Notes to the 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 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 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. 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 include 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, 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 2006 and 2005, and as such, intra-entity 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 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.

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 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. 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/).

Asset Forfeiture Fund, U.S. Trustee System Fund and Federal Prison Commissary Fund are three earmarked funds that invest in Treasury securities. The U.S. 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 U.S. Treasury for general Government purposes. When these earmarked funds redeem their Treasury securities to make expenditures, the U.S. 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 U.S. 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.

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.

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, 2006 and 2005 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 the Office of Management and Budget.

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 “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, 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.

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, 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 20 ― Imputed Financing from Costs Absorbed by Others for additional details.

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

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

The Statement of Federal Financial Accounting Standards (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.

Effective October 1, 2005, reporting entities are required to show earmarked nonexchange revenue and other financing sources and net cost of operations separately on the Statement of Changes in Net Position. Reporting entities are also required to show the portion of cumulative results of operations attributable to earmarked funds separately on the Statement of Changes in Net Position and on the Balance Sheet. For FY 2006, reporting entities are not required to restate the prior period columns of the financial statements and related disclosures. Accordingly, the previously-reported total amounts of unexpended appropriations and cumulative results of operations are shown on the “Other Funds” lines within Net Position in the FY2005 column on the Balance Sheet.

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 2005 Statement of Budgetary Resources was prepared in the new FY 2006 format according to OMB Circular A-136. The FY 2005 financial statements were reclassified to conform to the FY 2006 Departmental financial statement presentation requirements. In addition, the FPI unobligated balance reported in the Statement of Budgetary Resources and the obligations incurred amounts reported in the related note 21were reclassified from “other available” and Category A apportionments to correctly show the amounts as exempt from apportionment. 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, 2006 and 2005

	2006	2005
Intragovernmental		
Fund Balance with U.S. Treasury	$ 797,293	$ 684,781
Investments, Net	817,928	1,083,654
Total Intragovernmental	$ 1,615,221	$ 1,768,435
With the Public		
Cash and Monetary Assets	94,434	138,633
Accounts Receivable, Net	12,235	11,303
Total With the Public	106,669	149,936
Total Non-Entity Assets	1,721,890	1,918,371
Total Entity Assets	25,125,299	25,149,625
Total Assets	$ 26,847,189	$ 27,067,996

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, 2006 and 2005

	2006	2005
Fund Balances		
Trust Funds	$ 203,731	$ 303,258
Revolving Funds	536,612	380,256
Appropriated Funds	10,627,422	11,698,427
Other Fund Types	3,619,686	3,102,188
Total Fund Balances with U.S. Treasury	$ 14,987,451	$ 15,484,129
Status of Fund Balances		
Unobligated Balance - Available	$ 2,335,319	$ 2,533,423
Unobligated Balance - Unavailable	942,527	577,610
Obligated Balance not yet Disbursed	10,482,468	10,961,683
Other Funds (With)/Without Budgetary Resources	1,227,137	1,411,413
Total Status of Fund Balances	$ 14,987,451	$ 15,484,129

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, 2006 and 2005

	2006	2005
Cash		
Undeposited Collections	$ 3,876	$ 4,344
Imprest Funds	9,433	9,419
Seized Cash Deposited	51,177	47,381
Other Cash	2,776	1,647
Total Cash	67,262	62,791
Foreign Currency	-	311
Monetary Assets		
Seized Monetary Instruments	41,234	89,599
Other Monetary Assets	1,180	2,006
Total Monetary Assets	42,414	91,605
Total Cash and Monetary Assets	$ 109,676	$ 154,707

Note 5. Investments, Net

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2006				
Intragovernmental				
Non-Marketable Securities				
Market Based	$ 2,096,281	$ (14,015)	$ 2,082,266	$ 2,081,618
Subtotal	2,096,281	$ (14,015)	$ 2,082,266	2,081,618
Interest Receivable	2,193			2,193
Total	$ 2,098,474			$ 2,083,811
As of September 30, 2005				
Intragovernmental				
Non-Marketable Securities				
Market Based	$ 2,153,224	$ (12,257)	$ 2,140,967	$ 2,159,994
Subtotal	2,153,224	$ (12,257)	$ 2,140,967	2,159,994
Interest Receivable	802			802
Total	$ 2,154,026			$ 2,160,796

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

Note 6. Accounts Receivable, Net

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Accounts Receivable	$ 378,207	$ 334,124
Allowance for Uncollectible Accounts	(1,847)	(2,827)
Total Intragovernmental	376,360	331,297
With the Public		
Accounts Receivable	118,936	128,203
Allowance for Uncollectible Accounts	(25,099)	(27,774)
Total With the Public	93,837	100,429
Total Accounts Receivable, Net	$ 470,197	$ 431,726

The accounts receivable with the public primarily consists of OBDs U.S. Trustee Chapter 11 quarterly fees, 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, 2006 and 2005

	2006	2005
Inventory		
Raw Materials	$ 68,486	$ 35,539
Work in Process	45,752	32,401
Finished Goods	56,982	43,213
Inventory Purchased for Resale	16,379	16,627
Excess, Obsolete, and Unserviceable	29,958	24,554
Inventory Allowance	(13,090)	(10,641)
Operating Materials and Supplies		
Held for Current Use	11,910	16,263
Total Inventory and Related Property, Net	$ 216,377	$ 157,956

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 2007 is $325 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 2006 and 2005 include property status and valuation changes received after, but properly credited to FYs 2005 and 2004, respectively. The valuation changes include updates and corrections to an asset's value recorded in a prior year.

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

Forfeited Property Category		Beginning Balance	Adjust-ments	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial Instruments	Number	211	22	576	300	509	-	509
	Value	$ 2,395	$ 387	$ 45,966	$ 37,402	$ 11,346	$ 12	$ 11,334
Real Property	Number	329	5	399	393	340	-	340
	Value	$ 58,615	$ 42	$110,538	$ 82,668	$ 86,527	$ 1,662	$ 84,865
Personal Property	Number	2,902	(491)	5,017	4,415	3,013	-	3,013
	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

For the Fiscal Year Ended September 30, 2005

Forfeited Property Category		Beginning Balance	Adjust-ments	Forfeitures	Disposals	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

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)

Method of Disposition of Forfeited Property:

During FYs 2006 and 2005, $106,914 and $87,290 of forfeited property were sold, $1,230 and $130,745 were destroyed or donated, $33,431 and $6,380 were returned to owners, and $35,676 and $21,124 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 Assets Forfeiture Fund and Seized Asset Deposit Fund. 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 2006 and 2005 include property status and valuation changes received after, but properly credited to FYs 2005 and 2004, 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, 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

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, 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 Deposited and Seized 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
Seized for Evidence:								
Seized Monetary Instruments	Value	$ 29,032	$ 17,204	$ 14,526	$ 11,738	$ 49,024	$ -	$ 49,024
Personal Property	Number	76,021	3,972	61,575	19,414	122,154	-	122,154
	Value	$ 20,674	$ 1,905	$ 24,591	$ 21,918	$ 25,252	$ -	$ 25,252

Method of Disposition of Seized Property:

During FYs 2006 and 2005, $764,526 and $583,601 of seized property were forfeited, $99,494 and $129,735 were returned to parties with a bonafide interest, and $32,261 and $21,616 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, 2006

Analyzed Drug Evidence	Beginning Balance	Analyzed	Disposed	Ending Balance
(Amounts in KG)				
Cocaine	451,406	97,482	79,652	469,236
Heroin	3,667	940	1,375	3,232
Marijuana	27,256	6,282	12,148	21,390
Methamphetamine	9,451	1,693	2,644	8,500
Other	50,478	17,028	15,233	52,273
Total	542,258	123,425	111,052	554,631

For the Fiscal Year Ended September 30, 2005

Analyzed Drug Evidence	Beginning Balance	Analyzed	Disposed	Ending Balance
(Amounts in KG)				
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	136,502	9,415	95,439	50,478
Total	1,260,664	153,738	872,144	542,258

(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, in kilograms:

For the Fiscal Years Ended September 30, 2006 and 2005

Fiscal Year	Beginning Balance	Adjustments	Seized	Destroyed	Ending Balance
2006	147,422	(1,310)	690,315	695,143	141,284
2005	151,513	(831)	645,030	648,290	147,422

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, 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

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, 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 Property, Plant and Equipment Purchases for FY 2005	$ 106,122	$ 669,881	$ 776,003

These notes are an integral part of the financial statements.

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

Note 10. Other Assets

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Advances to Others	$ 102,413	$ 130,505
Prepayments	12,705	13,077
Other Intragovernmental Assets	35	108
Total Intragovernmental	115,153	143,690
Other Assets With the Public	4,097	4,705
Total Other Assets	$ 119,250	$ 148,395

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, 2006 and 2005

	2006	2005
Intragovernmental		
Accrued FECA Liabilities	$ 199,040	$ 181,873
Unemployment Compensation for Federal Employees	1,431	-
Total Intragovernmental	200,471	181,873
With the Public		
Actuarial FECA Liabilities	991,561	926,336
Accrued Annual and Compensatory Leave Liabilities	644,126	643,212
Deferred Revenue	144,927	131,690
Contingent Liabilities (Note 17)	209,620	282,270
Capital Lease Liabilities (Note 14)	59,348	63,899
RECA Liabilities	187,616	258,925
Other Liabilities	5,569	6,296
Total With the Public	2,242,767	2,312,628
Total Liabilities not Covered by Budgetary Resources	2,443,238	2,494,501
Total Liabilities Covered by Budgetary Resources	5,243,674	4,866,544
Total Liabilities	$ 7,686,912	$ 7,361,045

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.

These notes are an integral part of the financial statements.

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, 2006 and 2005, respectively.

Note 13. Environmental and Disposal Liabilities

The 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 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.

The 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.

(Dollars in Thousands, Except as Noted)

Note 13. 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, 2006, and 2005, 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 clean-up costs will be incurred, the nature and clean-up costs, if estimable, will be disclosed in the footnotes to the financial statements. FCI Englewood, CO, was considering closing its firing range, however, they have decided to keep it open.

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.

As of September 30, 2006 and 2005

Capital Leases	2006	2005
Summary of Assets Under Capital Lease		
Land and Buildings	$ 104,070	$ 104,070
Machinery and Equipment	3,342	2,035
Accumulated Amortization	(46,709)	(41,424)
Total Assets Under Capital Lease (Note 9)	$ 60,703	$ 64,681

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

Note 14. Leases (continued)

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
2007	$ 10,466	$ 799	$ 11,265
2008	10,466	740	11,206
2009	10,086	98	10,184
2010	10,086	16	10,102
2011	10,086	2	10,088
After 2011	27,379	-	27,379
Total Future Capital Lease Payments	$ 78,569	$ 1,655	$ 80,224
Less: Imputed Interest	(20,704)	(164)	(20,868)
FY 2006 Net Capital Lease Liabilities	$ 57,865	$ 1,491	$ 59,356
FY 2005 Net Capital Lease Liabilities	$ 63,423	$ 523	$ 63,946

	2006	2005
Net Capital Lease Liabilities Covered by Budgetary Resources	$ 8	$ 47
Net Capital Lease Liabilities not Covered by Budgetary Resources	$ 59,348	$ 63,899

These notes are an integral part of the financial statements.

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.

Current Year Operating Lease Expenses

Lease Type	2006	2005
Noncancelable Operating Leases	$ 72,201	$ 46,084
Cancelable Operating Leases	1,243,820	1,256,545
Total Operating Lease Expenses	$ 1,316,021	$ 1,302,629

Future Noncancelable Operating Lease Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2007	$ 57,246	$ 11,848	$ 69,094
2008	63,265	12,051	75,316
2009	63,501	11,747	75,248
2010	62,776	6,361	69,137
2011	63,092	2,784	65,876
After 2011	509,730	-	509,730
Total Future Noncancelable Operating Lease Payments	$ 819,610	$ 44,791	$ 864,401

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

Note 15. 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, 2006 and 2005

	2006	2005
Investments, Net	$ 738,424	$ 623,236
Seized Cash Deposited	51,177	47,381
Seized Monetary Instruments	41,234	89,599
Total Seized Cash and Monetary Instruments	$ 830,835	$ 760,216

Note 16. Other Liabilities

As of September 30, 2006 and 2005

	2006	2005
Intragovernmental		
Other Accrued Liabilities	$ 323	$ 308
Employer Contributions and Payroll Taxes Payable	94,351	89,584
Other Unfunded Employment Related Liabilities	1,471	-
Advances from Others	275,814	233,971
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	47,815	16,454
Other Liabilities	496,066	287,020
Total Intragovernmental	915,840	627,337
With the Public		
Other Accrued Liabilities	4,257	4,298
Advances from Others	2,403	2,387
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	49,181	49,929
Accounts Payable from Canceled Appropriations	137	-
Custodial Liabilities	108,000	478,606
Other Liabilities	1,180	2,006
Total With the Public	165,158	537,226
Total Other Liabilities	$ 1,080,998	$ 1,164,563

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

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 as of September 30, 2006 and 2005 are $209,620 and $282,270, respectively, and are recorded in the financial statements. There were also 0 and 1 cases as of September 30, 2006 and 2005, 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, 2006, 56 legal actions are reported as reasonably possible. Of the 56 legal actions, 45 have a potential loss in the range of $156,200 to $248,260. For the remaining 11 legal actions an estimate of potential loss could not be determined.

As of September 30, 2005, 49 legal actions were reported as reasonably possible. Of the 49 legal actions, 34 have 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.

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

Note 18. Earmarked Funds

The provisions in SFFAS No. 27 for earmarked funds are effective in FY 2006. In accordance with SFFAS No. 27, the prior period columns of the financial statements and the related disclosures were not restated. Summarized financial information about the Department's individual earmarked funds for FY 2006 is presented below:

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
Statements of Net Cost and Changes in Net Position							
Gross Cost of Operations	$ (975,636)	$ (202,267)	$ (143,524)	$ (610,261)	$ (144,406)	$ (288,868)	$ (2,364,962)
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)
Nonexchange Revenues	63,481	52	-	649,621	-	-	713,154
Budgetary and Other Financing Sources	1,116,884	7,158	(78,277)	(19,265)	(9,713)	3,004	1,019,791
Changes in Net Position	$ 206,210	$ (37,409)	$ (109,296)	$ 20,095	$ (4,668)	$ 2,478	$ 77,410

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 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).

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

Note 18. Earmarked Funds (continued)

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. This program 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, 2006

Dollars in Thousands	AFF/SADF	WCF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security												
Gross Cost	$ -	$ 163,831	$ 242,885	$ -	$ -	$ -	$ 3,478,067	$ -	$ -	$ -	$ (186,560)	$ 3,698,223
Less: Earned Revenue	-	173,913	50,141	-	-	-	213,664	-	-	-	(186,560)	251,158
Net Cost (Revene) of Operations	$ -	$ (10,082)	$ 192,744	$ -	$ -	$ -	$ 3,264,403	$ -	$ -	$ -	$ -	$ 3,447,065
Goal 2: Enforce Federal Laws and Represent the Rights and Interests of the American People												
Gross Cost	$ 607,977	$ 447,805	$ 3,589,765	$ -	$ -	$ 2,285,143	$ 2,670,631	$ 1,034,306	$ -	$ -	$(1,011,406)	$ 9,624,221
Less: Earned Revenue	1,481	475,361	694,099	-	-	492,711	295,253	36,835	-	-	(1,011,406)	984,334
Net Cost (Revene) of Operations	$ 606,496	$ (27,556)	$ 2,895,666	$ -	$ -	$ 1,792,432	$ 2,375,378	$ 997,471	$ -	$ -	$ -	$ 8,639,887
Goal 3: Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence												
Gross Cost	$ 367,659	$ 32,766	$ 1,110,021	$ -	$ 3,364,183	$ -	$ 391,357	$ -	$ -	$ -	$ (285,303)	$ 4,980,683
Less: Earned Revenue	-	34,783	3,344	-	297,371	-	203,125	-	-	-	(285,303)	253,320
Net Cost (Revene) of Operations	$ 367,659	$ (2,017)	$ 1,106,677	$ -	$ 3,066,812	$ -	$ 188,232	$ -	$ -	$ -	$ -	$ 4,727,363
Goal 4: Ensure the Fair and Efficient Operations of the Federal Justice System												
Gross Cost	$ -	$ 447,804	$ 1,652,400	$ 2,307,462	$ -	$ -	$ -	$ -	$ 5,625,941	$ 808,125	$(1,660,851)	$ 9,180,881
Less: Earned Revenue	-	475,360	30,627	1,220,601	-	-	-	-	320,339	790,620	(1,635,028)	1,202,519
Net Cost (Revene) of Operations	$ -	$ (27,556)	$ 1,621,773	$ 1,086,861	$ -	$ -	$ -	$ -	$ 5,305,602	$ 17,505	$ (25,823)	$ 7,978,362
Net Cost (Revenue) of Operations	$ 974,155	$ (67,211)	$ 5,816,860	$ 1,086,861	$ 3,066,812	$ 1,792,432	$ 5,828,013	$ 997,471	$ 5,305,602	$ 17,505	$ (25,823)	$ 24,792,677

For the Fiscal Year Ended September 30, 2005

Dollars in Thousands	AFF/SADF	WCF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security												
Gross Cost	$ -	$ 121,123	$ 206,951	$ -	$ -	$ -	$ 3,009,335	$ -	$ -	$ -	$ (144,301)	$ 3,193,108
Less: Earned Revenue	-	123,253	41,585	-	-	-	228,956	-	-	-	(144,301)	249,493
Net Cost (Revene) of Operations	$ -	$ (2,130)	$ 165,366	$ -	$ -	$ -	$ 2,780,379	$ -	$ -	$ -	$ -	$ 2,943,615
Goal 2: Enforce Federal Laws and Represent the Rights and Interests of the American People												
Gross Cost	$ 278,880	$ 434,024	$ 3,877,797	$ -	$ -	$ 2,247,096	$ 2,766,144	$ 973,494	$ -	$ -	$ (963,424)	$ 9,614,011
Less: Earned Revenue	2,281	441,657	768,606	-	-	448,079	292,298	35,346	-	-	(963,424)	1,024,843
Net Cost (Revene) of Operations	$ 276,599	$ (7,633)	$ 3,109,191	$ -	$ -	$ 1,799,017	$ 2,473,846	$ 938,148	$ -	$ -	$ -	$ 8,589,168
Goal 3: Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence												
Gross Cost	$ 317,752	$ 33,309	$ 1,062,870	$ -	$ 3,767,886	$ -	$ 365,594	$ -	$ -	$ -	$ (244,780)	$ 5,302,631
Less: Earned Revenue	-	33,895	28,398	-	265,095	-	168,786	-	-	-	(244,780)	251,394
Net Cost (Revene) of Operations	$ 317,752	$ (586)	$ 1,034,472	$ -	$ 3,502,791	$ -	$ 196,808	$ -	$ -	$ -	$ -	$ 5,051,237
Goal 4: Ensure the Fair and Efficient Operations of the Federal Justice System												
Gross Cost	$ -	$ 420,902	$ 1,543,257	$ 2,231,920	$ -	$ -	$ -	$ -	$ 5,437,752	$ 808,148	$(1,544,735)	$ 8,897,244
Less: Earned Revenue	-	428,305	17,573	1,133,882	-	-	-	-	298,447	842,475	(1,523,596)	1,197,086
Net Cost (Revene) of Operations	$ -	$ (7,403)	$ 1,525,684	$ 1,098,038	$ -	$ -	$ -	$ -	$ 5,139,305	$ (34,327)	$ (21,139)	$ 7,700,158
Net Cost (Revenue) of Operations	$ 594,351	$ (17,752)	$ 5,834,713	$ 1,098,038	$ 3,502,791	$ 1,799,017	$ 5,451,033	$ 938,148	$ 5,139,305	$ (34,327)	$ (21,139)	$ 24,284,178

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the federal government. Costs and earned revenues with the public represent exchange transactions made between the reporting entity and a non-federal entity. The classification of revenue or cost as “intragovernmental” or “with the public” 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 public and intragovernmental revenue with the costs incurred to produce public and intragovernmental revenue.

(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, 2006 and 2005

	2006	2005
Imputed Inter-Departmental Financing		
U.S. Treasury Judgment Fund	$ 18,452	$ 22,875
Health Insurance	472,422	438,066
Life Insurance	1,586	1,530
Pension	157,798	177,655
Total Imputed Inter-Departmental	$ 650,258	$ 640,126

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 Departmental component from another component within 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 $25,823 and $21,139 for FYs 2006 and 2005, 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, 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
For the Fiscal Year Ended September 30, 2005			
Obligations Apportioned Under			
Category A	$ 21,998,254	$ 4,622,698	$ 26,620,952
Category B	1,268,684	28,158	1,296,842
Exempt from Apportionment	-	737,585	737,585
Total	$ 23,266,938	$ 5,388,441	$ 28,655,379

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 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, 2006 and 2005

	2006	2005
UDO Obligations Unpaid	$ 8,235,804	$ 9,107,337
UDO Obligations Prepaid/Advanced	1,442,273	1,305,352
Total UDO	$ 9,678,077	$ 10,412,689

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, establishing procedures to resolve claims in a reliable, objective, and non-adversarial manner, with little administrative cost to the United States or to the person filing the claim. Revisions to the regulations, published in the Federal Register on March 22, 1999, served to greater assist claimants in establishing entitlement to an award. On July 10, 2000, P.L. 106-245, the Radiation Exposure Compensation Act Amendments of 2000 ("the 2000 Amendments") was 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 are "technical" in nature, some affect eligibility criteria and revise 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, 2005 is presented below. The reconciliation as of September 30, 2006 is not presented, because the submission of the Budget of the United States (Budget) for FY 2008, which presents the execution of the FY 2006 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 2007.

For the Fiscal Year Ended September 30, 2005
(Dollars in millions)

	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources (SBR)	$ 31,766	$ 28,655	$ 22,996
Funds not Reported in the Budget			
Expired Funds: OBDs, USMS, DEA, FBI, ATF & BOP	(428)	(187)	-
AFF/SADF Forfeiture Activity	(39)	(24)	-
USMS Court Security Funds	(276)	(271)	(289)
OBDs Funds: Treasury Symbols 10_0138 and 1575_8393	(10)	(6)	(8)
OJP Audit Adjustments	(8)	-	-
ATF Recovery of Prior Year Obligations	(66)	-	-
Funds not Reported in the SBR			
OBDs Antitrust Division Rescission Adjustments	104	-	(6)
Other	30	16	56
Budget of the United States	$ 31,073	$ 28,183	$ 22,749

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.

(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 $2,443,238 and $2,494,501 on September 30, 2006 and 2005, 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:

For the Fiscal Years Ended September 30, 2006 and 2005

	2006	2005
Resources that Fund Expenses Recognized in Prior Periods		
Decrease in Accrued Annual and Compensatory Leave Liabilities	$ (16,253)	$ -
Other		
Decrease in Actuarial FECA Liabilities	(486)	(890)
Decrease in Accrued FECA Liabilities	(87)	(862)
Decrease in Contingent Liabilities	(73,646)	(6,940)
Decrease in Capital Lease Liabilities	(5,562)	(6,551)
Decrease in RECA Liabilities	(71,309)	(329,692)
Decrease in Other Accrued Balances	(863)	-
Total Other	(151,953)	(344,935)
Total Resources that Fund Expenses Recognized in Prior Periods	$ (168,206)	$ (344,935)
Components of Net Cost of Operations Requiring or Generating Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 17,167	$ 34,572
(Increase)/Decrease in Exchange Revenue Receivable from the Public	19,450	3,878
Other		
Increase in Actuarial FECA Liabilities	65,712	97,889
Increase in Accrued FECA Liabilities	17,254	5,922
Increase in Deferred Revenue	13,237	29,713
Increase in Contingent Liabilities	996	182,328
Increase in Capital Lease Liabilities	1,012	-
Increase in Other Unfunded Employee Related Liabilities	1,431	-
Increase in Other Accrued Balances	145	655
Total Other	99,787	316,507
Total Components of Net Cost of Operations Requiring or Generating Resources in Future Periods	$ 136,404	$ 354,957

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

Note 23. Allocation Transfers of Appropriation

During FYs 2006 and 2005, 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. 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.

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 2006 and 2005 transfers of $1,337 and $3,738 were made, respectively. In addition, during FYs 2006 and 2005, AFF transferred out forfeited property of $6,683 and $6,317 and super surplus of $24,983 and $54 to participating agencies for official use, respectively.

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.

The USMS receives allocation transfers of appropriation from the Administrative Office of U.S. Courts (AOUSC). These allocation transfers are between the Judicial Branch and the Executive Branch of the U.S. Government. Since the Judicial Branch is not required to report annual financial statements or FACTS II (Treasury reporting of budgetary account balances), there is no duplicate reporting of the funding as a result of the presentation on the USMS Statement of Budgetary Resources. 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 Balance Sheet and Note 16 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.).

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

Note 24. Net Custodial Revenue Activity (continued)

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. 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. During FY 2006, $375,000 of the settlement fund along with interest earned of $10,473 was disbursed to the public in accordance with a court order. As of September 30, 2006 and 2005, the remaining settlement funds including the investment revenue were reported as Custodial Liabilities of $79,620 and $460,538, respectively.

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 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, 2006 and 2005

Dollars in Thousands	2006	2005
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury	$ 14,987,451	$ 15,484,129
Investments, Net	2,082,266	2,140,967
Accounts Receivable, Net	376,360	331,297
Other Assets	115,153	143,690
Total Intragovernmental	17,561,230	18,100,083
Cash and Other Monetary Assets	109,676	154,707
Accounts Receivable, Net	93,837	100,429
Inventory and Related Property, Net	216,377	157,956
General Property, Plant and Equipment, Net	8,167,650	8,027,490
Other Assets	698,419	527,331
Total Assets	**$ 26,847,189**	**$ 27,067,996**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 271,000	$ 291,651
Debt	20,000	20,000
Other Liabilities	1,346,461	1,155,650
Total Intragovernmental	1,637,461	1,467,301
Accounts Payable	2,344,943	1,874,450
Contingent Liabilities	209,620	282,270
Other Liabilities	3,494,888	3,737,024
Total Liabilities	**$ 7,686,912**	**$ 7,361,045**
NET POSITION		
Unexpended Appropriations - Earmarked Funds	$ 60,071	
Unexpended Appropriations - Other Funds	9,079,538	$ 10,188,678
Cumulative Results of Operations - Earmarked Funds	3,157,735	
Cumulative Results of Operations - Other Funds	6,862,933	9,518,273
Total Net Position	**$ 19,160,277**	**$ 19,706,951**
Total Liabilities and Net Position	**$ 26,847,189**	**$ 27,067,996**

These notes are an integral part of the financial statements.

This page intentionally left blank.