ASSETS FORFEITURE FUND AND SEIZED ASSET DEPOSIT FUND ANNUAL FINANCIAL STATEMENTS FISCAL YEAR 2011

U.S. Department of Justice
Office of the Inspector General
Audit Division

Audit Report 12-12
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ASSETS FORFEITURE FUND
AND
SEIZED ASSET DEPOSIT FUND
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2011

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF) for the fiscal years (FY) ended September 30, 2011, and September 30, 2010. Under the direction of the Office of the Inspector General (OIG), KPMG LLP performed AFF/SADF's audit in accordance with U.S. generally accepted government auditing standards. The audit resulted in an unqualified opinion on the FY 2011 financial statements. An unqualified opinion means that the financial statements present fairly, in all material respects, the financial position and the results of the entity's operations in conformity with U.S. generally accepted accounting principles. For FY 2010, the Department also received an unqualified opinion on its financial statements (OIG Report No. 11-12).

KPMG LLP also issued reports on internal control over financial reporting and on compliance and other matters. The auditors did not identify any significant deficiencies in the FY 2011 *Independent Auditors' Report on Internal Control over Financial Reporting*. Additionally, no instances of non-compliance with applicable laws and regulations, and the *Federal Financial Management Improvement Act of 1996* were identified during the audit in the FY 2011 *Independent Auditors' Report on Compliance and Other Matters.*

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquiries of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on AFF/SADF'S financial statements, conclusions about the effectiveness of internal control, conclusions on whether AFF/SADF'S financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*, or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' reports dated November 08, 2011, and the conclusions expressed in the reports. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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AND
SEIZED ASSET DEPOSIT FUND
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Management's Discussion and Analysis
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MISSION

The primary mission of the Department of Justice (DOJ or the Department) Asset Forfeiture Program (AFP or the Program) is to prevent and reduce crime by disrupting, damaging, and dismantling criminal organizations through the use of the forfeiture sanction. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for the administration and financial management of the AFP are charged with lawfully, effectively, and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes. The Assets Forfeiture Fund (AFF or the Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the DOJ, which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

ORGANIZATION STRUCTURE

Table 1 below displays the primary functional activities of the participating agencies in the AFP. For the full names of the participating agencies, see Footnote 1. These agencies investigate or prosecute criminal activity under statutes, such as the Comprehensive Drug Abuse Prevention and Control Act of 1970, the Racketeer Influenced and Corrupt Organizations statute, the Controlled Substances Act, and the Money Laundering Control Act, or provide administrative support services to the Program.

Table 1. Asset Forfeiture Program Participants by Function [1]

Function	AFMLS	OCDETF	AFMS	ATF	DCIS	DEA	DS	EOUSA	FBI	FDA	USDA	USMS	USPS
Investigation		X		X	X	X	X		X	X	X		X
Litigation	X							X					
Custody of Assets				X		X			X			X	
Management	X		X										

FINANCIAL STRUCTURE

The AFP is comprised of two funds, which are under the management control of the Asset Forfeiture Management Staff (AFMS). The AFF is a special fund listed in the U.S. Treasury Federal Account Symbols and Titles Book as 15X5042. The SADF is a deposit fund listed as 15X6874.

The AFF was created by the Comprehensive Crime Control Act of 1984 to be the repository of the proceeds of forfeitures under any law enforced and administered by the DOJ (28 U.S.C. § 524(c)). All

[1] The participants include the Asset Forfeiture and Money Laundering Section, Criminal Division (AFMLS); Organized Crime Drug Enforcement Task Force (OCDETF); Asset Forfeiture Management Staff, Justice Management Division (AFMS); Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); Defense Criminal Investigative Service (DCIS); Drug Enforcement Administration (DEA); Bureau of Diplomatic Security, Department of State (DS); Executive Office for United States Attorneys (EOUSA); Federal Bureau of Investigation (FBI); Food and Drug Administration (FDA), United States Department of Agriculture (USDA); United States Marshals Service (USMS); and United States Postal Service (USPS).

amounts earned from the investment of AFF and SADF balances are deposited into the AFF. The interest earned on the AFF balances is the property of the United States Government.

Monies deposited in the AFF are used to cover operating costs of the Program. These costs include, for example, asset management and disposition expenses; equitable sharing payments to participating state, local, and foreign governments; Automatic Data Processing (ADP) equipment expenses; contract service payments; and payments of innocent third party claims. All salaries and employment related expenses, liabilities, and imputed financing costs of DOJ AFP participants are reported in the financial statements of the participants' reporting entities. Salaries and employment related costs of administrative personnel of the AFMS, AFMLS, and USMS are charged to the AFP as program operating costs. The AFP's operating costs do not include the costs of any participant salaries incurred while conducting investigations leading to seizure and forfeiture.

While the AFF is the repository for forfeited currency and proceeds arising from the sale of forfeited property and also serves as the operating fund for specified program expenditures, the SADF serves as a repository for seized currency and specified deposits.

The SADF was created administratively by the DOJ to ensure control over monies seized by agencies participating in the DOJ's AFP. Public Law (P.L.) 102-140, dated October 28, 1991, provided authority for the investment of SADF balances pending adjudication. Generally, monies in the SADF are not the property of the Government. The SADF holds seized cash, the proceeds of any pre-forfeiture sale of seized property, and forfeited cash not yet transferred to the AFF. Operating businesses under seizure also may be managed through the SADF. Because most funds held in the SADF are not Government property, monies in the SADF cannot be expended. SADF balances are transferred to the AFF upon the successful conclusion of a forfeiture action.

The Fund receives most of its revenue from the forfeiture of cash and other monetary assets and, secondly, from the sale of forfeited property. AFP participants may receive annual allocations by suballotment advice or reimbursement agreement. The Fund's first priority is to cover the business or operational expenses of the AFP. After it is determined that there will be sufficient receipts, allocations may be made for investigative expenses, such as awards for information, purchase of evidence, and equipping of conveyances, and also discretionary expenses, such as storage, protection and destruction of controlled substances.

Limitations on the Use of the Assets Forfeiture Fund

The AFF is defined by statute. Authorities and limitations governing use of the AFF are specified in 28 U.S.C. § 524(c). In addition, use of the AFF is controlled by laws and regulations governing the use of public monies and appropriations (e.g., 31 U.S.C. § 1341-1353 and 1501-1558, Office of Management and Budget (OMB) Circulars, and provisions of annual appropriation acts). The AFF is further controlled by the *Attorney General's Guidelines on Seized and Forfeited Property* (July 1990), policy memoranda, and statutory interpretations issued by appropriate authorities. Unless otherwise provided by law, restrictions on the use of AFF monies retain those limitations after any monies are made available to a recipient agency. Moreover, monies are available for use only to the extent that receipts are available in the AFF.

In Fiscal Year (FY) 2011 and 2010, monies were available under a permanent indefinite appropriation to finance the following:

(1) The operational costs of the forfeiture program, including handling and disposal of seized and forfeited assets, and the execution of legal forfeiture proceedings to perfect the title of the United States in that property.

(2) The payment of innocent third party claims.

(3) The payment of equitable shares to participating foreign governments and state and local law enforcement agencies.

(4) The costs of ADP equipment and ADP support for the Program.

(5) Contract services in support of the Program.

(6) Training and printing associated with the Program.

(7) Other management expenses of the Program.

(8) Awards for information leading to forfeiture.

(9) Joint Federal, state, and local law enforcement operations.

(10) Investigative expenses leading to seizure.

Resources of the AFF are intended to cover the business expenses of the AFP, with any excess balances available for discretionary purposes, including investigative expenses subject to appropriations limitation (definite authority). Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for ". . . any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the DOJ" pursuant to 28 U.S.C. § 524(c)(8)(E).

Holding and Accounting for Seized and Forfeited Property

The USMS has primary responsibility for holding and maintaining real and tangible personal property seized by participating agencies for disposition. Seized property can be either returned to the owner or forfeited to the Government. Forfeited property is subsequently sold, placed into official use, destroyed, or transferred to another agency. Seized and forfeited property is not considered inventory held for resale in the normal course of business.

ANALYSIS OF FINANCIAL STATEMENTS

The following are brief explanations for the AFF/SADF financial results, position, and condition conveyed in the principal financial statements. In FY 2011, ten major fraud cases resulted in extraordinary forfeiture income of $733.6 million compared to the nine FY 2010 fraud cases that resulted in extraordinary forfeiture income of $630.3 million. The term extraordinary is considered nonrecurring forfeiture income greater than $25 million. The AFF/SADF financial results reflect the impact of the large cases on forfeiture income and accrued liabilities in the fund balance with Treasury, accounts payable, forfeiture revenue, and budgetary resources.

Consolidated Balance Sheets

Total assets, which present as of a specific time the amounts of future economic benefits owned or managed by the AFF/SADF, increased in FY 2011 to $6,869.6 million from $3,999.8 million in FY 2010, an increase of 71.7 percent. This is mostly attributable to a $2,206.2 million asset from Jeffery Picower which is related to the Bernard Madoff financial fraud case. If seized assets, which are not yet owned by the government, are not included, the adjusted assets of the Fund increased to $2,852.8 million in FY 2011 from $2,575.0 million in FY 2010, an increase of 10.8 percent. This is attributable to an increase in forfeited assets in FY 2011 from FY 2010, indicating a strong current and future potential stream of assets flowing into the AFF.

Total liabilities of the funds increased to $5,109.1 million in FY 2011 from $2,312.4 million in FY 2010, an increase of 120.9 percent. The majority of the change, $2,796.7 million, in liabilities is due to the increase in seized cash and monetary instruments; the bulk of it is from the Picower asset. This represents money that has been received, but not recognized as earned. Current assets were more than current liabilities by a ratio of 2.61 to 1, which reflects a decrease of 0.29 from FY 2010. This ratio continues to indicate that the AFF will be able to meet its obligations when due. In the calculation of the ratio of current assets to current liabilities, current assets consist of total assets less SADF net investments, plus seized cash deposited, seized monetary instruments (see Note 11), and less property, plant and equipment while current liabilities include the total of liabilities covered by budgetary resources, except for total seized cash and monetary instruments.

Consolidated Statements of Net Cost

Net cost of operations is related to DOJ's strategic goal 2: Prevent Crime, Enforce Federal Laws and Represent the Rights and Interests of the American People. Net cost of operations increased to $1,663.9 million in FY 2011 from $1,284.4 million in FY 2010, an increase of 29.5 percent. To the extent that financing sources do not cover net costs, AFF's carry forward balances are used to support program expenses. The carry forward balances consist primarily of special case funds and monies for operational requirements.

Consolidated Statements of Changes in Net Position

Net position, an indicator of the Fund's future capability to support ongoing operations, increased to $1,760.5 million in FY 2011 from $1,687.4 million in FY 2010, an increase of 4.3 percent. The Fund's financing sources consist primarily of forfeited cash and other monetary assets and, secondly, sale proceeds of forfeited property. Additional factors that consume resources and influence the AFF net position to a lesser extent include the short-term interest rates that affect revenue from investments in Government securities; the nature of seized non-cash properties that must be converted into cash and the transfers of properties placed into official use.

The Program invests cash balances from both the AFF and SADF in Government securities. Earnings over a five-year period are presented in Figure 2. Investment interest earnings (i.e., nonexchange revenue) realized for the fiscal year ended September 30, 2011, totaled $4.6 million, which is $700 thousand more than the $3.9 million in investment interest earnings for the fiscal year ended September 30, 2010. FY 2011 investment interest earned is $400 thousand less than the $5.0 million estimated for FY 2011 in the Budget of the United States Government, Fiscal Year 2012--Appendix. The increased earnings are due primarily to the increased fund balances and to a lesser extent the increase in interest rates for one-month, three-month, and six-month Treasury bills. Amounts available for investment are difficult to predict because many factors influence the balance. For example, one significant factor is the level of third party payments and equitable sharing distributions. Uncertainties in the dollar amount and timing of these disbursements are difficult to predict. Additional factors include the time to process equitable sharing requests and appeals of forfeiture judgments.

Combined Statements of Budgetary Resources

Total budgetary resources increased to $2,708.9 million in FY 2011 from $2,440.9 million in FY 2010, a 11.0 percent increase. The net increase is attributed to an increase in deposits into the AFF. Nonrecurring forfeiture income increased to $733.6 million in FY 2011 from $630.3 million in FY 2010. From FY 2011 activity, approximately $534.4 million of forfeiture income will be disbursed to the victims of the fraud cases. As a result of the cases, the net outlays increased to $1,410.7 million in FY 2011 from $1,286.1 million in FY 2010, an increase of 9.7 percent.

The total obligations incurred in FY 2011 were $1,620.2 million, an increase of $189.5 million compared to $1,430.7 million incurred in FY 2010. The FY 2011 obligations increased relative to FY 2010 due to nonrecurring case activity in FY 2011.

The AFF’s unobligated balance was $1,088.7 million as of September 30, 2011, an increase of 7.8 percent as compared to $1,010.2 million as of September 30, 2010. The unobligated balance carried forward is retained in the AFF to ensure the availability of sufficient monies in the upcoming fiscal year for authorized purposes. These purposes include program operating expenses as well as pending extraordinary distributions, pending innocent third party payments, uncommitted Super Surplus authority, and other items. For example, as of September 30, 2011, pending extraordinary equitable sharing distributions totaled an estimated $644.4 million, which is comprised of 593 assets with values greater than $1 million.

Table 2. Source of Assets Forfeiture Fund Resources
(Dollars in Thousands)

Source	FY 2011	FY 2010	Change %
Exchange Revenue	$9,513	$7,324	29.9%
Budgetary Financing Sources			
Nonexchange Revenues	4,596	3,864	18.9%
Donations and Forfeitures of Cash or Cash Equivalents	1,580,584	1,502,466	5.2%
Other Financing Sources			
Donations and Forfeitures of Property	157,381	70,864	122.1
Transfers-In/Out Without Reimbursement	(6,120)	(31,259)	80.4%
Imputed Financing from Costs Absorbed by Others	602	0	100.0%
Total	$1,746,556	$1,553,259	12.4%

Table 3. How Assets Forfeiture Fund Resources are Spent
(Dollars in Thousands)

Strategic Goal (SG)	FY 2011	FY 2010	Change %
SG 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People			
Total Gross Cost	$1,673,412	$1,291,742	
Less: Total Earned Revenue	9,513	7,324	
Total Net Cost of Operations	$1,663,899	$1,284,418	29.5%

2011 Financial Highlights

As indicated in Table 3, in FY 2011 the AFF supported Strategic Goal 2 of the Attorney General's Strategic Plan for Fiscal Years 2007 – 2012, which includes Strategic Objective 2.2 - *Reduce the threat, incidence, and prevalence of violent crime.*

The AFF has no costs associated with counterterrorism or homeland security.

Strategic Goal 2, Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People. Included are expenditures made for case, program, investigative, and other authorized support costs incurred by AFP participants to operate the activities of the Program. The Fund's resources cover the costs of seizing, evaluating, inventorying, maintaining, protecting, advertising, forfeiting, and disposing of property seized for forfeiture. These costs are necessary to support the AFP and fluctuate in direct relation to the forfeiture activity levels of the investigative, prosecutive, litigative, and administrative participants of the Fund. For the fiscal year ended September 30, 2011, $1,663.9 million was expended (net of earned revenue) while $1,284.4 million was expended (net of earned revenue) for the fiscal year ended September 30, 2010. Goal 2 net costs are presented in Figure 1; financing sources are presented in Figure 2.

Figure 1. AFF Net Costs (Dollars in Millions)

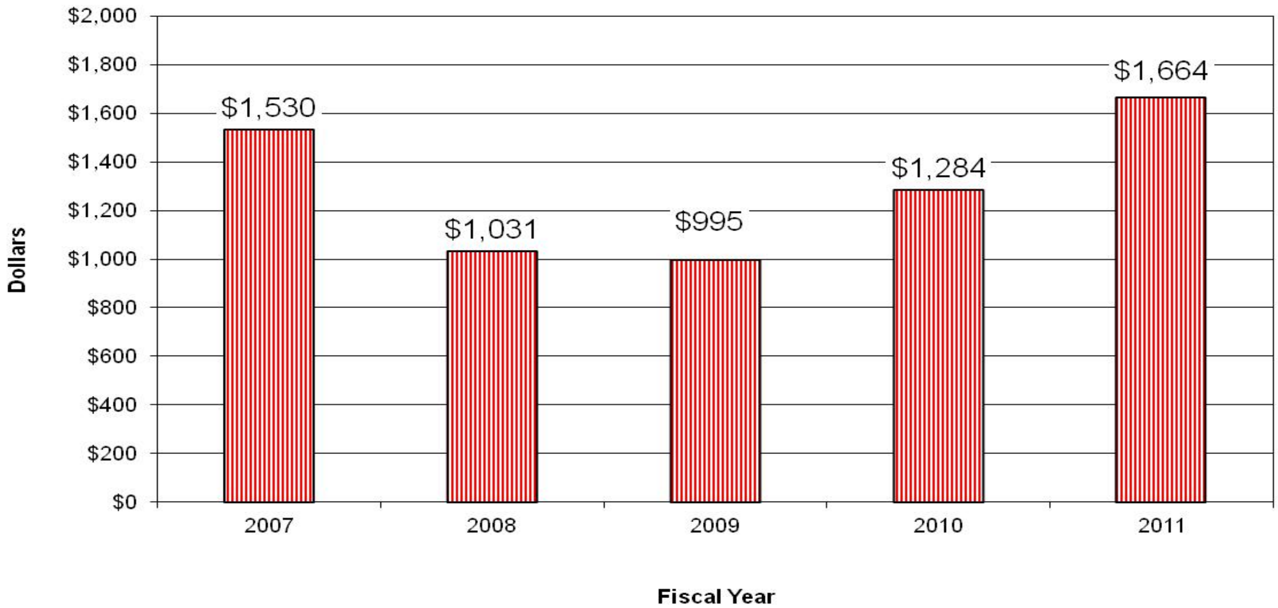
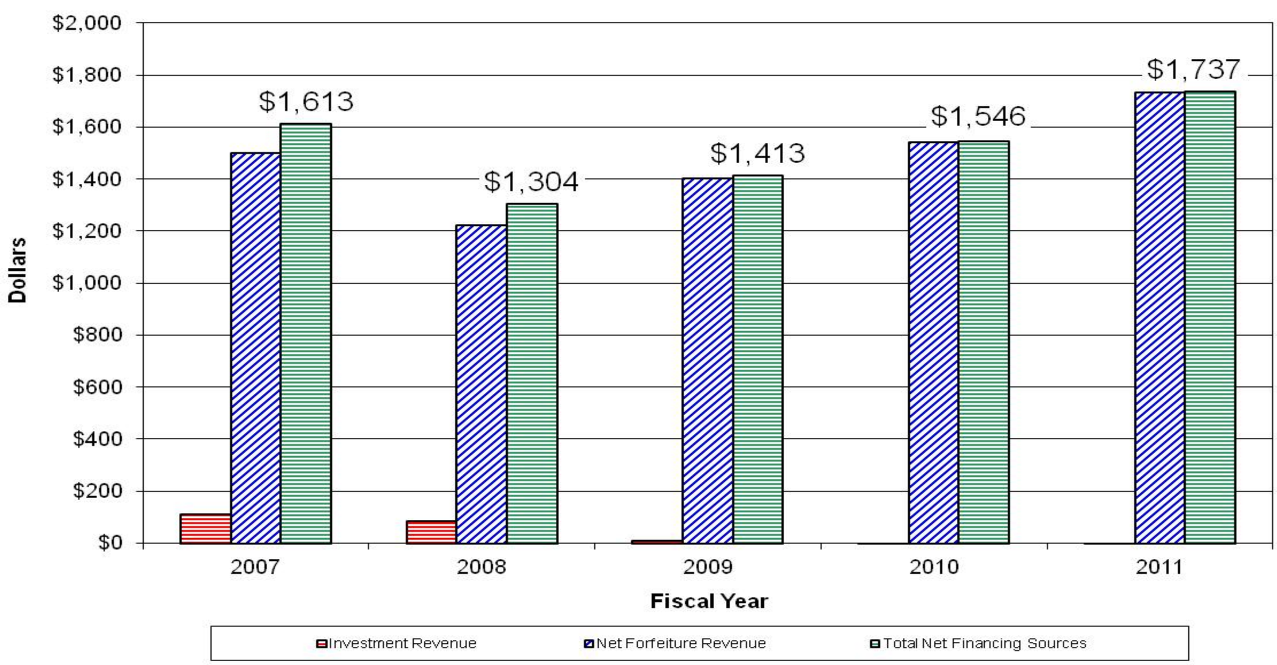


Figure 2. AFF Financing Sources (Dollars in Millions)



PERFORMANCE INFORMATION

Data Reliability and Validity

The AFP views data reliability and validity as critically important in the planning and assessment of its performance. The Justice Management Division (JMD) maintains standards and practices to ensure that data reported meets the OMB standards for data reliability that are presented in OMB Circular No. A-11, *Preparing and Submitting the Annual Performance Report,* Section 230.5.

The financial management of the Fund is supported by two JMD financial systems: Financial Management Information System 2 (FMIS2) and Unified Financial Management System (UFMS). FMIS2 is a computerized, general-purpose accounting and reporting system that supports the financial operations of the DOJ. UFMS is a financial system to standardize business processes across all DOJ components, except for Federal Prison Industries, providing secure, accurate, and timely financial data. The AFMS was the Department's pilot implementation in FY 2008. The implementation was limited to only certain specific transactions such as reimbursable agreements with non-DOJ participants of the AFP. Five components of the Department are scheduled to complete their UFMS implementations by the end of FY 2014. The schedules for the remaining Departmental components have not yet been determined. The FMIS2 remains the official accounting system of the AFP. The USMS' Standardized Tracking and Reporting System (STARS) data is uploaded into FMIS2. STARS is the USMS Headquarters and field offices' financial management system. The USMS will go live on UFMS concurrently with the AFP in FY 2013. CATS is an integrated system that provides services to the asset forfeiture community and serves as a subsidiary system for the financial accounting and reporting of seized and forfeited property. Enhancements and refinements are being made to some of these systems that will improve the usefulness of the data supporting the activities of the AFF and SADF.

FY 2011 REPORT ON SELECTED RESULTS

STRATEGIC GOAL 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People
100% of the AFF's Net Costs support this Goal.

PROGRAM:

Background/Program Objectives: The primary purpose of the AFP is to deter crime by disrupting, damaging, and dismantling criminal organizations through the use of forfeiture sanction. Depriving white collar criminals, drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade not only achieves important law enforcement objectives but also provides an effective means of recovering funds for victim restitution.

Among other important benefits of an aggressive and well-managed forfeiture program is the application of surplus revenues to law enforcement objectives, such as enhancing cooperation among Federal, state, and local law enforcement agencies through the equitable sharing of Federal forfeiture proceeds. Pursuant to 21 U.S.C. § Sec. 881(e)(1) and 19 U.S.C. § Sec. 1616a, as made applicable by 21 U.S.C. § Sec. 881(d) and other statutes, the Attorney General has the authority to equitably transfer forfeited property and cash to state and local agencies that directly participate in the law enforcement effort leading to the seizure and forfeiture of property. All property and cash transferred to state and local agencies and any income generated by this property and cash is to be used for law enforcement purposes. As a result, state and local law enforcement programs and capabilities benefit significantly from their cooperative efforts with Federal law enforcement agencies. Among the uses of equitable shares, priority is given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures.

Performance Measures:

There are no applicable AFP performance measures. No performance measures are indicated because the Fund's program operations are performed by its participants. The Fund is considered to be an enabling/administrative activity where resources are spread across agencies in accordance with full program costing guidance.

Discussion of FY 2011 Results:

Total financing sources realized by the Fund were $1,737.0 million for the fiscal year ended September 30, 2011. This is the sixth year since inception of the Fund that it has exceeded $1 billion in deposits. For example, in FY 2011 there was an SEC violation case against John J. Rigas, the founder of Adelphia Communications Corporation, which yielded approximately $107 million in deposits into the AFF. Another example involves Barclay's Bank PLC which violated the International Emergency Economic Powers Act (IEEPA) and the Trading with the Enemy Act (TWEA); this yielded a deposit of $75 million into the AFF. If we remove the effect of the ten major large cases producing $733.6 million, the deposits still exceeded $990 million in FY 2011.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

FMFIA Section 2 – Material Weaknesses

For FY 2011 and FY 2010, the independent auditors reported no material weaknesses. Management's self assessment of the AFF/SADF internal controls over financial reporting, conducted in FY 2010, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, identified that internal controls over seized and forfeited property management needed to be strengthened. That finding was not repeated in FY 2011.

Based on the results of the assessment for the year ended September 30, 2011, the JMD management did not identify any Section 2 material weaknesses to report that impact the AFP. The FY 2011 AFF/SADF FMFIA report revealed no deficiencies in the seized and forfeited property controls.

Internal Control Program

The Attorney General will provide the overall assurance statement on internal controls for the Department. Component responsibilities will be determined by the Department's Senior Assessment Team.

AFMS is responsible for maintaining internal accounting and administrative controls that are adequate to ensure that: (1) transactions are executed in accordance with applicable budgetary and financial laws and other requirements, consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards; (2) assets are properly safeguarded to deter fraud, waste, and abuse; and (3) management information is adequately supported. AFMS, along with other Fund participants who use FMIS2 and UFMS, monitor their financial transactions on an on-going basis. AFMS also requires participants who enter Fund transactions into their own financial system to provide reports of their financial transactions at least quarterly to update the AFF obligation status.

FMFIA Section 4 – Material Nonconformances

For FY 2011 and FY 2010, the Fund reported no material nonconformances of its financial-mixed IT system CATS. For FY 2011, the Offices, Boards and Divisions' (OBD) and AFP's management participated in the Departmental assessment of internal controls over financial reporting required by Appendix A of OMB Circular No. A-123. Results of the testing of the controls over financial reporting in the OBD's will be consolidated with other Departmental components and reported in the overall Departmental assurance statement. In FY 2011 and FY 2010 the DOJ did not identify any systems non-conformance required to be reported under FMFIA Section 4. The Fund relies upon the Department's JMD/FMIS2 and UFMS managers for Section 4 compliance on the Department's financial system of record.

Legal Compliance

For FY 2011 and FY 2010, the AFF/SADF was in compliance with the requirements and responsibilities defined in applicable laws and administrative requirements, including FMFIA, the Federal Financial Management Improvement Act of 1996 (FFMIA), and relevant OMB Circulars.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Financing sources in FY 2011 totaled $1,737.0 million, which are $191.1 million more than the $1,545.9 million reported in FY 2010. It is difficult to project future levels of financing since they are dependent upon many factors, including the development of new cases, uneven flow of cases through the forfeiture process, level of appropriations that Federal law enforcement agencies receive, level of personnel and monetary resources dedicated to the forfeiture program, international cooperation in forfeiture and repatriation matters, Federal court decisions, and evolving forfeiture law.

In 2008, the DOJ began to replace the core financial management systems with one core commercial off-the-shelf financial management system certified by the Financial Systems Integration Office. The first pilot implementation of the UFMS occurred with AFMS. In 2011, the USMS Asset Forfeiture Division will begin implementation of UFMS. Also in FY 2011, the AFMS will begin implementing the second and final phase of UFMS implementation. The AFMS and USMS AFD implementations of UFMS are scheduled for completion in 2013.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the AFF/SADF, pursuant to the requirements of 31 U.S.C. § 3515(b).

While the statements have been prepared from the books and records of the AFF/SADF in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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Independent Auditors' Reports

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Acting Inspector General
U.S. Department of Justice

Chief Financial Officer
Assets Forfeiture Fund and Seized Asset Deposit Fund
U.S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the AFF/SADF's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice Assets Forfeiture Fund and Seized Asset Deposit Fund as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the *Management's Discussion and Analysis* section is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 8, 2011, on our consideration of the AFF/SADF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 8, 2011

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control over Financial Reporting

Acting Inspector General
U.S. Department of Justice

Chief Financial Officer
Assets Forfeiture Fund and Seized Asset Deposit Fund
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Asset Deposit Fund (SADF) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 8, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the AFF/SADF is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the AFF/SADF's internal control over financial reporting by obtaining an understanding of the AFF/SADF's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the AFF/SADF's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2011 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

Exhibit I presents the status of the prior years’ finding and recommendations.

We noted certain additional matters that we have reported to management of the AFF/SADF in a separate letter dated November 8, 2011.

This report is intended solely for the information and use of the AFF/SADF’s management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2011

EXHIBIT I

STATUS OF PRIOR YEARS' FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended, we have reviewed the status of prior years' findings and recommendations. The following table provides our assessment of the progress the AFF/SADF has made in correcting the previously identified significant deficiencies. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendation for improvement, and the status of the recommendation as of the end of fiscal year 2011:

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statement Fiscal Year 2009 Report No. 10-10	Internal controls over seized and forfeited property management need to be strengthened	**Recommendation No. 1:** Enforce procedures among participating agencies to ensure that data in the property and financial management systems are updated in a timely manner as changes in status and valuations occur.	Completed[1]
		Recommendation No. 3: Work with Asset Forfeiture Program participants to arrive at a standardized process (including acceptable forms of documentation) for authorizing the deletion of CATS property records and maintaining proper documentation as evidence of the authorization.	Completed[1]
Annual Financial Statement Fiscal Year 2010 Report No. 11-12	Internal controls over seized and forfeited property management need to be strengthened	**Recommendation No. 2:** Reinforce among participating agencies the requirement to obtain market value appraisals in a timely manner after transfer of custody is completed.	Completed[1]
		Recommendation No. 3: Reinforce among participating agencies the requirement to "flag" or otherwise denote FIRE assets upon their entry into CATS. Flagging FIRE assets will prevent them from being included in the seized asset footnote disclosures. As a detective control procedure, AFMS should consider performing periodic reviews and analyses of CATS data to identify potential FIRE assets that were not designated as such at the time they were entered into CATS.	Completed[1]

[1] Sufficient progress has been made in addressing this finding and the related recommendation such that the remaining risk of misstatement no longer merits the attention by those charged with governance. Therefore, the condition has been downgraded to a deficiency in internal control.

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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Acting Inspector General
U.S. Department of Justice

Chief Financial Officer
Assets Forfeiture Fund and Seized Asset Deposit Fund
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice Assets Forfeiture Fund (AFF) and Seized Assets Deposit Fund (SADF) as of September 30, 2011 and 2010, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 8, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the AFF/SADF is responsible for complying with laws, regulations, and contracts applicable to the AFF/SADF. As part of obtaining reasonable assurance about whether the AFF/SADF's fiscal year 2011 consolidated financial statements are free of material misstatement, we performed tests of the AFF/SADF's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the AFF/SADF. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

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The results of our tests of FFMIA disclosed no instances in which the AFF/SADF's financial management systems did not substantially comply with the (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) application of the United States Government Standard General Ledger at the transaction level.

This report is intended solely for the information and use of the AFF/SADF's management, the U.S. Department of Justice Office of the Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2011

Principal Financial Statements and Related Notes

See Independent Auditors' Report on Financial Statements

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U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Balance Sheets
As of September 30, 2011 and 2010

Dollars in Thousands	**2011**	**2010**
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with U.S. Treasury (Note 3)	$ 229,030	$ 180,150
Investments, Net (Note 5)	6,346,771	3,491,262
Accounts Receivable, (Note 6)	4,869	4,245
Other Assets (Note 9)	1,766	2,607
Total Intragovernmental	6,582,436	3,678,264
Cash and Monetary Assets (Note 4)	113,822	131,030
Forfeited Property, Net (Note 7)	172,746	189,122
General Property, Plant and Equipment, Net (Note 8)	633	1,417
Advances and Prepayments	6	12
Total Assets	**$ 6,869,643**	**$ 3,999,845**
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ 67,345	$ 69,170
Other Liabilities, (Note 12)	169	-
Total Intragovernmental	$ 67,514	$ 69,170
Accounts Payable	851,013	629,347
Accrued Payroll and Benefits	767	-
Accrued Annual and Compensatory Leave Liabilities	168	-
Deferred Revenue	172,746	189,122
Seized Cash and Monetary Instruments (Note 11)	4,016,891	1,424,806
Total Liabilities	**$ 5,109,099**	**$ 2,312,445**
Contingent Liabilities (Note 13)		
NET POSITION		
Cumulative Results of Operations - Earmarked Funds (Note 14)	$ 1,760,544	$ 1,687,400
Total Net Position	**$ 1,760,544**	**$ 1,687,400**
Total Liabilities and Net Position	**$ 6,869,643**	**$ 3,999,845**

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands

		Gross Costs			Less: Earned Revenues			Net Cost
	FY	**Intra-governmental**	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**	**of Operations (Note 15)**
Goal 2	**2011**	$ 380,028	$ 1,293,384	$ 1,673,412	$ 9,513	$ -	$ 9,513	$ 1,663,899
	2010	$ 382,798	$ 908,944	$ 1,291,742	$ 7,324	$ -	$ 7,324	$ 1,284,418
Total	**2011**	**$ 380,028**	**$ 1,293,384**	**$ 1,673,412**	**$ 9,513**	**$ -**	**$ 9,513**	**$ 1,663,899**
	2010	**$ 382,798**	**$ 908,944**	**$ 1,291,742**	**$ 7,324**	**$ -**	**$ 7,324**	**$ 1,284,418**

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	2011	2010
	Earmarked Funds	**Earmarked Funds**
Cumulative Results of Operations		
Beginning Balances	$ 1,687,400	$ 1,425,883
Budgetary Financing Sources		
Nonexchange Revenues (Note 19)	4,596	3,864
Donations and Forfeitures of Cash and Cash Equivalents (Note 20)	1,580,584	1,502,466
Other Financing Sources		
Donations and Forfeitures of Property (Note 20)	157,381	70,864
Transfers-In/Out Without Reimbursement (Note 18)	(6,120)	(31,259)
Imputed Financing from Costs Absorbed by Others (Note 16)	602	-
Total Financing Sources	**1,737,043**	**1,545,935**
Net Cost of Operations	(1,663,899)	(1,284,418)
Net Change	73,144	261,517
Cumulative Results of Operations	$ 1,760,544	$ 1,687,400
Net Position	**$ 1,760,544**	**$ 1,687,400**

The accompanying notes are an integral part of these financial statements.

U.S. Department of Justice
Assets Forfeiture Fund and Seized Asset Deposit Fund
Combined Statements of Budgetary Resources
For the Fiscal Years Ended September 30, 2011 and 2010

Dollars in Thousands	**2011**	**2010**
Budgetary Resources		
Unobligated Balance, Brought Forward, October 1	$ 1,010,179	$ 1,195,445
Recoveries of Prior Year Unpaid Obligations	83,669	67,328
Budget Authority		
Appropriations Received	2,097,810	1,554,993
Spending Authority from Offsetting Collections		
Earned		
Collected	11,665	10,073
Change in Receivable from Federal Sources	624	223
Change in Unfilled Customer Orders		
Without Advance from Federal Sources	20	-
Subtotal Budget Authority	2,110,119	1,565,289
Temporarily not Available Pursuant to Public Law	(495,042)	(387,200)
Permanently Not Available	-	
Total Budgetary Resources (Note 17)	**$ 2,708,925**	**$ 2,440,862**
Status of Budgetary Resources		
Obligations Incurred		
Direct	$ 1,615,962	$ 1,423,309
Reimbursable	4,244	7,374
Total Obligations Incurred (Note 17)	1,620,206	1,430,683
Unobligated Balance - Available		
Apportioned	635,227	669,036
Total Unobligated Balance - Available	635,227	669,036
Unobligated Balances not Available	453,492	341,143
Total Status of Budgetary Resources	**$ 2,708,925**	**$ 2,440,862**
Change in Obligated Balance		
Obligated Balance, Net - Brought Forward, October 1		
Unpaid Obligations	$ 982,679	$ 919,387
Less: Uncollected Customer Payments from Federal Sources	4,245	4,022
Total Unpaid Obligated Balance, Net - Brought Forward, October 1	978,434	915,365
Obligations Incurred, Net	1,620,206	1,430,683
Less: Gross Outlays	1,426,916	1,300,063
Less: Recoveries of Prior Year Unpaid Obligations, Actual	83,669	67,328
Change in Uncollected Customer Payments from Federal Sources	(644)	(223)
Obligated Balance, Net - End of Period		
Unpaid Obligations	1,092,300	982,679
Less: Uncollected Customer Payments from Federal Sources	4,889	4,245
Total Unpaid Obligated Balance, Net - End of Period	**$ 1,087,411**	**$ 978,434**
Net Outlays		
Gross Outlays	$ 1,426,916	$ 1,300,063
Less: Offsetting Collections	11,665	10,073
Less: Distributed Offsetting Receipts (Note 17)	4,596	3,864
Total Net Outlays (Note 17)	**$ 1,410,655**	**$ 1,286,126**

The accompanying notes are an integral part of these financial statements

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Assets Forfeiture Fund (AFF or Fund) and Seized Asset Deposit Fund (SADF) together comprise a single financial reporting entity of the Department of Justice (DOJ or Department), which includes the specified funds, property seized for forfeiture, and the transactions and program activities of DOJ forfeiture program components and other participating agencies as described more fully herein.

The primary mission of the DOJ Asset Forfeiture Program (AFP) is to maximize the effectiveness of forfeiture as a deterrent to crime. This is accomplished by means of depriving drug traffickers, racketeers, and other criminal syndicates of their ill-gotten proceeds and instrumentalities of their trade. Components responsible for administration and financial management of the AFP are charged with lawfully, effectively, and efficiently supporting law enforcement authorities in the application of specified forfeiture statutes.

The AFF was created by the Comprehensive Crime Control Act of 1984 to be a repository of proceeds from forfeitures under any law enforced and administered by the DOJ. AFF and SADF are managed by the Asset Forfeiture Management Staff (AFMS), Justice Management Division (JMD). The SADF was created administratively by the Department to ensure control over monies seized by agencies participating in the Department's AFP.

B. Basis of Presentation

These financial statements have been prepared from the books and records of the AFF/SADF 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 No. A-136, *Financial Reporting Requirements*. These financial statements are different from the financial reports prepared pursuant to OMB

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

B. Basis of Presentation (continued)

directives, which are used to monitor and control the use of the AFF/SADF budgetary resources. To ensure that the AFF/SADF 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 No. A-136 have been disaggregated on the balance sheet. These include Forfeited Property, Net; Advances and Prepayments; Accrued Payroll and Benefits; Accrued Annual and Compensatory Leave Liabilities; Deferred Revenue and Seized Cash and Monetary Instruments.

C. Basis of Consolidation

The consolidated/combined financial statements include the accounts of the AFF/SADF. All significant proprietary intra-entity transactions and balances have been eliminated in consolidation. The Statement of Budgetary Resources is a combined statement for FYs 2011 and 2010, and as such, intra-entity transactions have not been eliminated.

D. Basis of Accounting

Transactions are recorded on the accrual and budgetary bases 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.

E. Non-Entity Assets

Non-entity assets consist of seized property and investments of seized cash that are not available to fund the operations of the AFP.

F. Fund Balance with U.S. Treasury and Cash

Generally, the U.S. Treasury processes cash receipts and disbursements for the AFF and SADF. The funds in the AFF, a special fund receipt account, are entity assets and are used to finance the operations of the AFP. Seized cash is deposited and accounted for in the SADF, a deposit fund, until a determination has been made as to its disposition. If title passes to the U.S. Government, the forfeited cash is then transferred from the SADF to the AFF. The cash balance in the SADF is a non-entity asset and is not available to finance the AFP activities, but the AFP does have statutory authority for the investment of idle cash.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

G. Investments

The AFF and SADF are authorized by 28 U.S.C. § 524(c) to invest idle funds in excess of their immediate needs in U.S. Treasury Securities. Investments are short-term non-marketable market-based Federal Debt securities issued by the Bureau of Public Debt (BPD) and purchased exclusively through the BPD's Division of Federal Investments. Investments are reported on the Consolidated Balance Sheet at their net value, the face value plus or minus any unamortized premium or discount. Premiums and discounts are amortized over the life of the Treasury security. Amortization is based on the straight-line method over the term of the securities. AFF and SADF intend to hold investments to maturity. Accordingly, no provision is made for unrealized gains or losses on these securities.

H. Accounts Receivable

Accounts receivable mainly consist of amounts due from other Federal agencies for goods or services provided by the AFP. Receivables arising from services provided to other Federal agencies are considered fully collectible. Therefore, no allowance for uncollectible accounts is established.

I. General Property, Plant and Equipment

The General Services Administration (GSA), which charges rent equivalent to the commercial rates for similar properties, provides a building on a reimbursable basis in which AFMS operates. The Department does not recognize depreciation on buildings owned by the GSA.

Property, plant and equipment consist of leasehold improvements and enhancements to the Consolidated Asset Tracking System (CATS), which meet the SFFAS No. 10, *Accounting for Internal Use Software,* definition of "internal use software." Leasehold improvements are capitalized when the initial cost of acquiring the asset is $100 or more, and the asset has an estimated useful life of two or more years. 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. Internal use software purchases with an acquisition cost of less than $500 are expensed when purchased. Depreciation is calculated using the straight-line method over the useful lives of the assets.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

J. Advances and Prepayments

Advances and prepayments include advances to other Federal agencies for any law enforcement, litigative/prosecutive, and correctional activity, or any other authorized purpose of the DOJ and travel advances issued to Federal employees for official travel. Travel advances are limited to meals and incidental expenses expected to be incurred by 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. Advances and prepayments involving other Federal agencies are classified as Other Assets on the balance sheet.

K. Forfeited and Seized Property

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. The value of seized property is its estimated fair market value at the time it was seized. Most seized property is held by the USMS from the point of seizure until its disposition. In certain cases, the investigative agency will keep seized property in its custody if the intention is to place the property into official use after forfeiture or to use the property as evidence in a court proceeding.

Forfeited property is property for which title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture and is not adjusted for any subsequent increases and decreases in estimated fair market value. The value of the property is reduced by estimated liens of record. The amount ultimately realized from the forfeiture and disposition of these assets could differ from the amounts initially reported. The proceeds from the sale of forfeited property are deposited in the AFF.

L. Liabilities

AFF accounts payable represent liabilities to both Federal and non-Federal entities. Deferred revenue represents the value of forfeited property not yet sold or placed into official use. Seized cash and monetary instruments represent liabilities for SADF amounts on deposit pending disposition.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

M. Contingencies and Commitments

The AFF is party to various administrative proceedings, legal actions and claims. The balance sheet includes an estimated liability for those legal actions where management and the Chief Counsel consider adverse decisions "probable" and amounts are reasonably estimable. Legal actions where management and the Chief Counsel consider adverse decisions "probable" or "reasonably possible" and the amounts are reasonably estimable are disclosed in Note 13, *Contingencies and Commitments*. However, there are cases where amounts have not been accrued or disclosed because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is considered "remote".

N. Retirement Plans

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 AFF contributes 7% of the employees' gross pay for retirement. For employees covered by FERS, the AFF contribute 11.7% of the employees' gross pay for 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 AFF 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 AFF does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to their 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 16, *Imputed Financing from Costs Absorbed by Others*, for additional details.

O. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, Federal agencies must pay interest on payments for goods or services made to 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.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

P. Intragovernmental Activity

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 costs incurred to produce public and intragovernmental revenue.

Q. Revenues and Other Financing Sources

The funds in the AFF are derived primarily from financing sources and are presented on the Consolidated Statements of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on investments (i.e., nonexchange revenues) and (2) donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments. These financing sources are recognized when cash is forfeited, forfeited property is sold, or forfeited property is placed into official use or transferred to another Federal agency. The financing sources from legal judgments are not recognized until the judgment has been enforced. Deferred revenue is recorded when the property is forfeited. When the property is sold or otherwise disposed, the deferred revenue becomes earned and a financing source is recognized. The AFF recognizes exchange revenue when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the U.S. Department of the Treasury (Treasury), Treasury Forfeiture Fund (TFF). The AFF recognizes exchange revenue on a reimbursement basis and the revenue is presented on the Consolidated Statements of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal agencies are treated as returns of financing sources when disbursed. The funds in the SADF are held in trust until a determination is made as to their disposition. These funds include seized cash, proceeds from preforfeiture sales of seized property, and income from property under seizure. No revenue recognition is given to cash deposited in the SADF.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

R. Earmarked Funds

SFFAS No. 27, *Identifying and Reporting Earmarked Fund* 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.

The AFF meets the definition of an Earmarked Fund, but the SADF does not meet the definition of an Earmarked Fund.

S. Tax Exempt Status

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

T. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

U. Subsequent Events

Subsequent events and transactions occurring after September 30, 2011 through the date of the auditors' opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Note 2. Non-Entity Assets

Non-entity assets are assets held by the AFP that are not available for use by the AFP.

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Investments, Net (Note 5)	$ 3,903,069	$ 1,293,776
With the Public		
Cash and Monetary Assets	113,822	131,030
Total Non-Entity Assets	4,016,891	1,424,806
Total Entity Assets	2,852,752	2,575,039
Total Assets	$ 6,869,643	$ 3,999,845

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2011 and 2010

	2011	2010
Fund Balances		
Special Funds	$ 229,030	$ 180,150
Status of Fund Balances		
Unobligated Balance - Available	$ 635,227	$ 669,036
Unobligated Balance - Unavailable	453,492	341,143
Obligated Balance not yet Disbursed	1,087,411	978,434
Other Funds (With)/Without Budgetary Resources	(1,947,100)	(1,808,463)
Total Status of Fund Balances	$ 229,030	$ 180,150

Other Funds (With)/Without Budgetary Resources primarily represent the AFF investments in short-term securities less amounts Temporarily not Available Pursuant to Public Law.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Note 4. Cash and Monetary Assets

Cash consists of seized cash deposited in the SADF. Monetary assets include seized cash in DOJ custody but not yet deposited in the SADF.

As of September 30, 2011 and 2010

	2011	2010
Cash		
Seized Cash Deposited	$ 87,243	$ 106,154
Monetary Assets		
Seized Monetary Instruments	26,579	24,876
Total Cash and Monetary Assets	$ 113,822	$ 131,030

Note 5. Investments, Net

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with AFF. The cash receipts collected from the public for the AFF, an earmarked fund, are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to the AFF as evidence of its receipts. Treasury securities are an asset to the AFF and a liability to the U.S. Treasury. Because the AFF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Note 5. Investments, Net (continued)

Treasury securities provide the AFF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the AFF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

	Face Value	Unamortized Premium (Discount)	Investments, Net	Market Value
As of September 30, 2011				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	$ 2,443,690	$ 12	$ 2,443,702	$ 2,443,596
SADF	3,903,291	(222)	3,903,069	3,903,095
Total	$ 6,346,981	$ (210)	$ 6,346,771	$ 6,346,691
As of September 30, 2010				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	$ 2,197,692	$ (206)	$ 2,197,486	$ 2,236,272
SADF	1,294,372	(596)	1,293,776	1,255,044
Total	$ 3,492,064	$ (802)	$ 3,491,262	$ 3,491,316

U.S. Department of Justice
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Note 6. Accounts Receivable

Accounts receivable consist mostly of amounts owed to the AFF from the Treasury Executive Office for Asset Forfeiture for services provided to the U.S. Treasury. There is no allowance for uncollectible accounts since accounts receivable from business with Federal entities are considered fully collectible.

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Accounts Receivable	$ 4,869	$ 4,245
Total Accounts Receivable	$ 4,869	$ 4,245

Note 7. Forfeited and Seized Property

Property seized for any purpose other than forfeiture and held by the seizing agency or a custodial agency is reported in the financial statements of the seizing or custodial agency. All property seized for forfeiture, including property with evidentiary value, is reported in the financial statements of the AFF/SADF. Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*, requires disclosure of property that does not have a legal market in the United States or does not have a value to the Federal government.

A. Forfeited Property

The following tables show the analysis of changes in and methods of disposition of forfeited property, excluding cash, during the fiscal years ended September 30, 2011 and 2010, respectively.

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Analysis of Changes in Forfeited Property -- For the Fiscal Year Ended September 30, 2011

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Financial Instruments	Number	97	-	155	(135)	117	-	117
	Value	$2,219	-	$15,822	($16,311)	$1,730	-	$1,730
Real Property	Number	477	-	315	(340)	452	-	452
	Value	$89,018	-	$74,928	($65,938)	$98,008	($866)	$97,142
Personal Property	Number	3,047	-	5,996	(5,659)	3,384	-	3,384
	Value	$102,196	-	$93,813	($121,163)	$74,846	($972)	$73,874
Firearms, Non-Valued	Number	19,378	-	16,231	(12,016)	23,593	-	23,593
Total	Number	22,999	-	22,697	(18,150)	27,546	-	27,546
	Value	$193,433	-	$184,563	($203,412)	$174,584	($1,838)	$172,746

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders.

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2011

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
Financial Instruments	Number	21	112	-	-	2	-	135
	Value	$484	$14,571	-	-	$1,256	-	$16,311
Real Property	Number	-	5	309	1	25	-	340
	Value	-	$179	$60,290	$55	$5,414	-	$65,938
Personal Property	Number	-	986	3,509	972	192	-	5,659
	Value	-	$1,461	$105,116	$11,994	$2,592	-	$121,163
Firearms, Non-Valued	Number	-	11,355	-	265	396	-	12,016
Total	Number	21	12,458	3,818	1,238	615	-	18,150
	Value	$484	$16,211	$165,406	$12,049	$9,262	-	$203,412

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

U.S. Department of Justice
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Analysis of Changes in Forfeited Property -- For the Fiscal Year Ended September 30, 2010

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	90	-	162	(155)	97	-	97
	Value	$19,680	-	$10,043	($27,504)	$2,219	($155)	$2,064
Real Property	Number	496	-	358	(377)	477	-	477
	Value	$104,905	-	$60,739	($76,626)	$89,018	($3,468)	$85,550
Personal Property	Number	3,496	-	5,264	(5,713)	3,047	-	3,047
	Value	$105,038	-	$67,480	($70,322)	$102,196	($688)	$101,508
Firearms, Non-Valued	Number	21,940	-	9,457	(12,019)	19,378	-	19,378
Total	Number	26,022	-	15,241	(18,264)	22,999	-	22,999
	Value	$229,623	-	$138,262	($174,452)	$193,433	($4,311)	$189,122

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders.

Methods of Disposition of Forfeited Property -- For the Fiscal Year Ended September 30, 2010

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variance (2)	Total
Financial Instruments	Number	147	5	-	-	3	-	155
	Value	$26,814	$11	-	-	$679	-	$27,504
Real Property	Number	-	28	302	1	46	-	377
	Value	-	$2,264	$62,439	$300	$11,623	-	$76,626
Personal Property	Number	4	1,225	3,240	1,037	191	16	5,713
	Value	$49	$4,285	$41,239	$10,856	$4,743	$9,150	$70,322
Firearms, Non-Valued	Number	-	11,600	-	103	316	-	12,019
Total	Number	151	12,858	3,542	1,141	556	16	18,264
	Value	$26,863	$6,560	$103,678	$11,156	$17,045	$9,150	$174,452

(1) The sold/liquidated total dollar value does not agree to Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 because the sold/liquidated amount above represents the assets at their appraised values at forfeiture, and the Donations and Forfeitures of Property on the Statement of Changes in Net Position and Note 20 represents the proceeds realized upon disposition.

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed.

U.S. Department of Justice
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Note 7. Forfeited and Seized Property (continued)

B. Seized Property

The following tables show the analysis of changes in and methods of disposition of property seized for forfeiture during the fiscal years ended September 30, 2011 and 2010, respectively. In the following tables, Seized Cash and Monetary Instruments includes seized cash in transit as well as pre-forfeiture deposits into the SADF of monetary instruments and depository account balances, proceeds from pre-forfeiture sales, and cash received in lieu of seized property. Financial Instruments include negotiable instruments and restricted depository accounts.

U.S. Department of Justice
Notes to the Financial Statements
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Analysis of Changes in Seized Property -- For the Fiscal Year Ended September 30, 2011

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	11,084	-	13,078	(12,114)	12,048	-	12,048
	Value	$1,424,806	-	$3,844,026	($1,251,941)	$4,016,891	($92,080)	$3,924,811
Financial Instruments	Number	413	(109)	274	(101)	477	-	477
	Value	$99,712	($66,438)	$24,101	($4,134)	$53,241	($3,236)	$50,005
Real Property	Number	183	-	153	(190)	146	-	146
	Value	$61,270	-	$49,431	($62,337)	$48,364	($16,030)	$32,334
Personal Property	Number	7,319	-	7,171	(7,013)	7,477	-	7,477
	Value	$161,552	-	$124,371	($101,920)	$184,003	($16,209)	$167,794
Firearms, Non-Valued	Number	34,281	-	23,858	(21,224)	36,915	-	36,915
Total	Number	53,280	(109)	44,534	(40,642)	57,063	-	57,063
	Value	$1,747,340	($66,438)	$4,041,929	($1,420,332)	$4,302,499	($127,555)	$4,174,944

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2011

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	-	114	-	933	11,067	-	12,114
	Value	-	$10,223	-	$73,616	$1,168,102	-	$1,251,941
Financial Instruments	Number	-	9	-	33	59	-	101
	Value	-	$495	-	$937	$2,702	-	$4,134
Real Property	Number	-	5	1	29	155	-	190
	Value	-	$161	$1,600	$9,333	$51,243	-	$62,337
Personal Property	Number	-	112	6	1,425	5,470	-	7,013
	Value	-	$1,030	$29	$25,145	$75,716	-	$101,920
Firearms, Non-Valued	Number	-	572	-	1,104	19,548	-	21,224
Total	Number	-	812	7	3,524	36,299	-	40,642
	Value	-	$11,909	$1,629	$109,031	$1,297,763	-	$1,420,332

(1) Forfeitures reported on the Analysis of Changes in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed

U.S. Department of Justice
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Analysis of Changes in Seized Property -- For the Fiscal Year Ended September 30, 2010

Seized Property Category		Beginning Balance	Adjustments (1)	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance Net of Liens
Seized Cash and Monetary Instruments	Number	10,053	-	12,766	(11,735)	11,084	-	11,084
	Value	$1,451,259	-	$1,588,064	($1,614,517)	$1,424,806	($91,260)	$1,333,546
Financial Instruments	Number	365	-	114	(66)	413	-	413
	Value	$124,578	($37,259)	$28,692	($16,299)	$99,712	($9,045)	$90,667
Real Property	Number	210	-	162	(189)	183	-	183
	Value	$66,178	($5,699)	$56,409	($55,618)	$61,270	($9,675)	$51,595
Personal Property	Number	7,429	-	6,699	(6,809)	7,319	-	7,319
	Value	$158,880	-	$88,032	($85,360)	$161,552	($11,544)	$150,008
Firearms, Non-Valued	Number	39,569	-	9,459	(14,747)	34,281	-	34,281
Total	Number	57,626	-	29,200	(33,546)	53,280	-	53,280
	Value	$1,800,895	($42,958)	$1,761,197	($1,771,794)	$1,747,340	($121,524)	$1,625,816

(1) Adjustments represent changes in the valuation or status of property as a result of fair market appraisals and court orders

Methods of Disposition of Seized Property -- For the Fiscal Year Ended September 30, 2010

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Assets	Forfeited (1)	Variance (2)	Total
Seized Cash and Monetary Instruments	Number	53	56	-	872	10,754	-	11,735
	Value	$3,318	$781	-	$97,626	$1,512,792	-	$1,614,517
Financial Instruments	Number	-	5	-	12	49	-	66
	Value	-	$14	-	$2,234	$14,051	-	$16,299
Real Property	Number	-	3	2	22	162	-	189
	Value	-	$739	$347	$8,458	$46,074	-	$55,618
Personal Property	Number	-	103	13	1,552	5,141	-	6,809
	Value	-	$2,413	$207	$26,771	$55,969	-	$85,360
Firearms, Non-Valued	Number	-	181	-	1,276	13,290	-	14,747
			-					
Total	Number	53	348	15	3,734	29,396	-	33,546
	Value	$3,318	$3,947	$554	$135,089	$1,628,886	-	$1,771,794

(1) Forfeitures reported on the Analysis of Change in Forfeited Property may be greater because some assets are not seized until after they are declared forfeited

(2) Variances can result from differences between the value of the property when seized and the value of the property when disposed

U.S. Department of Justice
Notes to the Financial Statements
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Note 7. Forfeited and Seized Property (continued)

C. Anticipated Equitable Sharing in Future Periods

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 time 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 lapse 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 2012 is $446 million.

Note 8. General Property, Plant and Equipment, Net

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
As of September 30, 2011				
Leasehold Improvements	$ 470	$ (470)	$ -	5 years
Internal Use Software	709	(76)	633	7 years
Total	$ 1,179	$ (546)	$ 633	
As of September 30, 2010				
Leasehold Improvements	$ 470	$ (470)	$ -	5 years
Internal Use Software	4,577	(3,160)	1,417	7 years
Total	$ 5,047	$ (3,630)	$ 1,417	

U.S. Department of Justice
Notes to the Financial Statements
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Note 9. Other Assets

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Advances and Prepayments	$ 1,766	$ 2,607

Note 10. Liabilities not Covered by Budgetary Resources

As of September 30, 2011 and 2010

	2011	2010
Accrued Annual and Compensatory Leave Liability	$ 168	$ -
Total Liabilities not Covered by Budgetary Resources	168	-
Total Liabilities Covered by Budgetary Resources	5,108,931	2,312,445
Total Liabilities	$ 5,109,099	$ 2,312,445

Note 11. Seized Cash and Monetary Instruments

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

As of September 30, 2011 and 2010

	2011	2010
Investments, Net (Note 5)	$ 3,903,069	$ 1,293,776
Seized Cash Deposited (Note 4)	87,243	106,154
Seized Monetary Instruments (Note 4)	26,579	24,876
Total Seized Cash and Monetary Instruments	$ 4,016,891	$ 1,424,806

U.S. Department of Justice
Notes to the Financial Statements
(Dollars in Thousands, Except as Noted)

Note 12. Other Liabilities

All Other Liabilities are current liabilities.

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 169	$ -

Note 13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2011			
Reasonably Possible	$ -	$ 4,000	$ 4,000
As of September 30, 2010			
Reasonably Possible	$ -	$ 4,000	$ 4,000

U.S. Department of Justice
Notes to the Financial Statements
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Note 14. Earmarked Funds

The AFF, an earmarked fund, exists to eliminate economic disincentives to operation of an extensive national asset forfeiture program by providing a stable source of funds to pay costs, not otherwise funded under agency appropriations, to execute forfeiture functions. This is made possible by depositing the proceeds of all forfeitures under any laws enforced or administered by the Department into the Fund, and using those receipts to finance expenses associated with asset forfeiture functions.

The funds in the AFF are derived primarily from financing sources and are presented on the Consolidated Statement of Changes in Net Position as both Budgetary and Other Financing Sources. Financing sources consist of (1) interest earned on Treasury investments (i.e., nonexchange revenues) and (2) non-governmental donations and forfeitures, which include forfeited cash, proceeds from the sale of forfeited property (or conversion of deferred revenue to realized revenue through sale), receipt of payments in lieu of property forfeiture, recovery of asset management expenses, and financing sources from judgments.

The AFF recognizes exchange revenue, on a reimbursement basis, when the United States Attorneys Offices provide services in judicial forfeiture cases brought by agencies participating in the TFF. This revenue is presented on the Consolidated Statement of Net Cost as earned revenue. In accordance with 28 U.S.C. § 524 and AFMS Memorandums of Understanding, donations and forfeitures available for use by certain Federal agencies are treated as returns of financing sources when disbursed.

All funds deposited to the AFF are considered "public" monies, i.e., funds belonging to the U.S. Government. The monies deposited into the AFF are available to cover all expenditures in support of the AFP that are allowable under the Fund statute created by the Comprehensive Crime Control Act of 1984 (P.L. 98-473, dated October 12, 1984) at 28 U.S.C. § 524(c).

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Note 14. Earmarked Funds (continued)

As of September 30, 2011 and 2010

	2011	2010
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	$ 229,030	$ 180,150
Investments, Net	2,443,702	2,197,486
Other Assets	180,020	197,403
Total Assets	$ 2,852,752	$ 2,575,039
Liabilities		
Accounts Payable	$ 918,358	$ 698,517
Other Liabilities	173,850	189,122
Total Liabilities	$ 1,092,208	$ 887,639
Net Position		
Cumulative Results of Operations	$ 1,760,544	$ 1,687,400
Total Net Position	$ 1,760,544	$ 1,687,400
Total Liabilities and Net Position	$ 2,852,752	$ 2,575,039

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Statement of Net Cost		
Gross Cost of Operations	$ 1,673,412	$ 1,291,742
Less: Exchange Revenue	9,513	7,324
Net Cost of Operations	$ 1,663,899	$ 1,284,418
Statement of Changes in Net Position		
Net Position Beginning of Period	$ 1,687,400	$ 1,425,883
Budgetary Financing Sources	1,585,180	1,506,330
Other Financing Sources	151,863	39,605
Total Financing Sources	1,737,043	1,545,935
Net Cost of Operations	(1,663,899)	(1,284,418)
Net Change	73,144	261,517
Net Position End of Period	$ 1,760,544	$ 1,687,400

These notes are an integral part of the financial statements.

U.S. Department of Justice
Notes to the Financial Statements
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Note 15. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2011		Gross Cost	Less: Earned Revenue	Net Cost of Operations
Goal 2:	Payments to Third Parties	$ 639,253	$ -	$ 639,253
	Asset Management Expenses	47,630	-	47,630
	Special Contract Services	116,746	9,513	107,233
	ADP Equipment	7,425	-	7,425
	Forfeiture Case Prosecution	53,530	-	53,530
	Forfeiture Training and Printing	12,725	-	12,725
	Other Program Management	35,014	-	35,014
	Awards for Information	28,218	-	28,218
	Purchase of Evidence	9,078	-	9,078
	Equipping Conveyances	147	-	147
	Contracts to Identify Assets	31,874	-	31,874
	Investigative Cost Leading to Seizure	74,225	-	74,225
	Equitable Sharing	440,063	-	440,063
	Joint Law Enforcement Operations	177,484	-	177,484
	Net Cost of Operations	$1,673,412	$ 9,513	$ 1,663,899

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

For the Fiscal Year Ended September 30, 2010		Gross Cost	Less: Earned Revenue	Net Cost of Operations
Goal 2:	Payments to Third Parties	$ 254,228	$ -	$ 254,228
	Asset Management Expenses	9,823	-	9,823
	Special Contract Services	116,709	7,324	109,385
	ADP Equipment	7,489	-	7,489
	Forfeiture Case Prosecution	54,039	-	54,039
	Forfeiture Training and Printing	10,309	-	10,309
	Other Program Management	44,661	-	44,661
	Awards for Information	12,127	-	12,127
	Purchase of Evidence	7,776	-	7,776
	Equipping Conveyances	819	-	819
	Contracts to Identify Assets	19,778	-	19,778
	Investigative Cost Leading to Seizure	55,110	-	55,110
	Equitable Sharing	550,288	-	550,288
	Joint Law Enforcement Operations	148,586	-	148,586
	Net Cost of Operations	$1,291,742	$ 7,324	$ 1,284,418

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

U.S. Department of Justice
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Note 16. 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 AFF from a providing entity that is not part of the Department of Justice. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts,* the material Imputed Inter-Departmental financing sources recognized by the AFF are the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), the Federal Pension plans that are paid by other Federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the AFF.

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 CSRS, the cost factors are 30.1% of basic pay For employees covered by FERS, the cost factors are 13.8% of basic pay.

The cost to be paid by other agencies is the total calculated future costs, less employee and employer contributions. In addition, the cost of other retirement benefits, which included health and life insurance that are paid by other Federal entities, must also be recorded.

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Imputed Inter-Departmental Financing		
Health Insurance	398	-
Life Insurance	2	-
Pension	202	-
Total Imputed Inter-Departmental	$ 602	$ -

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 the AFF from another component in the Department. The AFF does not have any imputed intra-departmental financing sources that meet the reporting requirements of the Department.

U.S. Department of Justice
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(Dollars in Thousands, Except as Noted)

Note 17. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Obligations Incurred
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	$ 16,425	$ -	$ 16,425
Category B	1,599,537	4,244	1,603,781
Total	$ 1,615,962	$ 4,244	$ 1,620,206
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	$ 31,830	$ -	$ 31,830
Category B	1,391,479	7,374	1,398,853
Total	$ 1,423,309	$ 7,374	$ 1,430,683

Apportionment categories are determined in accordance with the guidance provided in Part 4 *Instructions on Budget Execution* of OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other periods; for activities, projects, and objectives; or for a combination thereof.

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Notes to the Financial Statements
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Note 17. Information Related to the Statement of Budgetary Resources (continued)

Status of Undelivered Orders:

Undelivered Orders (UDOs) represent 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, 2011 and 2010

	2011	2010
UDO Obligations Unpaid	$ 173,007	$ 284,162
UDO Obligations Prepaid/Advanced	1,774	2,620
Total UDOs	$ 174,781	$ 286,782

Permanent Indefinite Appropriations:

28 U.S.C. § 524(c)(1) authorizes the Attorney General to use AFF receipts to pay program operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders. This permanent indefinite authority is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount.

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, unless otherwise restricted. Excess unobligated balances identified at the end of a fiscal year may be declared a "Super Surplus" balance. Super Surplus balances may be allocated at the discretion of the Attorney General for "…any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the DOJ" pursuant to 28 U.S.C. § 524(c)(8)(E).

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Note 17. 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, 2011 is not presented, because the submission of the Budget of the United States (Budget) for FY 2013, which presents the execution of the FY 2011 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 2012.

For the Fiscal Year Ended September 30, 2010
(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	$ 2,441	$ 1,431	$ 4	$ 1,286
Funds not Reported in Budget of the U.S.				
Forfeiture Activity	(12)	-	-	-
OCDETF Adjustments	(9)	15	-	-
Special and Trust Funds Receipts	-	-	-	4
Other	-	(1)	1	-
Budget of the United States Government	$ 2,420	$ 1,445	$ 5	$ 1,290

Funds not reported in the Budget - Forfeiture Activity, primarily represent forfeiture activities that are unavailable until the authority is granted in the subsequent year. These activities represent real estate sales and accrued revenue. Other differences represent financial statement adjustments, timing differences, and other immaterial differences between amounts reported in the AFF's SBR and the Budget of the United States.

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Note 18. Super Surplus Transfers

The AFF's statute, 28 U.S.C. §524(c)(8)(E), provides the Attorney General with the authority to use the AFF's excess unobligated balance remaining at the end of a FY without fiscal year limitation for any Federal law enforcement, litigative/prosecutive, and correctional activities, or any other authorized purpose of the Department of Justice. The excess unobligated balance consists of the AFF's unobligated balance at the end of the FY after the Program's operational needs for the subsequent year are reserved. The excess unobligated balance is historically known as "Super Surplus."

The Attorney General approved the following allocations of Super Surplus during FYs 2011 and 2010. The most recent Super Surplus declarations were in FYs 2005 and 2008.

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Civil Division	$ 338	$ 338
Executive Office for U.S. Attorneys	32	194
Community Oriented Policing Services	-	26,000
Total DOJ Allocations	$ 370	$ 26,532
2005 Super Surplus	$ 370	$ 532
2008 Super Surplus	-	26,000
Total Allocations	$ 370	$ 26,532

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Note 18. Super Surplus Transfers (continued)

Since Super Surplus authority is not the result of an exchange of goods or services between the AFF and the agency receiving the funding, the AFF records the allocation of Super Surplus funds to the agencies as transfers out. The agencies receiving Super Surplus authority record transfers in. As of September 30, 2011 and 2010, $27 and $26,474 was transferred out respectively. The AFF also records a liability for the amount of any Super Surplus provided in the current or prior fiscal years that has not yet been transferred out. As of September 30, 2011 and 2010, Super Surplus liabilities totaled $70 and $62, respectively.

Transfers-out of Forfeited Property for Official Use. Property was distributed pursuant to the Attorney General's authority to share forfeiture revenues with agencies that participated in the forfeiture that generated the property, and pursuant to the DOJ's authority to place forfeited property into official use by the Government. As of September 30, 2011 and 2010, transfers-out of forfeited property for official use totaled $6,091 and $4,785, respectively.

Note 19. Nonexchange Revenues

Nonexchange revenue consists of income from the investment of the AFF and SADF in U.S. Treasury securities. The investment accrual revenue represents the amortization of the discount on marketable bills using the straight-line basis.

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Income from AFF investments	$ 2,369	$ 2,474
Income from SADF investments	2,492	2,108
Amortization of AFF/SADF discount/(premium)	(265)	(718)
Total Investment Income	$ 4,596	$ 3,864

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Note 20. Donations and Forfeitures

Forfeiture income includes forfeited cash, sales of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management costs, judgment collections, and other miscellaneous income. For the Fiscal Years ended September 30, 2011 and 2010, net forfeiture income attributable to the AFF totaled $1,737,965 and $1,573,330 respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	2011	2010
Payments to individuals or organizations for proceeds from assets forfeited and deposited into the AFF and subsequently returned to them through a settlement agreement or by court order.	$ 2,130	$ 6,524
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	94,587	159,167
Return of forfeiture income to the U.S. Postal Service for its participation in seizures that led to forfeiture.	21,645	25,142
Return of forfeiture income to other Federal agencies for their participation in seizures that led to forfeiture.	504	1,481
Total Return of Forfeiture Income	$ 118,866	$ 192,314

U.S. Department of Justice
Notes to the Financial Statements
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Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,620,206	$ 1,430,683
Less: Spending Authority from Offsetting Collections and Recoveries	95,978	77,624
Obligations Net of Offsetting Collections and Recoveries	1,524,228	1,353,059
Less: Offsetting Receipts	4,596	3,864
Net Obligations	1,519,632	1,349,195
Other Resources		
Donations and Forfeitures of Property	157,381	70,864
Transfers-In/Out Without Reimbursement	(6,120)	(31,259)
Imputed Financing from Cost Absorbed by Others	602	-
Net Other Resources Used to Finance Activities	151,863	39,605
Total Resources Used to Finance Activities	1,671,495	1,388,800
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	111,312	(60,185)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(152,785)	(67,602)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	6,091	4,784
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(35,382)	(123,003)
Total Resources Used to Finance the Net Cost of Operations	1,636,113	1,265,797

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Note 21. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period		
Components That Will Require or Generate Resources in Future Periods (Note 22)	$ 168	$ -
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,493	654
Other	26,125	17,967
	$ 27,618	$ 18,621
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	27,786	18,621
Net Cost of Operations	$ 1,663,899	$ 1,284,418

U.S. Department of Justice
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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 $168 and $0 on September 30, 2011 and 2010, respectively, are discussed in Note 10, 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, 2011 and 2010

	2011	2010
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 168	$ -