

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

Budgetary resources cover all liabilities of the AFF, since the AFF has no other imputed or unfunded costs. 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.

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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. However, there are cases where amounts have not been accrued because the amounts of the potential loss cannot be estimated or the likelihood of an unfavorable outcome is remote.

N. 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.

O. 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.

P. 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.

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P. Revenues and Other Financing Sources (continued)

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.

Q. Earmarked Funds

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

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

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

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R. 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.

S. 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.

T. Subsequent Events

Subsequent events and transactions occurring after September 30, 2010 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
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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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Intragovernmental		
Investments, Net (Note 5)	\$ 1,293,776	\$ 1,290,737
With the Public		
Cash and Monetary Assets	<u>131,030</u>	<u>160,522</u>
Total Non-Entity Assets	1,424,806	1,451,259
Total Entity Assets	<u>2,575,039</u>	<u>2,348,277</u>
Total Assets	<u>\$ 3,999,845</u>	<u>\$ 3,799,536</u>

Note 3. Fund Balance with U.S. Treasury

As of September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Fund Balances		
Special Funds	<u>\$ 180,150</u>	<u>\$ 39,583</u>
Status of Fund Balances		
Unobligated Balance - Available	\$ 669,036	\$ 539,014
Unobligated Balance - Unavailable	341,143	656,431
Obligated Balance not yet Disbursed	978,434	915,365
Other Funds (With)/Without Budgetary Resources	<u>(1,808,463)</u>	<u>(2,071,227)</u>
Total Status of Fund Balances	<u>\$ 180,150</u>	<u>\$ 39,583</u>

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

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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, 2010 and 2009

	2010	2009
Cash		
Seized Cash Deposited	\$ 106,154	\$ 135,002
Monetary Assets		
Seized Monetary Instruments	24,876	25,520
Total Cash and Monetary Assets	\$ 131,030	\$ 160,522

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.

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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, 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	<u>\$ 3,492,064</u>	<u>\$ (802)</u>	<u>\$ 3,491,262</u>	<u>\$ 3,491,316</u>
As of September 30, 2009				
Intragovernmental				
Non-Marketable Securities				
Market-Based				
AFF	\$ 2,073,084	\$ (85)	\$ 2,072,999	\$ 2,072,838
SADF	1,291,385	(648)	1,290,737	1,291,171
Total	<u>\$ 3,364,469</u>	<u>\$ (733)</u>	<u>\$ 3,363,736</u>	<u>\$ 3,364,009</u>

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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, 2010 and 2009

	2010	2009
Intragovernmental		
Accounts Receivable	\$ 4,245	\$ 4,021
Total Accounts Receivable	\$ 4,245	\$ 4,021

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, 2010 and 2009, respectively.

FY 2010 AFF/SADF Annual Financial Statements

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

Forfeited Property Category		Beginning		Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
		Balance	Adjustments (1)					
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 -- 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	Variances (2)	Total
	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.

These notes are an integral part of the financial statements.

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**U.S. Department of Justice
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Analysis of Changes in Forfeited Property -- Fiscal Year Ended September 30, 2009

Forfeited Property Category		Beginning Balance	Adjustments (1)	Forfeitures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Financial Instruments	Number	80	-	143	(133)	90	-	90
	Value	\$1,847	-	\$49,642	(\$31,809)	\$19,680	-	\$19,680
Real Property	Number	478	-	451	(433)	496	-	496
	Value	\$103,163	-	\$93,195	(\$91,453)	\$104,905	(\$1,488)	\$103,417
Personal Property	Number	2,899	-	5,725	(5,128)	3,496	-	3,496
	Value	\$41,532	(\$3,252)	\$123,799	(\$57,041)	\$105,038	(\$1,292)	\$103,746
Firearms, Non-Valued	Number	22,607	-	11,377	(12,044)	21,940	-	21,940
Total	Number	26,064	-	17,696	(17,738)	26,022	-	26,022
	Value	\$146,542	(\$3,252)	\$266,636	(\$180,303)	\$229,623	(\$2,780)	\$226,843

(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 -- Fiscal Year Ended September 30, 2009

Forfeited Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated (1)	Official Use/ Transfer for Equitable Sharing	Returned Assets	Variances (2)	Total
Financial Instruments	Number	126	4	2	-	1	-	133
	Value	\$31,524	\$152	\$92	-	\$55	(\$14)	\$31,809
Real Property	Number	1	36	315	-	81	-	433
	Value	\$163	\$2,416	\$67,619	-	\$21,255	-	\$91,453
Personal Property	Number	1	756	3,122	1,035	214	-	5,128
	Value	\$4	\$4,464	\$37,172	\$11,880	\$3,521	-	\$57,041
Firearms, Non-Valued	Number	-	11,225	-	10	809	-	12,044
Total	Number	128	12,021	3,439	1,045	1,105	-	17,738
	Value	\$31,691	\$7,032	\$104,883	\$11,880	\$24,831	(\$14)	\$180,303

(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

These notes are an integral part of the financial statements.

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Notes to the Financial Statements
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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, 2010 and 2009, 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.

Analysis of Changes in Seized Property -- 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.

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

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Assets	Forfeited (1)	Variances (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

Analysis of Changes in Seized Property -- Fiscal Year Ended September 30, 2009

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	10,147	-	11,969	(12,063)	10,053	-	10,053
	Value	\$1,228,440	-	\$1,544,033	(\$1,321,214)	\$1,451,259	(\$62,683)	\$1,388,576
Financial Instruments	Number	384	-	71	(90)	365	-	365
	Value	\$102,209	-	\$50,116	(\$27,747)	\$124,578	(\$8,272)	\$116,306
Real Property	Number	199	-	190	(179)	210	-	210
	Value	\$65,663	-	\$61,426	(\$60,911)	\$66,178	(\$9,761)	\$56,417
Personal Property	Number	7,365	3	7,501	(7,440)	7,429	-	7,429
	Value	\$144,304	\$389	\$154,686	(\$140,499)	\$158,880	(\$15,238)	\$143,642
Firearms, Non-Valued	Number	42,708	-	14,919	(18,058)	39,569	-	39,569
Total	Number	60,803	3	34,650	(37,830)	57,626	-	57,626
	Value	\$1,540,616	\$389	\$1,810,261	(\$1,550,371)	\$1,800,895	(\$95,954)	\$1,704,941

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

These notes are an integral part of the financial statements.

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Methods of Disposition of Seized Property -- Fiscal Year Ended September 30, 2009

Seized Property Category		Converted Financial Instruments/Property	Destroyed/Donated/ Transferred	Sold/ Liquidated	Returned Assets	Forfeited (1)	Variances (2)	Total
Seized Cash and Monetary Instruments	Number	21	58	-	817	11,167	-	12,063
	Value	\$5,845	\$6,622	-	\$46,606	\$1,262,207	(\$66)	\$1,321,214
Financial Instruments	Number	-	4	-	14	72	-	90
	Value	-	\$53	-	\$219	\$27,475	-	\$27,747
Real Property	Number	-	3	-	24	152	-	179
	Value	-	\$529	-	\$18,423	\$41,959	-	\$60,911
Personal Property	Number	-	48	3	1,742	5,647	-	7,440
	Value	-	\$12,940	\$11	\$56,304	\$71,244	-	\$140,499
Firearms, Non-Valued	Number	-	129	-	1,448	16,481	-	18,058
Total	Number	21	242	3	4,045	33,519	-	37,830
	Value	\$5,845	\$20,144	\$11	\$121,552	\$1,402,885	(\$66)	\$1,550,371

(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

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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 2011 is \$400 million.

Note 8. General Property, Plant and Equipment, Net

	<u>Acquisition Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
As of September 30, 2010				
Leasehold Improvements	\$ 470	\$ (470)	\$ -	5 years
Internal Use Software	4,577	(3,160)	1,417	7 years
Total	<u>\$ 5,047</u>	<u>\$ (3,630)</u>	<u>\$ 1,417</u>	
As of September 30, 2009				
Leasehold Improvements	\$ 470	\$ (470)	\$ -	5 years
Internal Use Software	4,577	(2,506)	2,071	7 years
Total	<u>\$ 5,047</u>	<u>\$ (2,976)</u>	<u>\$ 2,071</u>	

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Note 9. Other Assets

As of September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Intragovernmental		
Advances and Prepayments	\$ 2,607	\$ 2,757

Note 10. Liabilities not Covered by Budgetary Resources

Total Liabilities of \$2,312,445 and \$2,373,653 as of September 30, 2010 and 2009 respectively, are considered covered by budgetary resources.

Note 11. Leases

The AFF has no capital leases or significant non-cancelable operating leases.

Operating Lease Expense

<u>Lease Type</u>	<u>2010</u>	<u>2009</u>
Cancelable Operating Leases	\$ 941	\$ 940

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Note 12. 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, 2010 and 2009

	2010	2009
Investments, Net (Note 5)	\$ 1,293,776	\$ 1,290,737
Seized Cash Deposited (Note 4)	106,154	135,002
Seized Monetary Instruments (Note 4)	24,876	25,520
Total Seized Cash and Monetary Instruments	\$ 1,424,806	\$ 1,451,259

Note 13. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2010			
Reasonably Possible	\$ -	\$ 4,000	\$ 4,000
As of September 30, 2009			
Reasonably Possible	\$ -	\$ 4,000	\$ 4,000

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

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Balance Sheet		
Assets		
Fund Balance with U.S. Treasury	\$ 180,150	\$ 39,583
Investments, Net	2,197,486	2,072,999
Other Assets	<u>197,403</u>	<u>235,695</u>
Total Assets	<u>\$ 2,575,039</u>	<u>\$ 2,348,277</u>
Liabilities		
Accounts Payable	\$ 698,517	\$ 695,551
Other Liabilities	<u>189,122</u>	<u>226,843</u>
Total Liabilities	<u>\$ 887,639</u>	<u>\$ 922,394</u>
Net Position		
Cumulative Results of Operations	\$ 1,687,400	\$ 1,425,883
Total Net Position	<u>\$ 1,687,400</u>	<u>\$ 1,425,883</u>
Total Liabilities and Net Position	<u>\$ 2,575,039</u>	<u>\$ 2,348,277</u>

For the Fiscal Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Statement of Net Cost		
Gross Cost of Operations	\$ 1,291,742	\$ 1,001,512
Less: Exchange Revenue	<u>7,324</u>	<u>6,723</u>
Net Cost of Operations	<u>\$ 1,284,418</u>	<u>\$ 994,789</u>
Statements of Net Cost and Changes in Net Position		
Net Position Beginning of Period	\$ 1,425,883	\$ 1,007,809
Budgetary Financing Sources	1,506,330	1,387,107
Other Financing Sources	<u>39,605</u>	<u>25,756</u>
Total Financing Sources	1,545,935	1,412,863
Net Cost of Operations	(1,284,418)	(994,789)
Net Change	<u>261,517</u>	<u>418,074</u>
Net Position End of Period	<u>\$ 1,687,400</u>	<u>\$ 1,425,883</u>

These notes are an integral part of the financial statements.

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

Note 16. 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, 2010 is not presented, because the submission of the Budget of the United States (Budget) for FY 2012, which presents the execution of the FY 2010 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 2011.

For the Fiscal Year Ended September 30, 2009
(Dollars in millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources (SBR)	\$ 2,353	\$ 1,158	\$ 11	\$ 1,050
Funds not Reported in Budget of the U.S.				
Forfeiture Activity	(60)	-	-	-
OCEDTF Adjustments	(3)	6	-	-
Distributed Offsetting Receipts	-	-	-	11
Other	-	-	5	2
Budget of the United States Government	<u>\$ 2,290</u>	<u>\$ 1,164</u>	<u>\$ 16</u>	<u>\$ 1,063</u>

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.

**U.S. Department of Justice
Notes to the Financial Statements
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Note 17. Super Surplus Transfers

Allocation transfers by the AFF include transfers of Super Surplus allocations and transfers of forfeited property to participating agencies for official use.

Transfers-out of Super Surplus Allocations. The 28 U.S.C. § 524(c)(8)(E) provides authority for the Attorney General to use excess end-of-year monies, without fiscal year limitation, in the AFF for any Federal law enforcement, litigative, prosecutorial, and correctional activities, or any other authorized purpose of the DOJ. The Attorney General approved the following allocations during FYs 2010 and 2009 for distribution in subsequent years.

For the Fiscal Years Ended September 30, 2010 and 2009

	2010	2009
Civil Division	\$ 338	\$ 338
Drug Enforcement Administration	-	13
Executive Office for U.S. Attorneys	194	95
National Security Division	-	1,701
Bureau of Prisons	-	10,000
Office of Justice Programs	-	13,000
United States Marshals Service	-	194
Community Oriented Policing Services	26,000	25,000
Total DOJ Allocations	<u>\$ 26,532</u>	<u>\$ 50,341</u>
2005 Super Surplus	\$ 532	\$ 2,341
2007 Super Surplus	-	10,000
2008 Super Surplus	26,000	38,000
Total Allocations	<u>\$ 26,532</u>	<u>\$ 50,341</u>

**U.S. Department of Justice
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Note 17. Super Surplus Transfers (continued)

As of September 30, 2010, \$26,474 in prior years' surpluses were transferred out to participating agencies, \$62 was owed and \$2,607 was advanced to these agencies for super surplus allocations in the current and prior years. As of September 30, 2009, \$36,534 was transferred out and \$2,757 was advanced.

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, 2010 and 2009, transfers-out of forfeited property for official use totaled \$4,785 and \$5,855, respectively.

Note 18. 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, 2010 and 2009

	2010	2009
Income from AFF investments	\$ 2,474	\$ 6,932
Income from SADF investments	2,108	7,086
Amortization of AFF/SADF discount/(premium)	(718)	(3,334)
Total Investment Income	\$ 3,864	\$ 10,684

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

Note 19. 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, 2010 and 2009, net forfeiture income attributable to the AFF totaled \$1,573,330 and \$1,444,568, respectively, after the following payments and returns to agencies participating in seizures that led to forfeiture.

	<u>2010</u>	<u>2009</u>
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.	\$ 6,524	\$ 14,771
Return of forfeiture income to the TFF for its participation in seizures that led to forfeiture.	159,167	17,291
Return to the Federal Deposit Insurance Corporation (FDIC) or other Federal financial institutions or regulatory agencies for monies recovered under the Federal Institutions Reform, Recovery and Enforcement Act.	25,142	9,577
Return of forfeiture income to other Federal agencies for their participation in seizures that led to forfeiture.	1,481	75
Total Return of Forfeiture Income	<u>\$ 192,314</u>	<u>\$ 41,714</u>

**U.S. Department of Justice
Notes to the Financial Statements
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Note 20. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing)

For the Fiscal Years Ended September 30, 2010 and 2009:

	2010	2009
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	\$ 1,430,683	\$ 1,158,053
Less: Spending Authority from Offsetting Collections and Recoveries	77,624	88,425
Obligations Net of Offsetting Collections and Recoveries	1,353,059	1,069,628
Less: Offsetting Receipts	3,864	10,684
Net Obligations	1,349,195	1,058,944
Other Resources		
Donations and Forfeitures of Property	70,864	68,145
Transfers-In/Out Without Reimbursement	(31,259)	(42,389)
Net Other Resources Used to Finance Activities	39,605	25,756
Total Resources Used to Finance Activities	1,388,800	1,084,700
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	(60,185)	(61,835)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	(67,602)	(57,461)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	4,784	5,855
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(123,003)	(113,441)
Total Resources Used to Finance the Net Cost of Operations	1,265,797	971,259

**U.S. Department of Justice
Notes to the Financial Statements
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Note 20. 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 not Requiring or Generating Resources		
Depreciation and Amortization	654	654
Other	17,967	22,876
Total Components of Net Cost of Operations That Will not Require or Generate Resources	18,621	23,530
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	18,621	23,530
Net Cost of Operations	\$ 1,284,418	\$ 994,789

Note 21. Change in Accounting Principle

For FY 2010, in accordance with guidance provided by the Office of Management and Budget (OMB), the AFF changed its method of reporting rescissions of budgetary authority by reporting \$387,200 as temporarily not available pursuant to public law in the budgetary resources section of the SBR. In FY 2009, based on guidance issued by OMB, rescissions were reported as unobligated balances not available in the status of budgetary resources section of the SBR. The new method of accounting for rescissions was adopted based on guidance received from the OMB to better align rescissions reported in the SBR with the amounts reported by OMB in the Budget of the United States.

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Appendix

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OFFICE OF THE INSPECTOR GENERAL ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The Office of the Inspector General (OIG) provided a draft of the *Independent Auditors' Report on Internal Control over Financial Reporting to the Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)*. The AFF/SADF's response is incorporated in the *Independent Auditors' Report on Internal Control over Financial Reporting* of this final report. The following provides the OIG analysis of the response and summary of actions necessary to close the report.

Recommendation Number:

- 1. Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 1 of the FY 2009 Annual Financial Statement Audit Report (OIG Report No. 10-10).
- 2. Resolved.** The AFMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the AFMS reinforces among participating agencies the requirement to obtain market value appraisals in a timely manner after transfer of custody is completed.
- 3. Resolved.** The AFMS concurred with our recommendation. This recommendation can be closed when subsequent annual financial statement audit testing verifies that the AFMS reinforces among participating agencies the requirement to "flag" or otherwise denote FIRE assets upon their entry into CATS.
- 4. Closed.** The status of corrective action related to this recommendation will be tracked through Recommendation No. 3 of the FY 2009 Annual Financial Statement Audit Report (OIG Report No. 10-10).