of the Treasury	-	-	-	748,968
Department of Homeland Security	-	(68,000)	5,441	(5,744,493)
Agency for International Development	-	-	-	200
Department of Health and Human Services	-	-	-	(41)
Independent Agencies	-	-	59,730	40,805
Unapplied Total	277,365	186,484	(278,296)	(186,460)
Total BFS Transfers	277,365	118,484	78,727	(4,856,266)
Other Financing Sources (OFS):				
Government Printing Office	(68)	-	-	-
Executive Office of the President	-	-	-	-
Department of Agriculture	1,611	31	-	-
Department of the Interior	3	(547)	-	-
Department of Labor	874	-	-	-
U.S. Postal Service	(24)	(6)	-	-
Department of State	(91)	(286)	-	-
Department of the Treasury	(16,167)	57,772	-	-
Department of Veterans Affairs	30	-	-	-
Federal Communications Commission	-	(27)	-	-
General Services Administration	66	2,107	-	-
Department of Transportation	-	5,647	-	-
Department of Homeland Security	(183)	(69,297)	-	-
National Aeronautics and Space Administration	(50)	-	-	-
Department of Housing and Urban Development	2	-	-	-
Office of the Secretary of Defense - Defense Agencies	421	1,388	-	-
Treasury General Fund	(7,161)	(13,810)	-	-
Unapplied Total	(214)	(1,176)	-	-
Total OFS Transfers	(20,951)	(18,204)	-	-
Total Transfers on SCNP	$ 256,414	$ 100,280	$ 78,727	$ (4,856,266)

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 28. Subsequent Event

On October 28, 2004, the President signed into law the FY 2005 National Defense Authorization bill, which contains a provision, that uranium miner, miller, and ore transporter (i.e., uranium workers) RECA claims will be fully paid out of the Energy Employees Occupational Illness Compensation Fund.

Prior to this legislation, uranium workers received $100 from the RECA Trust Fund and an additional $50 from the Energy Employees Occupational Illness Compensation Program Act (EEOICPA) Fund, along with full medical benefits. Under the new provision, uranium workers will receive the same benefits that other nuclear weapons program workers receive. The RECA Trust Fund will still pay claims for downwinders and on-site participant claimants who have been found compensable.

Note 29. Changes in Accounting Principle, Restatements and Reclassifications

Changes in Accounting Principle

During FY 2004, the Department implemented a change in accounting principle with regard to the OBDs' accounting for the estimated future RECA benefits payable to eligible individuals through FY 2022 (the statutory sunset of the Program). Prior to this change, the Department only recognized a funded liability for approved claims where budgetary resources have been appropriated. The impact of implementing this change in accounting principle was to report the future benefits payable as of October 1, 2003 of $694,659 on the Statement of Changes in Net Position as an adjustment to the beginning cumulative results of operations for the fiscal year ended September 30, 2004.

Also during FY 2004, the Department changed to a preferred method of budgetary accounting to record $40,712 of the Bank of Credit and Commerce International (BCCI) funds maintained by the AFF and proceeds from the sale of forfeited real property activity by the AFF.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 29. Changes in Accounting Principle, Restatements and Reclassifications (continued)

Restatements

	As Reported	As Restated	Difference
Consolidated Balance Sheet:			
Advances and Prepayments	$ 466,535	$ 678,265	$ 211,730
Accounts Payable	$ 2,100,849	$ 2,091,422	$ (9,427)
Unexpended Appropriations	$ 12,787,888	$ 13,009,045	$ 221,157
Consolidated Statement of Net Cost:			
Gross Cost With the Public (Goal 3)	$ 4,750,089	$ 4,748,616	$ (1,473)
Consolidated Statement of Changes in Net Position:			
Unexpended Appropriations Beginning Balances	$ 14,835,234	$ 15,054,918	$ 219,684
Appropriations Used	$ (22,423,166)	$ (22,421,693)	$ 1,473
Combined Statement of Budgetary Resources:			
Undelivered Orders	$ 11,390,742	$ 11,400,169	$ 9,427
Accounts Payable	$ 3,004,939	$ 2,995,512	$ (9,427)
Offsetting Receipts	$ 1,444,342	$ 1,081,550	$ (362,792)

The balance sheet restatements to advances and prepayments ($211,730 increase), accounts payable ($9,427 decrease) and unexpended appropriations ($219,684 increase) represents the recordation by the OJP of several grants within an advance grant program that were miscoded as expenditure grants beginning in FY 2002.

Amounts previously reported by the OJP as offsetting receipts of $362,792 were removed from the statement of budgetary resources in accordance with the OMB Bulletin No. 01-09.

As a result of the restatements to the balance sheet, statements of net cost, changes in net position, and budgetary resources discussed above, similar restatements were made to the statement of financing to account for these error corrections.

Reclassifications

The FY 2003 Departmental financial statements were reclassified to conform to the FY 2004 Departmental financial statement presentation requirements, including a reduction in the number of the Department's strategic goals from eight to four as presented in the Consolidated Statement of Net Cost. These reclassifications had no effect on total assets, liabilities, net position, the change in net position or budgetary resources as previously reported.

Notes to the Principal Financial Statements – Unaudited
(Dollars in Thousands)

Note 30. OMB Form and Content Consolidated Balance Sheet Presentation

DEPARTMENT OF JUSTICE
Consolidated Balance Sheets
As of September 30, 2004 and 2003

Dollars in Thousands	2004	2003
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury	$ 16,297,932	$ 18,094,718
Investments, Net	1,506,623	1,449,873
Accounts Receivable, Net	330,277	266,699
Other Assets	102,144	115,366
Total Intragovernmental	18,236,976	19,926,656
Accounts Receivable, Net	107,554	84,926
Cash and Other Monetary Assets	95,073	136,443
Inventory and Related Property	197,481	182,291
General Property, Plant and Equipment, Net	7,861,362	7,591,234
Other Assets	629,842	762,284
Total Assets	**$ 27,128,288**	**$ 28,683,834**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 206,208	$ 192,720
Debt	20,000	20,000
Other Liabilities	827,515	1,431,517
Total Intragovernmental	1,053,723	1,644,237
Accounts Payable	2,048,217	2,091,422
Contingent Liabilities	106,881	67,919
Other Liabilities	3,728,265	2,664,298
Total Liabilities	**$ 6,937,086**	**$ 6,467,876**
NET POSITION		
Unexpended Appropriations	$ 11,038,932	$ 13,009,045
Cumulative Results of Operations	9,152,270	9,206,913
Total Net Position	**$ 20,191,202**	**$ 22,215,958**
Total Liabilities and Net Position	**$ 27,128,288**	**$ 28,683,834**