## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### 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)
- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)
- Bureau of Prisons (BOP)
- Federal Prison Industries, Inc. (FPI)

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### 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) Circular A-136, "Financial Reporting Requirements." 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, 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 2005 and 2004, and as such, intra-entity transactions have not been eliminated.

### 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
## (Dollars in Thousands, Except as Noted)

**D. Basis of Accounting - Continued**

Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis. Civil and Criminal Debt Collections are recorded when the Department receives payment from debtors to the Federal Government. Accrual adjustments are made related to collections of fees and licenses.

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; 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 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, 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
## (Dollars in Thousands, Except as Noted)

### F. Fund Balance with 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
## (Dollars in Thousands, Except as Noted)

**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 consolidated 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
## (Dollars in Thousands, Except as Noted)

**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, seized cash, accounts receivable, 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 16.

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 "reasonably possible" are disclosed in Note 17. 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 (Dollars in Thousands, Except as Noted)

### 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 11.2% and 10.7 % of employees' gross pay for regular and 23.8% and 22.7% for law enforcement officers retirement for FYs 2005 and 2004, respectively. 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 contributions are made to the TSP 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 19 ― 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 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
## (Dollars in Thousands, Except as Noted)

**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 directly to Department employees.

**T. Tax Exempt Status**

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

**U. 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
## (Dollars in Thousands, Except as Noted)

**Note 2. Fund Balance with U.S. Treasury**

The Fund Balances with U.S. Treasury represent the unexpended balances on the Department's books for all the Department's Treasury Symbols:

As of September 30, 2005 and 2004:

| | 2005 | 2004 (Restated, Note 20) |
|---|---|---|
| Fund Balances: | | |
| Trust Funds | $ 303,258 | $ 525,556 |
| Revolving Funds | 380,256 | 431,884 |
| Appropriated Funds | 11,698,427 | 12,216,446 |
| Other Fund Types | 3,102,188 | 3,124,046 |
| Total Fund Balances with U.S. Treasury | $ 15,484,129 | $ 16,297,932 |
| Status of Fund Balances: | | |
| Unobligated Balance - Available | $ 2,533,423 | $ 2,183,211 |
| Unobligated Balance - Unavailable | 577,610 | 520,624 |
| Obligated Balance not yet Disbursed | 10,961,682 | 12,179,325 |
| Other Funds (With)/Without Budgetary Resources | 1,411,414 | 1,414,772 |
| Total Status of Fund Balances | $ 15,484,129 | $ 16,297,932 |

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 represent the net difference of 1) Investments in short-term securities with budgetary resources, 2) Resources temporarily not available pursuant to public law, 3) Custodial liabilities, and 4) Miscellaneous receipts.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 3. Cash and Monetary Assets

As of September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Cash: | | |
| Undeposited Collections | $ 4,344 | $ 3,226 |
| Imprest Funds | 9,419 | 8,096 |
| Seized Cash Deposited | 47,381 | 31,550 |
| Other Cash | 1,647 | 1,105 |
| Total Cash | 62,791 | 43,977 |
| Foreign Currency | 311 | 330 |
| Monetary Assets: | | |
| Seized Monetary Instruments | 89,599 | 60,465 |
| Other Monetary Assets | 2,006 | 2,782 |
| Total Monetary Assets | 91,605 | 63,247 |
| Total Cash and Monetary Assets | $ 154,707 | $ 107,554 |

### Note 4. Investments, Net

| | Face Value | Unamortized Premium | Unamortized Discount | Investments Net | Market Value |
|---|---|---|---|---|---|
| As of September 30, 2005: | | | | | |
| Intragovernmental | | | | | |
| Non-Marketable Federal Securities: | | | | | |
| Market Based | $ 2,153,224 | $ 37 | $ (12,294) | $ 2,140,967 | $ 2,159,994 |
| Subtotal | 2,153,224 | $ 37 | $ (12,294) | $ 2,140,967 | 2,159,994 |
| Accrued Interest | 802 | | | | 802 |
| Total | $ 2,154,026 | | | | $ 2,160,796 |
| 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 |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 5. Accounts Receivable, Net

As of September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Intragovernmental | | |
| Accounts Receivable | $ 334,124 | $ 333,379 |
| Allowance for Uncollectible Accounts | (2,827) | (3,102) |
| Total Intragovernmental | 331,297 | 330,277 |
| With the Public | | |
| Accounts Receivable | 128,203 | 130,644 |
| Allowance for Uncollectible Accounts | (27,774) | (35,571) |
| Total With the Public | 100,429 | 95,073 |
| Total Accounts Receivable, Net | $ 431,726 | $ 425,350 |

### Note 6. Inventory and Related Property, Net

As of September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Inventory: | | |
| Raw Materials | $ 52,696 | $ 78,348 |
| Work in Process | 34,114 | 37,941 |
| Finished Goods | 48,897 | 63,084 |
| Inventory Purchased for Resale | 16,627 | 16,099 |
| Inventory Allowances: | | |
| Excess, Obsolete and Unserviceable | (8,978) | (8,545) |
| Allowance | (1,663) | (5,110) |
| Operating Materials and Supplies: | | |
| Held for Current Use | 16,263 | 15,664 |
| Total Inventory and Related Property, Net | $ 157,956 | $ 197,481 |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**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 equitable 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. The anticipated equitable sharing allocation level for FY 2006 is $273,000.

**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 these non-valued items is disclosed. Only AFF/SADF reports forfeited property.

The number of items represents quantities calculated using many different units of measure. The adjustments for FYs 2005 and 2004 include property status and valuation changes received after completion of prior year schedules. The valuation changes include updates and corrections to an asset's value recorded in a prior year.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 7. Forfeited and Seized Property- Continued

Fiscal Year Ended September 30, 2005:

| Forfeited Property Category | | Beginning Balance | Adjust-ments | Forfeited | Disposed | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial Instruments | Number | 39 | 46 | 373 | 247 | 211 | - | 211 |
| | Value | $ 1,983 | $ (291) | $ 10,009 | $ 9,306 | $ 2,395 | $ 41 | $ 2,354 |
| Real Property | Number | 288 | 136 | 321 | 416 | 329 | - | 329 |
| | Value | $ 40,993 | $ 15,057 | $ 67,928 | $ 65,363 | $ 58,615 | $ 2,450 | $ 56,165 |
| Personal Property | Number | 2,141 | 36 | 4,752 | 4,027 | 2,902 | - | 2,902 |
| | Value | $ 23,940 | $ (1,735) | $180,627 | $170,870 | $ 31,962 | $ 883 | $ 31,079 |
| Non-Valued | Number | 16,789 | (1,165) | 23,823 | 13,159 | 26,288 | - | 26,288 |
| Total | Number | 19,257 | (947) | 29,269 | 17,849 | 29,730 | - | 29,730 |
| | Value | $ 66,916 | $ 13,031 | $258,564 | $245,539 | $ 92,972 | $ 3,374 | $ 89,598 |

Fiscal Year Ended September 30, 2004:

| Forfeited Property Category | | Beginning Balance | Adjust-ments | Forfeited | Disposed | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Financial Instruments | Number | 98 | (23) | 119 | 155 | 39 | - | 39 |
| | Value | $ 2,695 | $ 537 | $ 24,200 | $ 25,449 | $ 1,983 | $ 7 | $ 1,976 |
| Real Property | Number | 338 | 31 | 313 | 394 | 288 | - | 288 |
| | Value | $ 51,294 | $ 5,296 | $ 51,221 | $ 66,818 | $ 40,993 | $ 345 | $ 40,648 |
| Personal Property | Number | 3,824 | (82) | 8,001 | 9,602 | 2,141 | - | 2,141 |
| | Value | $ 28,161 | $ (3,792) | $ 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 | $ 82,150 | $ 2,041 | $130,104 | $147,379 | $ 66,916 | $ 1,284 | $ 65,632 |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 7. Forfeited and Seized Property- Continued**

**Method of Disposition of Forfeited Property:**

During FYs 2005 and 2004, $87,290 and $95,247 of forfeited property were sold, $130,745 and $2,030 were destroyed or donated, $6,380 and $18,861 were returned to owners, and $21,124 and $31,241 were disposed of by other means, respectively. 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 variance represents the difference between the value of the property when seized and recorded, and the value of the property when disposed.

**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 seized cash, monetary instruments, real property and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. The Department, until judicially or administratively forfeited, does not legally own such property. Seized evidence includes cash, financial instruments, non-monetary valuables, firearms, explosives, tobacco, alcohol, and illegal drugs. The AFF/SADF reports property seized for forfeiture and the FBI, DEA, and ATF report property seized for evidence.

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.

The adjustments for FYs 2005 and 2004 include property status and valuation changes received after completion of prior year schedules. The valuation changes include updates and corrections to an asset’s value recorded in a prior year.

During FY 2005, the Department added the line item Seized Cash and Monetary Instruments for forfeiture to FYs 2005 and 2004 Analysis of Change in Seized Property schedules, respectively.

# Notes to the Principal Financial Statements
# (Dollars in Thousands, Except as Noted)

## Note 7. Forfeited and Seized Property - Continued

Fiscal Year Ended September 30, 2005:

| Seized Property Category | | Beginning Balance | Adjust-ments | Seizure | Disposals | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Seized for Forfeiture: | | | | | | | | |
| Seized Cash and Monetary Instruments | Value | $ 624,850 | $ 6,018 | $ 627,494 | $547,170 | $ 711,192 | $ 38,862 | $ 672,330 |
| Financial Instruments | Number | 266 | (81) | 165 | 116 | 234 | - | 234 |
| | Value | $ 22,668 | $ (2,425) | $ 11,419 | $ 7,203 | $ 24,459 | $ 296 | $ 24,163 |
| Real Property | Number | 413 | (61) | 229 | 287 | 294 | - | 294 |
| | Value | $ 63,277 | $ 9,455 | $ 66,771 | $ 58,292 | $ 81,211 | $ 20,969 | $ 60,242 |
| Personal Property | Number | 5,639 | 169 | 6,557 | 6,221 | 6,144 | - | 6,144 |
| | Value | $ 94,527 | $ (9,186) | $ 126,709 | $ 88,631 | $ 123,419 | $ 13,673 | $ 109,746 |
| Non-Valued | Number | 43,225 | 52 | 30,475 | 25,050 | 48,702 | - | 48,702 |
| Total Seized for Forfeiture | Number | 49,543 | 79 | 37,426 | 31,674 | 55,374 | - | 55,374 |
| | Value | $ 805,322 | $ 3,862 | $ 832,393 | $701,296 | $ 940,281 | $ 73,800 | $ 866,481 |
| Seized for Evidence: | | | | | | | | |
| Seized Monetary Instruments | Value | $ 29,032 | $ 17,204 | $ 14,526 | $ 11,738 | $ 49,024 | $ - | $ 49,024 |
| Personal Property | Number | 764,841 | 3,972 | 336,264 | 19,884 | 1,085,193 | - | 1,085,193 |
| | Value | $ 25,253 | $ 1,905 | $ 24,794 | $ 21,918 | $ 30,034 | $ - | $ 30,034 |
| Total Seized for Evidence | Number | 764,841 | 3,972 | 336,264 | 19,884 | 1,085,193 | - | 1,085,193 |
| | Value | $ 54,285 | $ 19,109 | $ 39,320 | $ 33,656 | $ 79,058 | $ - | $ 79,058 |
| Total | Number | 814,384 | 4,051 | 373,690 | 51,558 | 1,140,567 | - | 1,140,567 |
| | Value | $ 859,607 | $ 22,971 | $ 871,713 | $734,952 | $ 1,019,339 | $ 73,800 | $ 945,539 |

# Notes to the Principal Financial Statements
# (Dollars in Thousands, Except as Noted)

## Note 7. Forfeited and Seized Property - Continued

Fiscal Year Ended September 30, 2004:

| Seized Property Category | | Beginning Balance | Adjust-ments | Seizure | Disposals | Ending Balance | Liens and Claims | Ending Balance Net of Liens |
|---|---|---|---|---|---|---|---|---|
| Seized for Forfeiture: | | | | | | | | |
| Seized Cash and Monetary Instruments | Value | $ 580,573 | $ - | $ 494,058 | $449,781 | $ 624,850 | $ 19,167 | $ 605,683 |
| Financial Instruments | Number | 379 | 500 | 396 | 1,009 | 266 | - | 266 |
| | Value | $ 42,044 | $ (14,052) | $ 31,703 | $ 37,027 | $ 22,668 | $ 270 | $ 22,398 |
| Real Property | Number | 323 | 4 | 358 | 272 | 413 | - | 413 |
| | Value | $ 49,625 | $ 5,731 | $ 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 | $ 96,493 | $ (12,848) | $ 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 | $ 768,735 | $ (21,169) | $ 672,697 | $614,941 | $ 805,322 | $ 41,518 | $ 763,804 |
| Seized for Evidence: | | | | | | | | |
| Seized Monetary Instruments | Value | $ 29,631 | $ 141 | $ 14,298 | $ 15,038 | $ 29,032 | $ - | $ 29,032 |
| Personal Property | Number | 524,530 | (2,275) | 250,087 | 7,501 | 764,841 | - | 764,841 |
| | *Value | $ 24,767 | $ (94) | $ 5,509 | $ 4,929 | $ 25,253 | $ - | $ 25,253 |
| Total Seized for Evidence | Number | 524,530 | (2,275) | 250,087 | 7,501 | 764,841 | - | 764,841 |
| | Value | $ 54,398 | $ 47 | $ 19,807 | $ 19,967 | $ 54,285 | $ - | $ 54,285 |
| Total | Number | 574,169 | 171 | 277,026 | 36,982 | 814,384 | - | 814,384 |
| | Value | $ 823,133 | $ (21,122) | $ 692,504 | $634,908 | $ 859,607 | $ 41,518 | $ 818,089 |

* ATF corrected the Seized for Evidence dollar value amounts for Personal Property (ammunition) which was previously reported in dollars instead of thousands.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 7. Forfeited and Seized Property - Continued**

**Method of Disposition of Seized Property:**

During FYs 2005 and 2004, $583,601 and $531,540 of seized property were forfeited, $129,735 and $73,901 were returned to owners, and $21,616 and $29,467 were disposed of by other means, respectively. Other means of distribution include seized property that is sold, converted to cash, or destroyed. The variance represents the difference between the value of the property when seized and recorded, and the value of the property when disposed.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 7. Forfeited and Seized Property - Continued**

**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 tables represent the analysis of change in Seized Narcotics Held in FYs 2005 and 2004. Drugs previously reported by ATF as analyzed in the FY 2004 were reclassified as unanalyzed. The amounts presented in the table represent actual laboratory tested classification and weight in kilograms.

Fiscal Year Ended September 30, 2005:

| Analyzed Drug Evidence | Beginning Balance | Analyzed | Disposed | Ending Balance |
|---|---|---|---|---|
| Cocaine | 1,008,782 | 131,249 | 688,625 | 451,406 |
| Heroin | 10,980 | 829 | 8,142 | 3,667 |
| Marijuana | 97,922 | 7,679 | 78,345 | 27,256 |
| Methamphetamine | 6,478 | 4,566 | 1,593 | 9,451 |
| Other narcotics | 136,502 | 9,415 | 95,439 | 50,478 |
| Total | 1,260,664 | 153,738 | 872,144 | 542,258 |

Fiscal Year Ended September 30, 2004:

| Analyzed Drug Evidence | Beginning Balance | Analyzed | Disposed | Ending Balance |
|---|---|---|---|---|
| Cocaine | 369,766 | 758,335 | 119,319 | 1,008,782 |
| Heroin | 10,848 | 911 | 779 | 10,980 |
| Marijuana | 101,230 | 17,745 | 21,053 | 97,922 |
| Methamphetamine | 5,822 | 2,010 | 1,354 | 6,478 |
| Other narcotics | 138,858 | 16,466 | 18,822 | 136,502 |
| Total | 626,524 | 795,467 | 161,327 | 1,260,664 |

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.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

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

Items are generally depreciated using the straight-line method.

As of September 30, 2005:

| | Acquisition Cost | Accumulated Depreciation | Net Book Value | Service Life |
|---|---|---|---|---|
| Land and Land Rights | $ 203,103 | $ - | $ 203,103 | N/A |
| Construction in Progress | 611,257 | - | 611,257 | N/A |
| Buildings, Improvements and Renovations | 7,844,295 | (2,253,157) | 5,591,138 | 24-50 yrs |
| Other Structures and Facilities | 599,498 | (227,951) | 371,547 | 10-50 yrs |
| Aircraft | 192,288 | (62,794) | 129,494 | 7-25 yrs |
| Boats | 3,006 | (1,504) | 1,502 | 18 yrs |
| Vehicles | 371,544 | (223,102) | 148,442 | 2-25 yrs |
| Equipment | 1,110,056 | (630,339) | 479,717 | 2-25 yrs |
| Assets Under Capital Lease | 106,105 | (41,424) | 64,681 | 5-20 yrs |
| Leasehold Improvements | 534,798 | (245,678) | 289,120 | 2-20 yrs |
| Internal Use Software | 104,625 | (51,180) | 53,445 | 5-7 yrs |
| Internal Use Software in Development | 83,856 | - | 83,856 | N/A |
| Other General Property, Plant and Equipment | 253 | (65) | 188 | 10-20 yrs |
| Total | $ 11,764,684 | $ (3,737,194) | $ 8,027,490 | |

| | Federal | Public | Total |
|---|---|---|---|
| Sources of Capitalized PP&E Purchases for FY 2005 | $ 106,122 | $ 669,483 | $ 775,605 |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

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

As of September 30, 2004:

| | Acquisition Cost | Accumulated Depreciation | Net Book Value | Service Life |
|---|---|---|---|---|
| Land and Land Rights | $ 200,128 | $ - | $ 200,128 | N/A |
| Improvements to Land | - | - | - | 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 | 5-7 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 | |

| | Federal | Public | Total |
|---|---|---|---|
| Sources of Capitalized PP&E Purchases for FY 2004 | $ 124,007 | $ 658,639 | $ 782,646 |

These notes are an integral part of the financial statements.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 9. Other Assets

As of September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Intragovernmental | | |
| Advances to Others | $ 130,505 | $ 88,362 |
| Prepayments | 13,077 | 13,747 |
| Other Intragovernmental Assets | 108 | 35 |
| Total Intragovernmental | 143,690 | 102,144 |
| Other Assets With the Public | 4,705 | 3,594 |
| Total Other Assets | $ 148,395 | $ 105,738 |

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

### Note 10. Non-Entity Assets

As of September 30, 2005 and 2004:

| | 2005 | 2004 (Restated, Note 20) |
|---|---|---|
| Intragovernmental | | |
| Fund Balance with U.S. Treasury | $ 684,781 | $ 799,057 |
| Investments, Net | 1,083,654 | 561,867 |
| Total Intragovernmental | 1,768,435 | 1,360,924 |
| With the Public | | |
| Cash and Monetary Assets | 138,633 | 93,174 |
| Accounts Receivable, Net | 11,303 | 11,344 |
| Total With the Public | 149,936 | 104,518 |
| Total Non-Entity Assets | 1,918,371 | 1,465,442 |
| Total Entity Assets | 25,149,625 | 25,688,626 |
| Total Assets | $ 27,067,996 | $ 27,154,068 |

**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 plant facilities 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 fiscal years ended September 30, 2005 and 2004, respectively.

**Note 12. Environmental and Disposal Liabilities**

DEA owns a section of land located in Chicago, Illinois. Soil samples taken from this land, after the 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. 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) completed the additional tests and provided a copy to the City of Chicago, which has expressed an interest in purchasing the property. GSA is taking the position that the lead is associated with petroleum product contamination on the property that is not subject to the Comprehensive Environmental Recovery, Compensation and Liability Act (CERCLA). A delegation of authority to sell the property has been requested of DEA by GSA. DEA's Chief Counsel is researching the issue. If a sales agreement can be negotiated, the federal government would be allowed to convey title to the property to the City of Chicago with an agreed upon clean-up plan in place, to be performed by the city after the sale.

BOP operates firing ranges on 63 of the sites where its institutions are located. Use of these firing ranges generates waste consisting primarily of lead shot and spent rounds from rifles, shotguns, pistols, and automatic weapons. Lead shot left in the ground may pose a threat to human health and the environment. BOP may be liable under Federal or state laws for the cost of cleaning up its firing range waste.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 12. Environmental and Disposal Liabilities – Continued**

BOP generally uses its firing ranges for indefinite periods of time. As a result, BOP recognizes environmental clean up costs associated with these firing ranges at the time it becomes probable the firing range waste will be remediated and an associated cleanup cost can be estimated, rather than over the lives of the firing ranges, which are indeterminate. As of September 30, 2005, and 2004, the BOP had not incurred any liabilities for the cost of environmental clean up of firing range waste.

When BOP determines it is reasonably possible that firing range cleanup costs will be incurred, the nature and cleanup costs, if estimable, will be disclosed in the footnotes to the financial statements. FCI Englewood, CO, is considering closing its firing range. It is reasonably possible that an environmental liability exists for the FCI Englewood, CO, firing range. An estimated liability cannot be made, as additional soil analysis is needed to determine the cost for cleanup.

**Note 13. Leases**

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

As of September 30, 2005 and 2004:

| Capital Leases: | 2005 | 2004 |
|---|---|---|
| Summary of Assets Under Capital Lease: | | |
| Land and Buildings | $ 104,070 | $ 104,070 |
| Machinery and Equipment | 2,035 | 7,770 |
| Accumulated Amortization | (41,424) | (42,226) |
| Total | $ 64,681 | $ 69,614 |

## Notes to the Principal Financial Statements (Dollars in Thousands, Except as Noted)

### Note 13. Leases – Continued

Future Capital Lease Payments Due:

| Fiscal Year | Land and Buildings | Machinery and Equipment | Total |
|---|---|---|---|
| 2006 | $ 10,577 | $ 229 | $ 10,806 |
| 2007 | 10,577 | 176 | 10,753 |
| 2008 | 10,577 | 129 | 10,706 |
| 2009 | 10,196 | 22 | 10,218 |
| 2010 | 10,196 | 6 | 10,202 |
| After 2010 | 37,575 | - | 37,575 |
| Subtotal | $ 89,698 | $ 562 | $ 90,260 |
| Less: Imputed Interest | (26,275) | (39) | (26,314) |
| FY 2005 Net Capital Lease Liability | $ 63,423 | $ 523 | $ 63,946 |
| FY 2004 Net Capital Lease Liability | $ 68,573 | $ 2,176 | $ 70,749 |

| | 2005 | 2004 |
|---|---|---|
| Net Capital Lease Liability Covered by Budgetary Resources | $ 47 | $ 300 |
| Net Capital Lease Liability Not Covered by Budgetary Resources | $ 63,899 | $ 70,449 |

The net capital lease liability not covered by budgetary resources, primarily represents the capital lease of the Federal Detention Center for which the Department received congressional authority to fund with annual appropriations.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 13. Leases – Continued**

Operating Leases:
Future Operating Lease Payments Due:

| Fiscal Year | Land and Buildings | Machinery and Equipment | Total |
|---|---|---|---|
| 2006 | $ 1,348,366 | $ 70,348 | $ 1,418,714 |
| 2007 | 1,405,333 | 40,877 | 1,446,210 |
| 2008 | 1,426,296 | 33,492 | 1,459,788 |
| 2009 | 1,457,056 | 33,394 | 1,490,450 |
| 2010 | 1,499,994 | 32,907 | 1,532,901 |
| After 2010 | 1,383,694 | 9,428 | 1,393,122 |
| Total Future Lease Payments | $ 8,520,739 | $ 220,446 | $ 8,741,185 |

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. Total operating lease expenses for FYs 2005 and 2004 were $1,301,668 and $1,174,484, respectively.

The majority of space occupied by the Department is leased from the GSA. The GSA, based on the Department's square footage requirements, assigns the space to the Department. 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 until the end of the Occupancy Agreement. Total Land and Buildings future operating lease payments of $8,520,739 include GSA leases.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 14. Seized Cash and Monetary Instruments**

The liability for Seized Cash and Monetary Instruments represents seized assets held by the Department pending disposition.

As of September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Investments, Net | $ 623,236 | $ 561,867 |
| Seized Cash Deposited | 47,381 | 31,550 |
| Seized Monetary Instruments | 89,599 | 60,465 |
| Total Seized Cash and Monetary Instruments | $ 760,216 | $ 653,882 |

**Note 15. Other Liabilities**

As of September 30, 2005 and 2004:

| | 2005 | 2004 (Restated, Note 20) |
|---|---|---|
| Intragovernmental Liabilities | | |
| Other Accrued Liabilities | $ 308 | $ 142 |
| Employer Contributions and Payroll Taxes Payable | 89,584 | 73,924 |
| Advances from Others | 233,971 | 273,060 |
| Liability for Deposit Funds, Clearing Accounts and Undeposited Collections | 16,454 | 15,884 |
| Other Liabilities | 287,020 | 128,681 |
| Total Intragovernmental | 627,337 | 491,691 |
| With the Public | | |
| Other Accrued Liabilities | 4,298 | 3,556 |
| Advances from Others | 2,387 | 1,156 |
| Liability for Deposit Funds, Clearing Accounts and Undeposited Collections | 49,929 | 46,499 |
| Custodial Liabilities | 478,606 | 476,215 |
| Other Liabilities | 2,006 | 2,782 |
| Total With the Public | 537,226 | 530,208 |
| Total Other Liabilities | $ 1,164,563 | $ 1,021,899 |

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
## (Dollars in Thousands, Except as Noted)

### Note 16. Liabilities Not Covered by Budgetary Resources

As of September 30, 2005 and 2004:

| | 2005 | 2004 (Restated, Note 20) |
|---|---|---|
| Intragovernmental | | |
| Accrued FECA Liabilities | $ 181,873 | $ 176,813 |
| Other Liabilities | - | 50 |
| Total Intragovernmental | 181,873 | 176,863 |
| With the Public | | |
| Actuarial FECA Liabilities | 926,336 | 829,337 |
| Accrued Annual and Compensatory Leave Liabilities | 643,212 | 608,640 |
| Deferred Revenue | 131,690 | 101,977 |
| Contingent Liabilities (Note 17) | 282,270 | 106,881 |
| Capital Lease Liabilities (Note 13) | 63,899 | 70,449 |
| Future Radiation Exposure Compensation Act Liabilities (Note 28) | 258,925 | 588,617 |
| Other Liabilities | 4,290 | 3,553 |
| Total With the Public | 2,310,622 | 2,309,454 |
| Total Liabilities Not Covered by Budgetary Resources | 2,492,495 | 2,486,317 |
| Total Liabilities Covered by Budgetary Resources | 4,868,550 | 4,036,309 |
| Total Liabilities | $ 7,361,045 | $ 6,522,626 |

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. Such assets include civil and criminal debt collections, seized cash and monetary instruments, and revolving fund operations.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 17. 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, 2005 and 2004 are $282,270 and $106,881, respectively, and are recorded in the financial statements. There were also 1 and 4 cases as of September 30, 2005 and 2004, respectively, for which an adverse decision was considered probable, but for which an estimate of potential loss could not be determined.

There are also legal actions pending where adverse decisions are considered to be reasonably possible. As of September 30, 2005, 49 legal actions are reported as reasonably possible. Of the 49 legal actions, 34 reported a potential loss in the range of $70,297 to $130,747. For the remaining 15 legal actions an estimate of potential loss could not be determined.

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
## (Dollars in Thousands, Except as Noted)

### Note 18. 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 $2,492,495 and $2,485,748 on September 30, 2005 and 2004, respectively, are discussed in Note 16, Liabilities Not Covered by Budgetary Resources. Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivable from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivable generating resources in future periods are presented in the table below. The table is prepared based on a gross rollup of individual Departmental component financial statement information. Accordingly, decreases and increases for the same liability may be presented if some component(s) had decreases while other component(s) had increases for that liability.

Fiscal Years Ended September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Resources that Fund Expenses Recognized in Prior Periods: | | |
| Decrease in Accrued Annual and Compensatory Leave Liabilities | $ - | $ (5,858) |
| Other | | |
| Decrease in Actuarial FECA Liabilities | (890) | (25,244) |
| Decrease in Accrued FECA Liabilities | (862) | (765) |
| Decrease in Contingent Liabilities | (6,940) | (11,452) |
| Decrease in Capital Lease Liabilities | (6,551) | (11,102) |
| Decrease in RECA Liabilities | (329,692) | - |
| Total Other | (344,935) | (48,563) |
| Total Resources that Fund Expenses Recognized in Prior Periods | $ (344,935) | $ (54,421) |
| Components of Net Cost of Operations Requiring or Generating Resources in Future Periods: | | |
| Increase in Accrued Annual and Compensatory Leave Liabilities | $ 34,572 | $ 27,848 |
| (Increase)/Decrease in Exchange Revenue Receivable from the Public | 3,878 | 7,722 |
| Other | | |
| Increase in Actuarial FECA Liabilities | 97,889 | 14,832 |
| Increase in Accrued FECA Liabilities | 5,922 | 15,026 |
| Increase in Other Accrued Liabilities | 655 | 205 |
| Increase in Deferred Revenue | 29,713 | 35,388 |
| Increase in Contingent Liabilities | 182,328 | 50,414 |
| Increase in Capital Lease Liabilities | - | 207 |
| Increase in RECA Liabilities | - | 588,617 |
| Total Other | $ 316,507 | $ 704,689 |
| Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods | $ 354,957 | $ 740,259 |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 19. Imputed Financing Sources

**Imputed Inter-Departmental Financing Sources** are the unreimbursed (i.e. non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the Department from a providing entity that is not part of the Department of Justice. Imputed Inter-Departmental financing sources currently recognized by the Department include the actual cost of future benefits for 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.

Fiscal Years Ended September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Imputed Inter-Departmental Financing Sources | | |
| U. S. Treasury Judgment Fund | $ 22,875 | $ 31,355 |
| Health Insurance | 438,066 | 390,523 |
| Life Insurance | 1,530 | 1,420 |
| Pension | 177,655 | 239,136 |
| Total Imputed Inter-Departmental Financing Sources | $ 640,126 | $ 662,434 |

**Imputed Intra-Departmental Financing Sources** as defined in SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts," are the unreimbursed portion of the full costs of goods and services received by a Departmental component from another component in the Department. The FPI imputed $21,139 of unreimbursed costs for BOP warehouse space used in the production of goods by the FPI and for managerial and operational services BOP provided to FPI. These imputed costs have been eliminated from the consolidated financial statements.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 20. Restatements and Reclassifications

**Restatements** to the FY 2004 financial statements presented below represent the corrections made by OJP to its grant accrual methodology (which affected advances, accounts payable, and related unliquidated obligations), as well as corrections for errors identified during the reconciliation of financial statement line items to the respective subsidiary ledgers.

**Reclassifications** to the FY 2004 Departmental financial statements were made by AFF/SADF, OBD, OJP, DEA and ATF to conform to federal accounting standards and FY 2005 Departmental financial statement presentation requirements. These reclassifications had no effect on total assets, liabilities, net position, the change in net position or budgetary resources as previously reported.

| | 2004 As Reported | 2004 Restatement | 2004 Reclassification | 2004 As Adjusted |
|---|---|---|---|---|
| Consolidated Balance Sheet: | | | | |
| Assets: | | | | |
| Advances and Prepayments - Public | $ 560,616 | $ 25,780 | $ - | $ 586,396 |
| Liabilities: | | | | |
| Accounts Payable - Intragovernmental | 206,208 | - | (6,703) | 199,505 |
| Accounts Payable - Public | 2,048,217 | (414,460) | 6,703 | 1,640,460 |
| Seized Cash and Monetary Instruments - Public | 622,449 | - | 31,433 | 653,882 |
| Other Liabilities - Public | 561,641 | - | (31,433) | 530,208 |
| Net Position: | | | | |
| Unexpended Appropriations | 11,038,932 | 440,240 | - | 11,479,172 |
| Consolidated Statement of Net Cost: | | | | |
| Gross Cost - Intragovernmental (Goal 2) | $ 2,662,567 | $ - | $ (6,703) | $ 2,655,864 |
| Gross Cost - Public (Goal 2) | 12,428,330 | - | 6,703 | 12,435,033 |
| Gross Cost - Public (Goal 3) | 5,297,478 | (159,895) | - | 5,137,583 |
| Consolidated Statement of Changes in Net Position: | | | | |
| Unexpended Appropriations: | | | | |
| Beginning Balances, As Adjusted | $ 13,009,045 | $ 280,345 | $ - | $ 13,289,390 |
| Appropriations Used | (28,176,699) | 159,895 | - | (28,016,804) |
| Cumulative Results of Operations: | | | | |
| Appropriations Used | 28,176,699 | (159,895) | - | 28,016,804 |
| Net Cost of Operations | (29,679,080) | 159,895 | - | (29,519,185) |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 20. Restatements and Reclassifications - Continued

| | 2004 As Reported | 2004 Restatement | 2004 Reclassification | 2004 As Adjusted |
|---|---|---|---|---|
| Combined Statement of Budgetary Resources: | | | | |
| Budgetary Resources: | | | | |
| Recovery of Prior Year Obligations | $ 657,227 | $ 13,071 | $ - | $ 670,298 |
| Status of Budgetary Resources: | | | | |
| Obligations Incurred - Direct | 29,165,501 | 13,808 | - | 29,179,309 |
| Unobligated Balance - Apportioned | 2,086,601 | (13,807) | - | 2,072,794 |
| Unobligated Balance Not Available | 507,554 | 13,070 | - | 520,624 |
| Relationship of Obligations to Outlays: | | | | |
| Undelivered Orders | 10,229,070 | 415,198 | - | 10,644,268 |
| Accounts Payable | 3,285,543 | (414,460) | - | 2,871,083 |
| Consolidated Statement of Financing: | | | | |
| Obligations Incurred | $ 34,710,470 | $ 13,808 | $ - | $ 34,724,278 |
| Less: Spending Authority from Offsetting Collections and Recoveries | 6,311,859 | 13,071 | - | 6,324,930 |
| Change in Budgetary Resources Obligated for Goods, Services, and Benefits Order but not Yet Provided | 1,117,682 | 340,875 | (280,345) | 1,178,212 |
| Resources that Fund Expenses Recognized in Prior Periods | (54,419) | - | (2) | (54,421) |
| Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations | (77,277) | - | 3,149 | (74,128) |
| Resources that Finance the Acquisition of Assets | (806,348) | - | (14,637) | (820,985) |
| Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations | (482,490) | (501,507) | 291,835 | (692,162) |
| Net Cost of Operations | 29,679,080 | (159,895) | - | 29,519,185 |
| Statement of Custodial Activity: | | | | |
| Fines, Penalties and Restitution Payments - Civil | $ 456,910 | $ - | $ 110,020 | $ 566,930 |
| Fines, Penalties and Restitution Payments - Criminal | 232,468 | - | (20) | 232,448 |
| Transferred to the Public | (317,308) | - | (110,000) | (427,308) |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 21. 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, 2005: | | | | |
| National Defense | 050 | $ 77,982 | $ - | $ 77,982 |
| International Affairs | 150 | 1,186 | - | 1,186 |
| Administration of Justice | 750 | 26,927,826 | (2,722,816) | 24,205,010 |
| Total | | $ 27,006,994 | $ (2,722,816) | $ 24,284,178 |
| Fiscal Year Ended September 30, 2004: (Restated, Note 20) | | | | |
| National Defense | 050 | $ 3,207 | $ - | $ 3,207 |
| International Affairs | 150 | 1,147 | - | 1,147 |
| Administration of Justice | 750 | 32,145,155 | (2,630,324) | 29,514,831 |
| Total | | $ 32,149,509 | $ (2,630,324) | $ 29,519,185 |

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

| Budget Functional Classification | | Gross Costs | Earned Revenue | Net Costs |
|---|---|---|---|---|
| Fiscal Year Ended September 30, 2005: | | | | |
| National Defense | 050 | $ 252 | $ - | $ 252 |
| International Affairs | 150 | 544 | - | 544 |
| Administration of Justice | 750 | 5,608,572 | (1,890,316) | 3,718,256 |
| Total | | $ 5,609,368 | $ (1,890,316) | $ 3,719,052 |
| Fiscal Year Ended September 30, 2004: | | | | |
| International Affairs | 150 | $ 496 | $ - | $ 496 |
| Administration of Justice | 750 | 5,436,795 | (1,842,434) | 3,594,361 |
| Total | | $ 5,437,291 | $ (1,842,434) | $ 3,594,857 |

On the Consolidated Statements of Net Cost, costs classified as “Intragovernmental” represent the cost of goods or services obtained from federal entities. Costs classified as “With the Public” represent the cost of goods or services obtained from non-federal entities.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 22. Net Custodial Revenue Activity

Custodial revenue activity represents those collections of non-exchange revenue on behalf of other recipient entities. These collections are not recorded as revenue by the Department but as activity on the Statement of Custodial Activity. The custodial liabilities presented on the Balance Sheet and Note 15 represents funds held by the Department that have yet to be disbursed to the appropriate Federal agency or individual.

The 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.

The OBDs collect civil fines, penalties, and restitution payments that are incidental to its mission. Through September 30, 2005, the OBDs collected a total settlement fund of $560,000, of which French bank Credit Lyonnais and French company Artemis paid $375,000 and $185,000, respectively. $110,000 of the settlement fund was disbursed during FY 2004 for compensation of benefits lost and $450,000 was held in reserve pending the outcome of the lawsuits. By court order, the OBDs were given the investment authority and the settlement funds must be invested. The OBDs invested these funds with the Department of Treasury, Bureau of the Public Debt.

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

As an agent of the Federal Government and as authorized by 26 U.S.C. § 6301, ATF collects fees from firearms and explosives industries, as well as import, permit and license fees. In addition, Special Occupational Taxes are collected from certain firearms businesses. As ATF is unable to use these collections in its operations, ATF also has the authority to transfer these collections to the General Fund.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

**Note 23. 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. Following are the Department's two permanent indefinite appropriations.

- 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**
**(Dollars in Thousands, Except as Noted)**

### Note 24. Statement of Budgetary Resources vs Budget of the United States Government

The reconciliation as of September 30, 2004, rounded to the nearest million for comparison purposes, is presented below. The reconciliation as of September 30, 2005 is not presented, because the submission of the FY 2007 Budget of the United States, which presents the execution of the FY 2005 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 2006.

Fiscal Year Ended September 30, 2004:

| | Budgetary Resources | Obligations Incurred | Net Outlays |
|---|---|---|---|
| Statement of Budgetary Resources (SBR) (Restated, Note 20) | $ 37,428,000 | $ 34,724,000 | $ 29,251,000 |
| Funds not Reported in Budget of the U.S.: | | | |
| AFF/SADF Forfeiture Activity | (44,000) | (29,000) | (4,000) |
| Recovery of Prior Year Obligations and Upward/ Downward Adjustments: ATF & USMS | (56,000) | (32,000) | - |
| USMS Court Security Funds | (286,000) | (276,000) | (276,000) |
| Expired Funds: OBD, DEA, FBI & BOP | (327,000) | (119,000) | - |
| OJP SBR Restatement | (13,000) | (14,000) | - |
| Other | (22,000) | (46,000) | (16,000) |
| Budget of the United States | $ 36,680,000 | $ 34,208,000 | $ 28,955,000 |

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 reconciliation 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.

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 25. Apportionment Categories of Obligations Incurred

| | Direct Obligations | Reimbursable Obligations | Total Obligations Incurred |
|---|---|---|---|
| Fiscal Year Ended September 30, 2005: | | | |
| Obligations Apportioned Under: | | | |
| Category A | $ 21,998,254 | $ 5,360,283 | $ 27,358,537 |
| Category B | 1,268,684 | 28,158 | 1,296,842 |
| Total | $ 23,266,938 | $ 5,388,441 | $ 28,655,379 |
| | | | |
| Fiscal Year Ended September 30, 2004: (Restated, Note 20) | | | |
| Obligations Apportioned Under: | | | |
| Category A | $ 27,814,915 | $ 5,523,700 | $ 33,338,615 |
| Category B | 1,364,394 | 21,269 | 1,385,663 |
| Total | $ 29,179,309 | $ 5,544,969 | $ 34,724,278 |

Per OMB Circular A-11, 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.

**(Dollars in Thousands, Except as Noted)**

**Note 26. 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. Nonexchange revenue results from assessed criminal fines collected by the U.S. Courts, Army, and Debt Management. FYs 2005 and 2004 condensed financial information about assets, liabilities, net position, gross cost, nonexchange revenues and net cost of operations is presented below:

As of and for the Fiscal Years Ended September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Assets: | | |
| Fund Balance with U.S. Treasury | $ 2,286,106 | $ 2,223,002 |
| Other Assets | 13,806 | 4,426 |
| Liabilities | 45,109 | 75,963 |
| Net Position | 2,254,803 | 2,151,465 |
| Gross Cost of Operations | 564,932 | 566,139 |
| Nonexchange Revenues | 668,269 | 832,222 |

**Note 27. Allocation Transfers of Appropriation**

During FYs 2005 and 2004, 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 transferred amounts 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 in AFF/SADF, without fiscal year limitation, for authorized purposes of the Department of Justice. During FYs 2005 and 2004 transfers of $3,738 and $94,050 were made, respectively. In addition, during FYs 2005 and 2004, AFF transferred out forfeited property for official use of $6,317 and $5,855, respectively, to agencies that participated in the forfeiture.

The Department also allocated funds from BOP to the Public Health Service (PHS). PHS 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 transferred amounts are not material to PHS and are therefore included as part of these financial statements.

## Note 28. 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 was appointed by the Attorney General to administer 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. The Special Master and his staff adjudicated all claims. Final administrative actions concluded in FY 2005 with the sunset of the Fund.

The Act established an indefinite appropriation for making payments on approved claims. The Department of Justice received appropriations of $25,000 and $6,366,000 for FYs 2005 and 2004, respectively. Benefit payments of $12,398 and $6,308,672 were disbursed in FYs 2005 and 2004, 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, 2005 and 2004, $12,665 and $161,230 respectively were returned to the Treasury and recorded as Authority Withdrawn on the following page. The Department will receive an FY 2006 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
## (Dollars in Thousands, Except as Noted)

**Note 28. Government-Acknowledged and Government-Related Events – Continued**

As of and for the Fiscal Years Ended September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Fund Balance with U.S. Treasury - Beginning of the FY | $ 1,208 | $ 105,110 |
| Appropriated Funds Received | 25,000 | 6,366,000 |
| Total Funding | 26,208 | 6,471,110 |
| Less: Benefit Payments Disbursed | 12,398 | 6,308,672 |
| Less: Authority Withdrawn | 12,665 | 161,230 |
| Fund Balance with U.S. Treasury - End of the FY | $ 1,145 | $ 1,208 |
| Accounts Payable | $ 1,145 | $ 1,208 |

**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
## (Dollars in Thousands, Except as Noted)

**Note 28. 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 was effective 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: if claimants can demonstrate that they contracted a compensable disease after working or residing in a designated location for a specified period of time, they qualify for compensation.

The enactment of two pieces of legislation changed the funding sources for RECA claimants. The National Defense Authorization Act for FY 2005 requires that RECA Section 5 claimants (uranium miners, millers, and ore transporters) be paid out of the Department of Labor’s (Labor) Energy Employees Occupational Illness Compensation Fund. The RECA Section 5 liability of $316,993, as of September 30, 2004, was transferred to Labor during FY 2005. The Consolidated Appropriations Act, 2005, contains language that makes funding for the RECA Trust Fund mandatory and indefinite beginning in FY 2006. The Fund will exclusively pay RECA Section 4 claimants (downwinders and on-site participants) beginning in FY 2005.

The OBDs recognized liabilities of $258,925 and $588,617 for estimated future benefits payable by the Department at September 30, 2005 and 2004, respectively, to eligible individuals under the Act through FY 2022. The September 30, 2005 and 2004 estimated liabilities are 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 OMB.

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
## (Dollars in Thousands, Except as Noted)

### Note 28. Government-Acknowledged and Government-Related Events – Continued

As of and for the Fiscal Years Ended September 30, 2005 and 2004:

| | 2005 | 2004 |
|---|---|---|
| Fund Balance with U.S. Treasury - Beginning of the FY | $ 11,447 | $ 51,551 |
| Appropriated Funds Received | 92,429 | 107,000 |
| Total Funding | 103,876 | 158,551 |
| Less: Benefit Payments Disbursed | 95,606 | 128,235 |
| Prior Year Funds Returned to Treasury | - | 18,869 |
| Fund Balance with U.S. Treasury - End of the FY | $ 8,270 | $ 11,447 |
| Accounts Payable | $ 3,493 | $ 8,668 |

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

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 29. Transfers

For the fiscal years ended September 30, 2005 and 2004, line item detail for transfers presented on the Statement of Changes in Net Position (SCNP) and the Statement Budgetary Resources (SBR) are displayed below and on the following pages.

The WCF Unobligated Balance Transfers (UBT) represent transfers of appropriated unobligated funds 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:

Fiscal Years Ended September 30, 2005 and 2004:

| | Unobligated Balance | | Obligated Balance | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| The Judiciary | $ 262,474 | $ 270,219 | $ - | $ - |
| Executive Office of the President | 24,809 | 21,598 | - | - |
| Environmental Protection Agency | - | 35 | - | - |
| Department of Homeland Security | - | 5,441 | - | - |
| Agency for International Development | (139) | - | - | - |
| Department of Health and Human Services | (1,758) | - | | |
| Independent Agencies | 39,422 | 59,730 | - | - |
| Total Federal Agency | 324,808 | 357,023 | - | - |
| Unapplied | 1,130 | 1,258 | - | - |
| Total Transfers on SBR | $ 325,938 | $ 358,281 | $ - | $ - |

## Notes to the Principal Financial Statements
## (Dollars in Thousands, Except as Noted)

### Note 29. Transfers – Continued

Transfers-In/(Out) on SCNP:

Fiscal Years Ended September 30, 2005 and 2004:

| | Cumulative Results of Operations | | Unexpended Appropriations | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Budgetary Financing Sources (BFS): | | | | |
| The Judiciary | $ - | $ - | $ 262,474 | $ 270,219 |
| Executive Office of the President | - | - | 24,809 | 21,598 |
| Environmental Protection Agency | - | - | - | 35 |
| Department of Homeland Security | - | - | - | 5,441 |
| Agency for International Development | - | - | (139) | |
| Department of Health and Human Services | - | - | (1,758) | - |
| Independent Agencies | - | - | 39,422 | 59,730 |
| Total Federal Agency | - | - | 324,808 | 357,023 |
| WCF UBT | 95,957 | 277,365 | (95,957) | (277,365) |
| Unapplied | 2,188 | - | 1,277 | (931) |
| Total BFS Transfers | 98,145 | 277,365 | 230,128 | 78,727 |
| Other Financing Sources (OFS): | | | | |
| Government Printing Office | - | (68) | - | - |
| Department of Agriculture | 440 | 1,611 | - | - |
| Department of the Interior | 1 | 3 | - | - |
| Department of Labor | 316,993 | 874 | - | - |
| U. S. Postal Service | (47) | (24) | - | - |
| Department of State | (56) | (91) | - | - |
| Department of the Treasury | (15,326) | (16,167) | - | - |
| Central Intelligence Agency | (759) | - | - | - |
| Department of the Army | (21,467) | - | - | - |
| Department of Veteran Affairs | 19 | 30 | - | - |
| General Services Administration | 320 | 66 | - | - |
| Department of the Air Force | 12 | - | - | - |
| Department of Homeland Security | 242 | (183) | - | - |
| National Aeronautics and Space Administration | (25) | (50) | - | - |
| Department of Housing and Urban Development | - | 2 | - | - |
| U.S. Army Corps of Engineers | 2 | - | - | - |
| Office of the Secretary of Defense - Defense Agencies | 434 | 421 | - | - |
| Treasury General Fund | (11,468) | (7,161) | - | - |
| Total Federal Agency | 269,315 | (20,737) | - | - |
| Unapplied | (1,445) | (214) | - | - |
| Total OFS Transfers | 267,870 | (20,951) | - | - |
| Total Transfers on SCNP | $ 366,015 | $ 256,414 | $ 230,128 | $ 78,727 |

# Notes to the Principal Financial Statements
# (Dollars in Thousands, Except as Noted)

**Note 30. OMB Circular A-136 Balance Sheet Presentation**

**U.S. DEPARTMENT OF JUSTICE**
**Consolidated Balance Sheets**
**As of September 30, 2005 and 2004**

| Dollars in Thousands | 2005 | 2004 |
|---|---|---|
| | | (Restated, Note 20) |
| **ASSETS** | | |
| Intragovernmental | | |
| Fund Balance with U.S. Treasury | $ 15,484,129 | $ 16,297,932 |
| Investments, Net | 2,140,967 | 1,506,623 |
| Accounts Receivable, Net | 331,297 | 330,277 |
| Other Assets | 143,690 | 102,144 |
| Total Intragovernmental | 18,100,083 | 18,236,976 |
| Cash and Other Monetary Assets | 154,707 | 107,554 |
| Accounts Receivable, Net | 100,429 | 95,073 |
| Inventory and Related Property, Net | 157,956 | 197,481 |
| General Property, Plant and Equipment, Net | 8,027,490 | 7,861,362 |
| Other Assets | 527,331 | 655,622 |
| **Total Assets** | **$ 27,067,996** | **$ 27,154,068** |
| **LIABILITIES** | | |
| Intragovernmental | | |
| Accounts Payable | $ 291,651 | $ 199,505 |
| Debt | 20,000 | 20,000 |
| Other Liabilities | 1,155,650 | 827,515 |
| Total Intragovernmental | 1,467,301 | 1,047,020 |
| Accounts Payable | 1,874,450 | 1,640,460 |
| Contingent Liabilities | 282,270 | 106,881 |
| Other Liabilities | 3,737,024 | 3,728,265 |
| **Total Liabilities** | **$ 7,361,045** | **$ 6,522,626** |
| **NET POSITION** | | |
| Unexpended Appropriations | $ 10,188,678 | $ 11,479,172 |
| Cumulative Results of Operations | 9,518,273 | 9,152,270 |
| **Total Net Position** | **$ 19,706,951** | **$ 20,631,442** |
| **Total Liabilities and Net Position** | **$ 27,067,996** | **$ 27,154,068** |

This page intentionally left blank.