

## ANALYSIS OF FINANCIAL STATEMENTS

The Department's financial statements, which appear in Part III of this report, received an unqualified audit opinion for fiscal years ended September 30, 2005 and 2004. These statements have been prepared from the accounting records of the Department in conformity with the accounting principles generally accepted in the United States, and Office of Management and Budget Circular A-136, "Financial Reporting Requirements." These principles are also the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

Highlights of the financial and budgetary information presented in the financial statements follows.

**Assets:** The Department's Consolidated Balance Sheet as of September 30, 2005 shows \$27.1 billion in total assets, a decrease of \$86.1 million over the previous year's total assets of \$27.2 billion. Fund Balance with U.S. Treasury was \$15.5 billion, which represents 57 percent of total assets.

**Liabilities:** Total Department liabilities were \$7.4 billion as of September 30, 2005, an increase of \$838.4 million from the previous year's total liabilities of \$6.5 billion. Contributing to this change were increases in Accounts Payable of \$326.1 million, Intragovernmental Custodial Liabilities of \$189.7 million and Contingent Liabilities of \$175.4 million.

**Net Cost of Operations:** The Consolidated Statement of Net Cost presents the Department's gross and net cost by strategic goal. The net cost of Department operations totaled \$24.3 billion for the year ended September 30, 2005, a decrease of \$5.2 billion (18 percent) from the previous year's net cost of operations of \$29.5 billion. This decrease is primarily related to the \$6.2 billion decrease in the September 11<sup>th</sup> Victim Compensation Fund's net cost of operations resulting from the sunset of the fund during FY 2005. This decrease was offset by increases in normal operations of other Departmental programs.

Brief descriptions of some of the major costs included in each Strategic Goal are as follows.

- **Strategic Goal 1, Prevent Terrorism and Promote the Nation's Security**, includes resources dedicated to counterterrorism initiatives as well as the costs of the United States Attorneys (USAs) and Criminal Division.
- **Strategic Goal 2, Enforce Federal Laws and Represent the Rights and Interests of the American People**, includes the ATF; DEA; FBI; USAs; the Criminal, Civil, Civil Rights, Tax, Antitrust, and Environment and Natural Resources Divisions; the United States Trustees; and the Assets Forfeiture Fund (AFF).
- **Strategic Goal 3, Assist State, Local, and Tribal Efforts to Prevent or Reduce Crime and Violence**, includes OJP, COPS, OVW as well as the AFF and services to America's crime victims.
- **Strategic Goal 4, Ensure the Fair and Efficient Operation of the Federal Justice System**, includes the USMS, the BOP (which includes FPI), the OFDT, the U.S. Parole Commission, EOIR, and Fees and Expenses of Witnesses program.

Management and administrative costs, including the Department's leadership offices, Justice Management Division, the leadership offices, and the Wireless Management Office, and others are allocated to each goal based on full-time equivalent (FTE) employment<sup>1</sup>.

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<sup>1</sup> FTE employment means the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, compensatory time off and other approved leave categories are considered "hours worked" for purposes of defining FTE employment.

**Budgetary Resources:** The Department Combined Statement of Budgetary Resources shows \$31.8 billion in total budgetary resources, a decrease of \$5.6 billion from the previous year's total budgetary resources of \$37.4 billion. This decrease is also due to the sunset of September 11<sup>th</sup> Victim Compensation Fund.

**Net Outlays:** The Department Combined Statement of Budgetary Resources shows \$23.0 billion in net outlays, a decrease of \$6.3 billion from the previous year's total net outlays of \$29.3. This decrease is also due to the sunset of September 11<sup>th</sup> Victim Compensation Fund.

## COUNTERTERRORISM RESOURCES

The Department applies a strict definition to the resources that are considered *counterterrorism* in nature: it includes only those activities for which the *primary* mission is counterterrorism. For the Department within Strategic Goal 1 (Strategic Objectives 1.1 and 1.2), this includes activities of the FBI, USAs' offices, and the Criminal Division, where net costs totaled \$1.7 billion in FY 2005. However, many of the Department's other activities support the counterterrorism mission in a variety of ways. Using a broader definition of counterterrorism activities, to include providing homeland security, the Department incurred net costs of \$2.1 billion<sup>2</sup> in supporting the counterterrorism/homeland security effort. This represents approximately 9% percent of the Department's net costs in FY 2005.

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<sup>2</sup> Net costs of operations are the gross costs incurred by the reporting entity less any exchange revenue earned from its activities. The gross costs of a program consist of the full costs of the outputs produced by that program plus any non-production costs that can be assigned to the program. Due to no year funding, timing of obligations, and other factors, these net costs will not directly reconcile with the annual amounts requested and appropriated in the same fiscal year.