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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department of Justice (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 U.S. 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)
- 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)

Beginning fiscal year (FY) 2007, the data and transactions of the Working Capital Fund (WCF), which was previously reported as a separate entity, are included in the comparative financial statements of the OBDs.

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

B. Basis of Presentation

These financial statements have been prepared from the books and records of the Department in accordance with United States generally accepted accounting principles 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. To ensure that the Department financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These included Forfeited Property, Net, Advances and Prepayments, Accrued Federal Employees’ Compensation Act Liabilities, Custodial Liabilities, Actuarial Federal Employees’ Compensation Act Liabilities, Accrued Payroll and Benefits, Accrued Annual and Compensatory Leave Liabilities, Deferred Revenue, Seized Cash and Monetary Instruments, Contingent Liabilities, Capital Lease Liabilities, and Radiation Exposure Compensation Act Liabilities.

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, OBDs, USMS, OJP, DEA, FBI, ATF, BOP, and FPI. All significant proprietary intra-departmental transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources and Statements of Custodial Activity are combined statements for FYs 2007 and 2006, and as such, intra-departmental transactions have not been eliminated.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints. As a result, certain line items on the proprietary financial statements may not equal similar line items on the budgetary financial statements.

Custodial activity reported on the Combined 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. Accrual adjustments are made related to collections of fees and licenses.

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

D. Basis of Accounting (continued)

The financial statements should be read with the realization that they are for a component of the U.S. 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. Non-Entity Assets

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

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 market-based Treasury 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. The market value of the investments is the current market value at the end of the reporting period. It is calculated by using the "End of Day" price listed in The FedInvest Price File which can be found on the Bureau of Public Debt website (http://www.fedinvest.gov/).

The Assets Forfeiture Fund, the U.S. Trustee System Fund and the Federal Prison Commissary Fund are three earmarked funds that invest in Treasury securities. The Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by the Treasury for general Government purposes. When these earmarked funds redeem their Treasury securities to make expenditures, the Treasury will finance the expenditures in the same manner that it finances all other expenditures. Treasury securities held by an earmarked fund are an asset of the fund and a liability of the Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.

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

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.

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.

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

K. Advances and Prepayments

Advances and prepayments, classified as assets on the Consolidated Balance Sheets, 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.

M. Liabilities

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 11.

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. The September 30, 2007 and 2006 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 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 OMB.

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.

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

N. 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 both "probable" and "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.

O. 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.

P. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, the Department 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.

Q. Retirement Plan

With few exceptions, employees hired before January 1, 1984 are covered by the Civil Service Retirement System (CSRS) and employees hired on or 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% of employees' gross pay for regular and 23.8% 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 to which the Department is required to contribute an additional 1% of gross pay 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 20, "Imputed Financing from Costs Absorbed by Others," for additional details.

These notes are an integral part of the financial statements.

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

R. 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 are discounted to present value. The resulting federal government liability is then distributed by agency. The Department portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the Department employees. The Department liability is further allocated to component reporting entities on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total Department payments made over the same period.

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the 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.

S. Intragovernmental Activity

These transactions and/or balances result from business activities conducted between two different federal government entities.

T. 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.

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

T. Revenues and Other Financing Sources (continued)

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 Treasury.

The Department's deferred revenue includes fees received for processing various applications and licenses with DEA for which the process was not completed at the end of fiscal year or 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.

U. Earmarked Funds

SFFAS No. 27, "Identifying and Reporting Earmarked Funds," defines 'Earmarked Funds' as being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues. The three required criteria for an Earmarked Fund are:

1. A statute committing the federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes;
2. Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
3. A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the Earmarked Fund from the Government's general revenues.

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

U. Earmarked Funds (continued)

The following funds meet the definition of an Earmarked Fund: Assets Forfeiture Fund, U.S. Trustee System Fund, Antitrust Division, Crime Victims Fund, Diversion Control Fee Account and Federal Prison Commissary Fund.

V. 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.

W. 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.

X. Reclassifications

The FY 2006 financial statements were reclassified to conform to the FY 2007 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

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

Note 2. Non-Entity Assets

As of September 30, 2007 and 2006

	2007	2006
Intragovernmental		
Fund Balance with U.S. Treasury	$ 1,186,479	$ 797,293
Investments, Net	1,285,320	817,928
Accounts Receivable, Net	19	-
Total Intragovernmental	2,471,818	1,615,221
With the Public		
Cash and Monetary Assets	99,995	94,434
Accounts Receivable, Net	14,359	12,235
Total With the Public	114,354	106,669
Total Non-Entity Assets	2,586,172	1,721,890
Total Entity Assets	26,871,084	25,125,299
Total Assets	$ 29,457,256	$ 26,847,189

These notes are an integral part of the financial statements.

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

Note 3. 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, 2007 and 2006

	2007	2006
Fund Balances		
Trust Funds	$ 143,233	$ 203,731
Special Funds	3,161,651	2,814,387
Revolving Funds	510,492	536,612
General Funds	12,634,571	11,368,285
Other Fund Types	65,216	64,436
Total Fund Balances with U.S. Treasury	$ 16,515,163	$ 14,987,451
Status of Fund Balances		
Unobligated Balance - Available	$ 3,196,729	$ 2,335,319
Unobligated Balance - Unavailable	738,663	942,527
Obligated Balance not yet Disbursed	11,250,487	10,482,468
Other Funds (With)/Without Budgetary Resources	1,329,284	1,227,137
Total Status of Fund Balances	$ 16,515,163	$ 14,987,451

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 Financial Statements
(Dollars in Thousands, Except as Noted)

Note 4. Cash and Monetary Assets

As of September 30, 2007 and 2006	2007	2006
Cash		
Undeposited Collections	$ 17,154	$ 3,876
Imprest Funds	9,647	9,433
Seized Cash Deposited	42,791	51,177
Other Cash	3,222	2,776
Total Cash	72,814	67,262
Monetary Assets		
Seized Monetary Instruments	54,720	41,234
Other Monetary Assets	2,778	1,180
Total Monetary Assets	57,498	42,414
Total Cash and Monetary Assets	$ 130,312	$ 109,676

Note 5. Investments, Net

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2007				
Intragovernmental				
Non-Marketable Securities				
Market Based	$ 3,205,153	$ (14,326)	$ 3,190,827	$ 3,192,268
Interest Receivable	1,648			1,648
Total	$ 3,206,801	$ (14,326)	$ 3,190,827	$ 3,193,916
As of September 30, 2006				
Intragovernmental				
Non-Marketable Securities				
Market Based	$ 2,096,281	$ (14,015)	$ 2,082,266	$ 2,081,618
Interest Receivable	2,193			2,193
Total	$ 2,098,474	$ (14,015)	$ 2,082,266	$ 2,083,811

These notes are an integral part of the financial statements.

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

Note 6. Accounts Receivable, Net

As of September 30, 2007 and 2006

	2007	2006
Intragovernmental		
Accounts Receivable	$ 338,235	$ 378,207
Allowance for Uncollectible Accounts	(1,164)	(1,847)
Total Intragovernmental	337,071	376,360
With the Public		
Accounts Receivable	110,393	118,936
Allowance for Uncollectible Accounts	(23,950)	(25,099)
Total With the Public	86,443	93,837
Total Accounts Receivable, Net	$ 423,514	$ 470,197

The accounts receivable with the public primarily consists of OBDs U.S. Trustee Chapter 11 quarterly fees, FBI Integrated Automated Fingerprint Identification System fees, court mandated restitution, and refunds due from the public.

Note 7. Inventory and Related Property, Net

As of September 30, 2007 and 2006

	2007	2006
Inventory		
Raw Materials	$ 71,363	$ 68,486
Work in Process	51,397	45,752
Finished Goods	47,191	56,982
Inventory Purchased for Resale	16,680	16,379
Excess, Obsolete, and Unserviceable	23,214	29,958
Inventory Allowance	(11,942)	(13,090)
Operating Materials and Supplies		
Held for Current Use	12,863	11,910
Total Inventory and Related Property, Net	$ 210,766	$ 216,377

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

Note 8. 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 2008 is $400 million.

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 2007 and 2006 include property status and valuation changes received after, but properly credited to FYs 2006 and 2005, respectively. The valuation changes include updates and corrections to an asset's value recorded in a prior year.

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2007

Forfeited Property Category		Beginning Balance	Adjust-ments	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial	Number	509	24	285	757	61	-	61
Instruments	Value	$ 11,346	$ (241)	$360,436	$ 369,418	$ 2,123	$ 14	$ 2,109
Real	Number	340	2	405	336	411	-	411
Property	Value	$ 86,527	$ (212)	$ 85,988	$ 81,594	$ 90,709	$ 3,327	$ 87,382
Personal	Number	3,013	27	5,027	5,097	2,970	-	2,970
Property	Value	$ 37,960	$ 312	$ 58,235	$ 60,906	$ 35,601	$ 713	$ 34,888
Non-Valued	Number	39,777	(3,848)	22,140	19,856	38,213	-	38,213
Total	Number	43,639	(3,795)	27,857	26,046	41,655	-	41,655
	Value	$135,833	$ (141)	$504,659	$ 511,918	$128,433	$ 4,054	$ 124,379

For the Fiscal Year Ended September 30, 2006

Forfeited Property Category		Beginning Balance	Adjust-ments	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial	Number	211	22	576	300	509	-	509
Instruments	Value	$ 2,395	$ 387	$ 45,966	$ 37,402	11,346	$ 12	$ 11,334
Real	Number	329	5	399	393	340	-	340
Property	Value	$ 58,615	$ 42	$110,538	$ 82,668	86,527	$ 1,662	$ 84,865
Personal	Number	2,902	(491)	5,017	4,415	3,013	-	3,013
Property	Value	$ 31,962	$ (2,280)	$ 65,459	$ 57,181	37,960	$ 1,750	$ 36,210
Non-Valued	Number	26,288	(3,028)	31,778	15,261	39,777	-	39,777
Total	Number	29,730	(3,492)	37,770	20,369	43,639	-	43,639
	Value	$ 92,972	$ (1,851)	$221,963	$ 177,251	$135,833	$ 3,424	$ 132,409

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

Note 8. Forfeited and Seized Property (continued)

Method of Disposition of Forfeited Property:

During FYs 2007 and 2006, $482,158 and $106,914 of forfeited property were sold, $22 and $1,230 were destroyed or donated, $13,666 and $33,431 were returned to owners, and $16,072 and $35,676 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.

Analysis of Change in Seized Property:

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency should be disclosed by the seizing agency. All property seized for forfeiture, including property with evidentiary value, will be reported by the AFF/SADF. The Department has established a reporting threshold of $1,000 or more for Personal Property seized for evidentiary purposes.

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.

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

Note 8. Forfeited and Seized Property (continued)

The adjustments for FYs 2007 and 2006 include property status and valuation changes received after, but properly credited to FYs 2006 and 2005, respectively. The valuation changes include updates and corrections to an asset's value recorded in a prior year.

For the Fiscal Year Ended September 30, 2007

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Forfeiture								
Seized Cash Deposited and Seized Monetary Instruments	Value	$ 797,201	$ 1,305	$1,474,190	$ 1,006,788	$ 1,265,908	$ 73,882	$ 1,192,026
Financial Instruments	Number	258	-	150	104	304	-	304
	Value	$ 40,881	$ -	$ 430,791	$ 356,426	$ 115,246	$ 3	$ 115,243
Real Property	Number	302	3	145	247	203	-	203
	Value	$ 90,329	$ (7,218)	$ 59,602	$ 65,671	$ 77,042	$ 17,387	$ 59,655
Personal Property	Number	5,875	(91)	7,445	6,655	6,574	-	6,574
	Value	$ 105,277	$ 100	$ 149,790	$ 91,543	$ 163,624	$ 16,285	$ 147,339
Non-Valued	Number	47,388	638	28,268	17,304	58,990	-	58,990
Seized for Evidence								
Seized Monetary Instruments	Value	$ 33,634	$ (4,339)	$ 27,608	$ 23,598	$ 33,305	$ -	$ 33,305
Personal Property	Number	55,486	41	19,544	16,878	58,193	-	58,193
	Value	$ 33,835	$(20,691)	$ 23,545	$ 10,655	$ 26,034	$ -	$ 26,034

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2006

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Forfeiture								
Seized Cash Deposited and Seized Monetary Instruments	Value	$ 711,192	$ 1,336	$ 726,866	$ 642,193	$ 797,201	$ 48,890	$ 748,311
Financial Instruments	Number	234	(43)	170	103	258	-	258
	Value	$ 24,459	$ (2,977)	$ 22,285	$ 2,886	$ 40,881	$ 2,007	$ 38,874
Real Property	Number	294	4	347	343	302	-	302
	Value	$ 81,211	$ 225	$ 107,623	$ 98,730	$ 90,329	$ 21,382	$ 68,947
Personal Property	Number	6,144	(314)	6,300	6,255	5,875	-	5,875
	Value	$ 123,419	$ (5,532)	$ 86,804	$ 99,414	$ 105,277	$ 12,751	$ 92,526
Non-Valued	Number	48,702	1,690	30,458	33,462	47,388	-	47,388
Seized for Evidence								
Seized Monetary Instruments	Value	$ 49,024	$(20,263)	$ 35,715	$ 30,842	$ 33,634	$ -	$ 33,634
Personal Property	Number	122,154	(457,052)	396,773	6,389	55,486	-	55,486
	Value	$ 25,252	$ 18,308	$ 12,491	$ 22,216	$ 33,835	$ -	$ 33,835

Method of Disposition of Seized Property:

During FYs 2007 and 2006, $1,424,097 and $764,526 of seized property were forfeited, $108,312 and $99,494 were returned to parties with a bonafide interest, and $22,272 and $32,261 were disposed of by other means, respectively. Other means of disposition include seized property that is sold, converted to cash, or destroyed.

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

Note 8. 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 reports the total amount of seized drugs by quantity only, as illegal drugs have no value and are destroyed upon resolution of legal proceedings.

Analyzed drug evidence represents actual laboratory tested classification and weight in kilograms (KG). Since enforcing the controlled substances laws and regulations of the United States is a primary mission of the DEA, the DEA reports all analyzed drug evidence regardless of seizure weight. However, the enforcement of these laws and regulations is incidental to the missions of the FBI and ATF and therefore they only report those individual seizures exceeding 1 kilogram in weight. The following table represents analyzed drug evidence activity:

For the Fiscal Year Ended September 30, 2007

Analyzed Drug Evidence	Beginning Balance	Adjustments	Analyzed	Disposed	Ending Balance
(Amounts in KG)					
Cocaine	469,236	(2,327)	110,465	106,795	470,579
Heroin	3,232	40	678	605	3,345
Marijuana	21,390	757	6,200	5,897	22,450
Methamphetamine	8,500	(1,479)	1,711	1,733	6,999
Other	52,273	189	8,783	10,363	50,882
Total	554,631	(2,820)	127,837	125,393	554,255

For the Fiscal Year Ended September 30, 2006

Analyzed Drug Evidence	Beginning Balance	Adjustments	Analyzed	Disposed	Ending Balance
(Amounts in KG)					
Cocaine	451,406	(5,404)	97,482	74,248	469,236
Heroin	3,667	(630)	940	745	3,232
Marijuana	27,256	(7,058)	6,282	5,090	21,390
Methamphetamine	9,451	(254)	1,693	2,390	8,500
Other	50,478	(7,101)	17,028	8,132	52,273
Total	542,258	(20,447)	123,425	90,605	554,631

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

Note 8. Forfeited and Seized Property (continued)

Bulk drug evidence is comprised of controlled substances housed by the DEA in secured storage facilities of which only a sample is taken for laboratory analysis. The actual bulk drug weight may vary from seizure weight due to changes in moisture content over time. The following table presents the bulk drug evidence activity.

For the Fiscal Years Ended September 30, 2007 and 2006
(Amounts in KG)

Fiscal Year	Beginning Balance	Adjustments	Seized	Destroyed	Ending Balance
2007	141,284	(252)	962,065	906,756	196,341
2006	147,422	(1,310)	690,315	695,143	141,284

Unanalyzed drug evidence is qualitatively different from analyzed and bulk 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. For these reasons, unanalyzed drug evidence is not reported by the Department.

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

Note 9. General Property, Plant and Equipment, Net

Items are generally depreciated using the straight-line method.

As of September 30, 2007

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	$ 190,146	$ -	$ 190,146	N/A
Construction in Progress	512,249	-	512,249	N/A
Buildings, Improvements and Renovations	8,446,178	(2,805,711)	5,640,467	24-50 yrs
Other Structures and Facilities	697,372	(289,667)	407,705	10-50 yrs
Aircraft	237,119	(78,994)	158,125	7-25 yrs
Boats	3,037	(1,839)	1,198	18 yrs
Vehicles	422,155	(258,955)	163,200	2-25 yrs
Equipment	1,293,909	(821,214)	472,695	2-25 yrs
Assets Under Capital Lease	107,580	(50,609)	56,971	5-20 yrs
Leasehold Improvements	683,943	(367,332)	316,611	2-20 yrs
Internal Use Software	200,875	(84,556)	116,319	5-7 yrs
Internal Use Software in Development	198,391	-	198,391	N/A
Total	$ 12,992,954	$ (4,758,877)	$ 8,234,077	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2007	$ 101,051	$ 622,153	$ 723,204

These notes are an integral part of the financial statements.

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

Note 9. General Property, Plant and Equipment, Net (continued)

As of September 30, 2006

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Service Life
Land and Land Rights	$ 202,692	$ -	$ 202,692	N/A
Construction in Progress	605,054	-	605,054	N/A
Buildings, Improvements and Renovations	8,170,995	(2,528,524)	5,642,471	24-50 yrs
Other Structures and Facilities	658,427	(257,769)	400,658	10-50 yrs
Aircraft	231,598	(71,507)	160,091	7-25 yrs
Boats	3,005	(1,671)	1,334	18 yrs
Vehicles	383,706	(234,308)	149,398	2-25 yrs
Equipment	1,212,499	(744,973)	467,526	2-25 yrs
Assets Under Capital Lease	107,412	(46,709)	60,703	5-20 yrs
Leasehold Improvements	568,335	(300,470)	267,865	2-20 yrs
Internal Use Software	134,343	(66,905)	67,438	5-7 yrs
Internal Use Software in Development	142,420	-	142,420	N/A
Total	$ 12,420,486	$ (4,252,836)	$ 8,167,650	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2006	$ 118,589	$ 635,738	$ 754,327

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

Note 10. Other Assets

As of September 30, 2007 and 2006

	2007	2006
Intragovernmental		
Advances and Prepayments	$ 146,070	$ 115,118
Other Intragovernmental Assets	87	35
Total Intragovernmental	146,157	115,153
Other Assets With the Public	5,652	4,097
Total Other Assets	$ 151,809	$ 119,250

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

Note 11. Liabilities not Covered by Budgetary Resources

As of September 30, 2007 and 2006

	2007	2006
Intragovernmental		
Accrued FECA Liabilities	$ 213,892	$ 199,040
Other Unfunded Employment Related Liabilities	1,555	1,431
Total Intragovernmental	215,447	200,471
With the Public		
Actuarial FECA Liabilities	1,046,479	991,561
Accrued Annual and Compensatory Leave Liabilities	665,677	644,126
Environmental and Disposal Liabilities (Note 13)	22,112	-
Deferred Revenue	185,599	144,927
Contingent Liabilities (Note 17)	190,090	209,620
Capital Lease Liabilities (Note 14)	48,079	59,348
RECA Liabilities	188,458	187,616
Other	4,561	4,389
Total With the Public	2,351,055	2,241,587
Total Liabilities not Covered by Budgetary Resources	2,566,502	2,442,058
Total Liabilities Covered by Budgetary Resources	6,583,155	5,244,854
Total Liabilities	$ 9,149,657	$ 7,686,912

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 Financial Statements
(Dollars in Thousands, Except as Noted)

Note 12. 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, 2007 and 2006, respectively.

Note 13. Environmental and Disposal Liabilities

The DEA owned 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 GSA completed the additional tests and provided a copy to the City of Chicago, which expressed an interest in purchasing the property. GSA took the position that the lead was associated with petroleum product contamination on the property that is not subject to the Comprehensive Environmental Recovery, Compensation and Liability Act (CERCLA). On June 18, 2007 DEA sold this section of land to the City of Chicago for its re-conveyance to a developer for the purchase price of $850. Under the Property Act of 1949, the proceeds from sale are deposited into the Department of the Interior's Land and Water Conservation Fund. As outlined in a separate environmental agreement, the developer is responsible for all petroleum clean up on the property and for obtaining approval from the Illinois Environmental Protection Agency.

The BOP operates firing ranges on 64 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. At operational firing ranges, lead-containing bullets are fired and eventually fall to the ground at or near the range. As of September 30, 2007, BOP management recorded an estimated cleanup liability of $22,112.

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

Note 14. 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; and certain machinery, vehicles and office equipment under noncancelable capital and operating lease agreements that expire over future periods.

As of September 30, 2007 and 2006

Capital Leases	2007	2006
Summary of Assets Under Capital Lease		
Land and Buildings	$ 104,070	$ 104,070
Machinery and Equipment	3,510	3,342
Accumulated Amortization	(50,609)	(46,709)
Total Assets Under Capital Lease (Note 9)	$ 56,971	$ 60,703

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.

Future Capital Lease Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2008	$ 10,466	$ 1,284	$ 11,750
2009	10,086	131	10,217
2010	10,086	99	10,185
2011	10,086	17	10,103
2012	9,073	7	9,080
After 2012	18,305	-	18,305
Total Future Capital Lease Payments	$ 68,102	$ 1,538	$ 69,640
Less: Imputed Interest	(16,236)	(221)	(16,457)
FY 2007 Net Capital Lease Liabilities	$ 51,866	$ 1,317	$ 53,183
FY 2006 Net Capital Lease Liabilities	$ 57,865	$ 1,491	$ 59,356

	2007	2006
Net Capital Lease Liabilities Covered by Budgetary Resources	$ 5,104	$ 1,491
Net Capital Lease Liabilities not Covered by Budgetary Resources	$ 48,079	$ 57,865

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

Note 14. Leases (continued)

Operating leases have been established for multiple years. Many of the operating leases that expire over an extended period of time include an option to purchase the equipment at the current fair market value, or to renew the lease for additional periods.

Operating Lease Expenses

Lease Type	2007	2006
Noncancelable Operating Leases	$ 84,284	$ 72,201
Cancelable Operating Leases	1,322,247	1,243,820
Total Operating Lease Expenses	$ 1,406,531	$ 1,316,021

Future Noncancelable Operating Lease Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment
2008	$ 40,315	$ 8,039
2009	81,106	7,410
2010	149,712	3,651
2011	234,084	1,485
2012	248,709	1
After 2012	2,349,403	-
Total Future Noncancelable Operating Lease Payments	$ 3,103,329	$ 20,586

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

Note 15. Seized Cash and Monetary Instruments

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

As of September 30, 2007 and 2006

	2007	2006
Investments, Net	$ 1,201,702	$ 738,424
Seized Cash Deposited	42,791	51,177
Seized Monetary Instruments	54,720	41,234
Total Seized Cash and Monetary Instruments	$ 1,299,213	$ 830,835

Note 16. Other Liabilities

As of September 30, 2007 and 2006

	2007	2006
Intragovernmental		
Other Accrued Liabilities	$ -	$ 323
Employer Contributions and Payroll Taxes Payable	99,029	94,351
Other Unfunded Employment Related Liabilities	1,646	1,471
Advances from Others	261,250	275,814
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	34,486	47,815
Other Liabilities	210,683	496,066
Total Intragovernmental	607,094	915,840
With the Public		
Other Accrued Liabilities	13,054	4,291
Advances from Others	7,174	2,403
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	49,065	48,855
Accounts Payable from Canceled Appropriations	137	137
Custodial Liabilities	186,435	108,000
Other Liabilities	3,040	1,472
Total With the Public	258,905	165,158
Total Other Liabilities	$ 865,999	$ 1,080,998

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.

Note 17. Contingencies and Commitments

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

The Department is party to various administrative proceedings, legal actions, and claims. The balance sheet includes an estimated liability for those legal actions where the management and Chief Counsel consider adverse decisions "probable" and the amounts are reasonably estimable. For those legal actions where the management and Chief Counsel consider adverse decisions "reasonably possible" and amounts are reasonably estimable information is disclosed below. However, there are cases where amounts have not been accrued or disclosed below because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than reasonably possible.

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2007			
Probable	$ 190,090	$ 190,090	$ 230,468
Reasonably Possible		192,821	227,757
As of September 30, 2006			
Probable	$ 209,620	$ 209,620	$ 222,233
Reasonably Possible		156,200	248,260

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

Note 18. Earmarked Funds

Earmarked funds are financed by specifically identified revenues and are required by statute to be used for designated activities or purposes, and must be accounted for separately from the Government's general revenues. See SFFAS 27, "Identifying and Reporting Earmarked Funds," for the required criteria for an earmarked fund.

As of and for the Fiscal Year Ended September 30, 2007

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Balance Sheet							
Assets							
Fund Balance with U. S. Treasury	$ 300,135	$ 9,224	$ 59,739	$ 2,747,673	$ 103,490	$ 64,847	$ 3,285,108
Investments, Net	1,346,865	164,042	-	-	-	-	1,510,907
Other Assets	143,595	14,584	357	5,113	46,555	28,801	239,005
Total Assets	$ 1,790,595	$ 187,850	$ 60,096	$ 2,752,786	$ 150,045	$ 93,648	$ 5,035,020
Liabilities							
Accounts Payable	$ 897,003	$ 18,105	$ 15,606	$ 51,745	$ 148	$ 13,865	$ 996,472
Other Liabilities	159,379	16,529	11,678	225	199,249	10,097	397,157
Total Liabilities	$ 1,056,382	$ 34,634	$ 27,284	$ 51,970	$ 199,397	$ 23,962	$ 1,393,629
Net Position							
Cumulative Results of Operations	$ 734,213	$ 152,966	$ 11,124	$ 2,700,816	$ (49,352)	$ 69,686	$ 3,619,453
Unexpended Appropriations	-	250	21,688	-	-	-	21,938
Total Net Postion	$ 734,213	$ 153,216	$ 32,812	$ 2,700,816	$ (49,352)	$ 69,686	$ 3,641,391
Total Liabilities and Net Position	$ 1,790,595	$ 187,850	$ 60,096	$ 2,752,786	$ 150,045	$ 93,648	$ 5,035,020
Statement of Net Cost							
Gross Cost of Operations	$ 1,534,041	$ 232,766	$ 157,427	$ 592,068	$ 160,864	$ 302,501	$ 2,979,667
Less: Exchange Revenues	3,722	128,497	144,794	-	163,954	306,042	747,009
Net Cost of Operations	$ 1,530,319	$ 104,269	$ 12,633	$ 592,068	$ (3,090)	$ (3,541)	$ 2,232,658
Statement of Changes in Net Position							
Net Position Beginning of Period	$ 651,122	$ 249,797	$ 37,068	$ 2,274,904	$ (57,996)	$ 62,911	$ 3,217,806
Budgetary Financing Sources	1,520,441	60	3,484	1,017,980	1	-	2,541,966
Other Financing Sources	92,969	7,628	4,893	-	5,553	3,234	114,277
Total Financing Sources	1,613,410	7,688	8,377	1,017,980	5,554	3,234	2,656,243
Net Cost of Operations	(1,530,319)	(104,269)	(12,633)	(592,068)	3,090	3,541	(2,232,658)
Net Change	83,091	(96,581)	(4,256)	425,912	8,644	6,775	423,585
Net Position End of Period	$ 734,213	$ 153,216	$ 32,812	$ 2,700,816	$ (49,352)	$ 69,686	$ 3,641,391

These notes are an integral part of the financial statements.

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

Note 18. Earmarked Funds (continued)

As of and for the Fiscal Year Ended September 30, 2006

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Balance Sheet							
Assets							
Fund Balance with U. S. Treasury	$ 411,871	$ 13,501	$ 48,282	$ 2,327,764	$ 59,827	$ 59,832	$ 2,921,077
Investments, Net	698,320	244,418	-	-	-	-	942,738
Other Assets	146,044	21,760	10,800	8,654	40,685	25,954	253,897
Total Assets	$ 1,256,235	$ 279,679	$ 59,082	$ 2,336,418	$ 100,512	$ 85,786	$ 4,117,712
Liabilities							
Accounts Payable	$ 437,704	$ 14,167	$ 10,928	$ 61,289	$ 1,331	$ 13,732	$ 539,151
Other Liabilities	167,409	15,715	11,086	225	157,177	9,143	360,755
Total Liabilities	$ 605,113	$ 29,882	$ 22,014	$ 61,514	$ 158,508	$ 22,875	$ 899,906
Net Position							
Cumulative Results of Operations	$ 651,122	$ 249,797	$ (23,003)	$ 2,274,904	$ (57,996)	$ 62,911	$ 3,157,735
Unexpended Appropriations	-	-	60,071	-	-	-	60,071
Total Net Postion	$ 651,122	$ 249,797	$ 37,068	$ 2,274,904	$ (57,996)	$ 62,911	$ 3,217,806
Total Liabilities and Net Position	$ 1,256,235	$ 279,679	$ 59,082	$ 2,336,418	$ 100,512	$ 85,786	$ 4,117,712
Statement of Net Cost							
Gross Cost of Operations	$ 975,636	$ 202,267	$ 143,524	$ 610,261	$ 144,406	$ 288,868	$ 2,364,962
Less: Exchange Revenues	1,481	157,648	112,505	-	149,451	288,342	709,427
Net Cost of Operations	$ 974,155	$ 44,619	$ 31,019	$ 610,261	$ (5,045)	$ 526	$ 1,655,535
Statement of Changes in Net Position							
Net Position Beginning of Period	$ 444,912	$ 287,206	$ 146,364	$ 2,254,809	$ (53,328)	$ 60,433	$ 3,140,396
Budgetary Financing Sources	1,072,698	52	(83,032)	649,621	-	-	1,639,339
Other Financing Sources	107,667	7,158	4,755	(19,265)	(9,713)	3,004	93,606
Total Financing Sources	1,180,365	7,210	(78,277)	630,356	(9,713)	3,004	1,732,945
Net Cost of Operations	(974,155)	(44,619)	(31,019)	(610,261)	5,045	(526)	(1,655,535)
Net Change	206,210	(37,409)	(109,296)	20,095	(4,668)	2,478	77,410
Net Position End of Period	$ 651,122	$ 249,797	$ 37,068	$ 2,274,904	$ (57,996)	$ 62,911	$ 3,217,806

These notes are an integral part of the financial statements.

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

Note 18. Earmarked Funds (continued)

The Comprehensive Crime Control Act of 1984 established the AFF to receive the proceeds of forfeiture and to pay the costs associated with such forfeitures, including the costs of managing and disposing of property, satisfying valid liens, mortgages, and other innocent owner claims, and costs associated with accomplishing the legal forfeiture of the property. Authorities of the fund have been amended by various public laws enacted since 1984. Under current law, authority to use the fund for certain investigative expenses shall be specified in annual appropriation acts. Expenses necessary to seize, detain, inventory, safeguard, maintain, advertise or sell property under seizure are funded through a permanent, indefinite appropriation. In addition, beginning in FY 1993, other general expenses of managing and operating the Asset Forfeiture Program are paid from the permanent, indefinite portion of the fund. Once all expenses are covered, the balance is maintained to meet ongoing expenses of the program. Excess unobligated balances may also be allocated by the Attorney General in accordance with 28 U.S.C. 524(c)(8)(E).

United States trustees supervise the administration of bankruptcy cases and private trustees in the Federal Bankruptcy Courts. The Bankruptcy Judges, U.S. Trustees and Family Farmer Bankruptcy Act of 1986 (Public Law 99–554) expanded the pilot trustee program to a twenty-one region, nationwide program encompassing 88 judicial districts. The U.S. Trustee System Fund collects user fees assessed against debtors, which offset the annual appropriation.

The Antitrust Division administers and enforces antitrust and related statutes. This program primarily involves the investigation of suspected violations of the antitrust laws, the conduct of civil and criminal proceedings in the federal courts, and the maintenance of competitive conditions. The Antitrust Division collects filing fees for pre-merger notifications and retains these fees for expenditure in support of its programs.

The Crime Victims Fund is financed by collections of fines, penalty assessments, and bond forfeitures from defendants convicted of federal crimes. This fund supports victim assistance and compensation programs around the country and advocates, through policy development, for the fair treatment of crime victims. The Office for Victims of Crime administers formula and discretionary grants for programs designed to benefit victims, provides training for diverse professionals who work with victims, develops projects to enhance victims' rights and services, and undertakes public education and awareness activities on behalf of crime victims.

The Diversion Control Fee Account is established in the general fund of the Treasury as a separate account. Fees charged by the Drug Enforcement Administration under the Diversion Control Program are set at a level that ensures the recovery of the full costs of operating this program. The program's purpose is to prevent, detect, and investigate the diversion of controlled substances from legitimate channels, while ensuring an adequate and uninterrupted supply of controlled substances required to meet legitimate needs.

The Federal Prison Commissary Fund was created in the early 1930s to allow inmates a means to purchase additional products and services above the necessities provided by appropriated federal funds, e.g. personal grooming products, snacks, postage stamps, and telephone services. The Trust Fund is a self-sustaining trust revolving fund account that is funded through sales of goods and services to inmates.

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

Note 19. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2007

Dollars in Thousands	AFF/SADF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security											
Gross Cost	$ -	$ 492,989	$ 5,219	$ -	$ 48,810	$ 3,461,168	$ 6,499	$ -	$ -	$ (171,501)	$ 3,843,184
Less: Earned Revenue	-	204,922	-	-	1,452	219,266	-	-	-	(171,501)	254,139
Net Cost (Revenue) of Operations	-	288,067	5,219	-	47,358	3,241,902	6,499	-	-	-	3,589,045
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People											
Gross Cost	1,534,041	5,088,063	981	1,512,413	2,301,304	3,348,680	1,088,821	1,160	-	(1,031,026)	13,844,437
Less: Earned Revenue	3,722	964,111	-	220,278	538,200	517,915	40,671	-	-	(1,031,026)	1,253,871
Net Cost (Revenue) of Operations	1,530,319	4,123,952	981	1,292,135	1,763,104	2,830,765	1,048,150	1,160	-	-	12,590,566
Goal 3: Ensure the Fair and Efficient Administration of Justice											
Gross Cost	-	1,610,331	2,487,386	1,478,033	-	-	-	5,929,647	966,633	(1,349,842)	11,122,188
Less: Earned Revenue	-	19,123	1,293,650	58,292	-	-	-	336,042	977,895	(1,324,885)	1,360,117
Net Cost (Revenue) of Operations	-	1,591,208	1,193,736	1,419,741	-	-	-	5,593,605	(11,262)	(24,957)	9,762,071
Net Cost (Revenue) of Operations	$ 1,530,319	$ 6,003,227	$ 1,199,936	$ 2,711,876	$ 1,810,462	$ 6,072,667	$ 1,054,649	$ 5,594,765	$ (11,262)	$ (24,957)	$ 25,941,682

For the Fiscal Year Ended September 30, 2006

Dollars in Thousands	AFF/SADF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security											
Gross Cost	$ -	$ 466,234	$ 3,968	$ -	$ -	$ 3,478,067	$ 7,401	$ -	$ -	$ (189,442)	$ 3,766,228
Less: Earned Revenue	-	243,208	-	-	-	213,664	-	-	-	(189,442)	267,430
Net Cost (Revenue) of Operations	-	223,026	3,968	-	-	3,264,403	7,401	-	-	-	3,498,798
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People											
Gross Cost	975,636	5,031,648	-	1,798,411	2,285,143	3,061,988	1,026,905	-	-	(900,085)	13,279,646
Less: Earned Revenue	1,481	989,051	-	220,738	492,711	498,378	36,835	-	-	(900,085)	1,339,109
Net Cost (Revenue) of Operations	974,155	4,042,597	-	1,577,673	1,792,432	2,563,610	990,070	-	-	-	11,940,537
Goal 3: Ensure the Fair and Efficient Administration of Justice											
Gross Cost	-	1,508,669	2,303,494	1,565,772	-	-	-	5,625,941	808,125	(1,373,867)	10,438,134
Less: Earned Revenue	-	24,643	1,220,601	76,633	-	-	-	320,339	790,620	(1,348,044)	1,084,792
Net Cost (Revenue) of Operations	-	1,484,026	1,082,893	1,489,139	-	-	-	5,305,602	17,505	(25,823)	9,353,342
Net Cost (Revenue) of Operations	$ 974,155	$ 5,749,649	$ 1,086,861	$ 3,066,812	$ 1,792,432	$ 5,828,013	$ 997,471	$ 5,305,602	$ 17,505	$ (25,823)	$ 24,792,677

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the federal government. The classification of revenue or cost as “intragovernmental” is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the federal government to prepare consolidated financial statements, not to match intragovernmental revenue with the costs incurred to produce intragovernmental revenue.

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

Note 20. Imputed Financing from Costs Absorbed by Others

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. FASAB Accounting Standard Interpretation 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.

For the Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Imputed Inter-Departmental Financing		
U.S. Treasury Judgment Fund	$ 126,856	$ 18,452
Health Insurance	492,236	472,422
Life Insurance	1,632	1,586
Pension	135,824	157,798
Total Imputed Inter-Departmental	$ 756,548	$ 650,258

These notes are an integral part of the financial statements.

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

Note 20. Imputed Financing from Costs Absorbed by Others (continued)

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 Department component from a providing entity that is part of the Department. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Cost are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The FPI imputed $24,957 and $25,823 for FYs 2007 and 2006, respectively 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.

Note 21. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2007			
Obligations Apportioned Under			
Category A	$ 24,561,787	$ 5,222,760	$ 29,784,547
Category B	2,088,064	18,778	2,106,842
Exempt from Apportionment	-	939,192	939,192
Total	$ 26,649,851	$ 6,180,730	$ 32,830,581
For the Fiscal Year Ended September 30, 2006			
Obligations Apportioned Under			
Category A	$ 23,051,699	$ 5,177,899	$ 28,229,598
Category B	1,517,149	27,679	1,544,828
Exempt from Apportionment	-	850,798	850,798
Total	$ 24,568,848	$ 6,056,376	$ 30,625,224

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, and objectives or for a combination thereof.

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

Note 21. Information Related to the Statement of Budgetary Resources (continued)

Status of Undelivered Orders:

Undelivered Orders (UDO) represents the amount of goods and/or services ordered, which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

As of September 30, 2007 and 2006

	2007	2006
UDO Obligations Unpaid	$ 8,683,395	$ 8,235,804
UDO Obligations Prepaid/Advanced	1,359,815	1,442,273
Total UDO	$ 10,043,210	$ 9,678,077

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 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.

- On October 5, 1990, Congress passed the Radiation Exposure Compensation Act ("RECA" or "the Act"), 42 U.S.C. § 2210 note, providing for compassionate payments to individuals who contracted certain cancers and other serious diseases as a result of their exposure to radiation released during above-ground nuclear weapons tests or as a result of their exposure to radiation during employment in underground uranium mines. Implementing regulations were issued by the Department of Justice and published in the Federal Register on April 10, 1992. These regulations established procedures to resolve claims in a reliable, objective, and non-adversarial manner, with little administrative cost to the United States or to the person filing the claim. Revisions to the regulations, published in the Federal Register on March 22, 1999, served to greater assist claimants in establishing entitlement to an award. On July 10, 2000, P.L. 106-245, the Radiation Exposure Compensation Act Amendments of 2000 ("the 2000 Amendments") were passed. On November 2, 2002, the President signed the "21st Century Department of Justice Appropriation Authorization Act" (P.L. 107-273). Contained in the law were several provisions relating to RECA. While most of these amendments were "technical" in nature, some affected eligibility criteria and revised claims adjudication procedures. The Consolidated Appropriations Act, 2005 provides a permanent indefinite appropriation for the OBDs' Radiation Exposure Compensation Act program beginning FY 2006.

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

Note 21. Information Related to the Statement of Budgetary Resources (continued)

Permanent Indefinite Appropriations (continued):

- Congress established the Federal Prison Commissary Fund (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.

Legal Arrangements Affecting Use of Unobligated Balances:

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations, but may be used to adjust previously established obligations.

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

Note 21. Information Related to the Statement of Budgetary Resources (continued)

Statement of Budgetary Resources vs Budget of the United States Government:

The reconciliation as of September 30, 2006 is presented below. The reconciliation as of September 30, 2007 is not presented, because the submission of the Budget of the United States (Budget) for FY 2009, which presents the execution of the FY 2007 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 2008.

For the Fiscal Year Ended September 30, 2006 (Dollars in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 33,903	$ 30,625	$ 786	$ 23,664
Funds not Reported in the Budget				
Expired Funds: OBDs, USMS, DEA, FBI, ATF & BOP	(490)	(185)	-	-
AFF/SADF Forfeiture Activity	(51)	(32)	-	32
USMS Court Security Funds	(304)	(300)	-	(289)
Distributed Offsetting Receipts	-	-	(355)	356
OBDs FACTS II Adjustments	(29)	(18)	-	-
OBD Legal Activities - Prior Year Timing Differences	-	-	-	(27)
Other	2	14	(4)	1
Budget of the United States	$ 33,031	$ 30,104	$ 427	$ 23,737

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 Financial Statements
(Dollars in Thousands, Except as Noted)

Note 22. Explanation of Differences Between Liabilities not Covered by Budgetary Resources and Components of Net Cost of Operations 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 $2,566,502 and $2,442,058 on September 30, 2007 and 2006, respectively, are discussed in Note 11, "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 receivables 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 receivables generating resources in future periods are comprised of the following:

	2007	2006
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	$ -	$ (16,253)
Other		
Decrease in Actuarial FECA Liabilities	(959)	(486)
Decrease in Accrued FECA Liabilities	(363)	(87)
Decrease in Contingent Liabilities	(108,726)	(73,646)
Decrease in Capital Lease Liabilities	(6,001)	(5,562)
Decrease in RECA Liabilities	-	(71,309)
Decrease in Other Unfunded Employment Related Liabilities	(42)	(825)
Decrease in Other Liabilities	-	(38)
Total Other	(116,091)	(151,953)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (116,091)	$ (168,206)
Components of Net Cost of Operations Requiring or Generating Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 30,712	$ 17,167
Increase in Environmental and Disposal Liabilities	22,112	-
(Increase)/Decrease in Exchange Revenue Receivable from the Public	1,866	19,450
(Increase)/Decrease in Nonexchange Receivables from the Public	(74)	8
Other		
Increase in Actuarial FECA Liabilities	55,877	65,712
Increase in Accrued FECA Liabilities	16,393	17,254
Increase in Deferred Revenue	40,671	13,237
Increase in Contingent Liabilities	89,196	996
Increase in Capital Lease Liabilities	-	1,012
Increase in RECA Liabilities	842	-
Increase in Other Unfunded Employee Related Liabilities	220	1,431
Increase in Other Liabilities	172	137
Total Other	203,371	99,779
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	$ 257,987	$ 136,404

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

Note 23. Allocation Transfers of Appropriation

During FYs 2007 the Department transferred $17,000 from the Crime Victims Fund to the Department of Health and Human Services (HHS). The same amount was transferred in FY 2006. This transfer is required by law and is used for child abuse prevention and treatment grants. Amounts made available by section §10601(d)(2) of this title, for the purposes of this section, shall be obligated and expended by the Secretary of HHS for grants under section §5106c of this title.

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 amounts transferred to PHS from BOP totaled $68,000 and $66,000 for the fiscal years ended September 30, 2007 and 2006, respectively, and the related activity is included as part of the these financial statements.

The USMS receives allocation transfers of appropriation from the Administrative Office of U.S. Courts (AOUSC). However, the AOUSC is not an Executive Branch entity and is not required to report annual financial statements. The USMS is the child in the allocation transfer, but per OMB guidance, all activity relative to these allocation transfers is reported in the USMS financial statements. The allocation transfers are used for costs associated with protective guard services - Court Security Officers (CSOs) at United States courthouses and other facilities housing federal court operations. These costs include their salaries (paid through contracts), equipment, and supplies. This transfer is performed on an annual basis.

Note 24. 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 Consolidated Balance Sheet and Note 16 represent funds held by the Department that have yet to be disbursed to the appropriate federal agency or individual.

The OBDs 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.

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

Note 24. Net Custodial Revenue Activity (continued)

The OBDs collect civil fines, penalties, and restitution payments that are incidental to its mission. By court order, the OBDs were given the investment authority and the settlement funds collected must be invested. The OBDs invest these funds with the U.S. Department of Treasury, Bureau of the Public Debt. As of September 30, 2007 and 2006, the custodial assets and liabilities recorded by the OBDs on the balance sheet are $1,017,222 and $337,623, respectively. The OBDs custodial collections totaled $3,075,294 and $4,088,130 for the fiscal years ended September 30, 2007 and 2006.

DEA's collections include $15 million of the total fees collected in excess of the cost of operation the Diversion Control Program and civil monetary penalties related to violations of the Controlled Substances Act that were incidental to DEA's mission. Since DEA has no statutory authority to use these excess funds, DEA transmits them to the U.S. Treasury's General Fund.

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 Treasury General Fund.

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

Note 25. OMB Circular A-136 Consolidated Balance Sheet Presentation

U.S. Department of Justice
Consolidated Balance Sheets
As of September 30, 2007 and 2006

Dollars in Thousands	2007	2006
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury	$ 16,515,163	$ 14,987,451
Investments, Net	3,190,827	2,082,266
Accounts Receivable, Net	337,071	376,360
Other Assets	146,157	115,153
Total Intragovernmental	20,189,218	17,561,230
Cash and Other Monetary Assets	130,312	109,676
Accounts Receivable, Net	86,443	93,837
Inventory and Related Property, Net	210,766	216,377
General Property, Plant and Equipment, Net	8,234,077	8,167,650
Other Assets	606,440	698,419
Total Assets	**$ 29,457,256**	**$ 26,847,189**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 299,886	$ 271,000
Debt	20,000	20,000
Other Liabilities	1,654,578	1,346,461
Total Intragovernmental	1,974,464	1,637,461
Accounts Payable	2,776,264	2,344,943
Contingent Liabilities	190,090	209,620
Other Liabilities	4,186,727	3,494,888
Total Liabilities	**$ 9,149,657**	**$ 7,686,912**
NET POSITION		
Unexpended Appropriations - Earmarked Funds	$ 21,938	$ 60,071
Unexpended Appropriations - Other Funds	9,714,869	9,079,538
Cumulative Results of Operations - Earmarked Funds	3,619,453	3,157,735
Cumulative Results of Operations - Other Funds	6,951,339	6,862,933
Total Net Position	**$ 20,307,599**	**$ 19,160,277**
Total Liabilities and Net Position	**$ 29,457,256**	**$ 26,847,189**

These notes are an integral part of the financial statements.

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

Note 26. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

The Department changed its method of reporting the reconciliation of the Net Cost of Operations to budgetary resources during FY 2007. Effective FY 2007 and in accordance with OMB Circular A-136, the Statement of Financing is no longer considered a basic statement. In previous years, this reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement.

For the Fiscal Years Ended September 30, 2007 and 2006

	2007	2006
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 32,830,581	$ 30,625,224
Less: Spending Authority from Offsetting Collections and Recoveries	7,151,308	6,654,337
Obligations Net of Offsetting Collections and Recoveries	25,679,273	23,970,887
Less: Offsetting Receipts	1,269,818	786,338
Net Obligations	24,409,455	23,184,549
Other Resources		
Donations and Forfeitures of Property	107,049	116,189
Transfers-In/Out Without Reimbursement	(13,737)	(35,871)
Imputed Financing from Costs Absorbed by Others (Note 20)	756,548	650,258
Other	-	-
Net Other Resources Used to Finance Activities	849,860	730,576
Total Resources Used to Finance Activities	25,259,315	23,915,125
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	(197,279)	795,596
Resources That Fund Expenses Recognized in Prior Periods (Note 22)	(116,091)	(168,206)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	760,155	306,577
Resources That Finance the Acquisition of Assets	(712,153)	(812,749)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	9,652	9,318
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(255,716)	130,536
Total Resources Used to Finance the Net Cost of Operations	$ 25,003,599	$ 24,045,661

These notes are an integral part of the financial statements.

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

Note 26. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2007 and 2006	2007	2006
Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual and Compensatory Leave Liabilities	$ 30,712	$ 17,167
Increase in Environmental and Disposal Liabilities	22,112	-
(Increase)/Decrease in Exchange Revenue Receivable from the Public	1,866	19,450
(Increase)/Decrease in Nonexchange Receivable from the Public	(74)	8
Other	203,371	99,779
Total Components of Net Cost of Operations That will Require or Generate Resources in Future Periods (Note 22)	257,987	136,404
Components not Requiring or Generating Resources		
Depreciation and Amortization	607,190	582,872
Revaluation of Assets or Liabilities	16,965	27,350
Other	55,941	390
Total Components of Net Cost of Operations That will not Require or Generate Resources	680,096	610,612
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	938,083	747,016
Net Cost of Operations	$ 25,941,682	$ 24,792,677

These notes are an integral part of the financial statements.

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