SECTION III

FINANCIAL SECTION

Section III

Financial Section

Overview

While Section II of this Report provided performance data (required by GPRA), Section III provides financial information required by the Chief Financial Officers Act. This data outlines not only the costs of programs, but also the costs of achieving individual results by strategic goal. As required by the Office of Management and Budget (OMB), Circular A-136, *Financial Reporting Requirements*, the following section provides the Statements of Net Cost by major program for the Department of Justice, and it is aligned directly with the goals and objectives in the Department's Strategic Plan and Annual Performance Plan.

Following the Chief Financial Officer's message, the Office of the Inspector General's Commentary and Summary, and the Reports of Independent Auditors, are the following statements:

Consolidated Balance Sheets – Presents resources owned or managed by the Department that are available to provide future economic benefits (assets); amounts owed by the Department that will require payments from those resources or future resources (liabilities) and residual amounts retained by the Department, comprising the difference (net position) as of September 30, 2011 and 2010.

Consolidated Statements of Net Cost – Presents the net cost of Department operations for the fiscal years ended September 30, 2011 and 2010. The Department's net cost of operations includes the gross costs incurred by DOJ less any exchange revenue earned from Department activities.

Consolidated Statements of Changes in Net Position – Presents the change in the Department's net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues and other financing sources for the fiscal years ended September 30, 2011 and 2010.

Combined Statements of Budgetary Resources – Presents the budgetary resources available to the Department, the status of those resources, and the outlay of budgetary resources for the fiscal years ended September 30, 2011 and 2010.

Combined Statements of Custodial Activity – Presents the sources and disposition of non-exchange revenues collected or accrued by the Department on behalf of other recipient entities for the fiscal years ended September 30, 2011 and 2010.

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A Message From the Chief Financial Officer

November 10, 2011

I am pleased to report that the Department has earned an unqualified audit opinion on its FY 2011 consolidated financial statements. More importantly, for the fifth straight year, the auditor's report on internal controls over financial reporting did not identify any material weaknesses at the consolidated Department level, and for the first time no significant deficiencies were identified at the consolidated Department level. Where our individual components have deficiencies with financial, reporting, or information systems controls, we will continue our commitment to address the underlying causes of those issues until they are eliminated.

One of our notable accomplishments this year was the successful implementation of the Department's Unified Financial Management System (UFMS) at the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). ATF accomplished a large and complex system conversion while maintaining an unqualified opinion on its financial statements. This was a significant achievement.

The Department is fully cognizant of the economic difficulties faced by our country. We have been devoted to looking for ways to operate more efficiently in order to ensure taxpayer funds are spent wisely on the critical national security and law enforcement activities the Department performs for the nation. The Department's leadership has challenged our components to find savings across our operations, and components have responded with savings in real property management, travel, information technology, and conference spending, to name only a few savings areas. The Department's SAVE Council is continuing to look for additional areas we can reduce spending in order to operate as efficiently as possible. When we find areas where we can improve our practices, we have implemented new controls and procedures. Travel and conferences are two such areas.

We take our financial accountability seriously, and we take our commitment to sound agency performance and providing taxpayer value seriously. We look forward in FY 2012 to furthering our fiscal achievements as the Department continues to serve the nation and its citizens.

Lee Lofthus
Chief Financial Officer

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U.S. DEPARTMENT OF JUSTICE
ANNUAL FINANCIAL STATEMENTS
FISCAL YEAR 2011

OFFICE OF THE INSPECTOR GENERAL
COMMENTARY AND SUMMARY

This audit report contains the Annual Financial Statements of the U.S. Department of Justice (Department) 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 the Department'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. 11-03).

KPMG LLP also issued *Reports on Internal Control over Financial Reporting* and *on Compliance and Other Matters*. For FY 2011, the *Independent Auditors' Report on Internal Control over Financial Reporting* identified no deficiencies in internal control. Nevertheless, it is important to note that the Department still does not have a unified financial management system to readily support ongoing accounting operation and preparation of financial statements. As discussed in past years, we believe the most important challenge facing the Department in its financial management is to successfully implement an integrated financial management system to replace the disparate and, in some cases, antiquated financial systems used by Department components.

In the FY 2011 *Independent Auditors' Report on Compliance and Other Matters*, the auditors identified no instances of non-compliance with applicable laws and regulations and the *Federal Financial Management Improvement Act of 1996*.

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 the Department's financial statements, conclusions about the effectiveness of internal control, conclusions on whether the Department'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 10, 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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KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Financial Statements

Acting Inspector General
U.S. Department of Justice

United States Attorney General
U.S. Department of Justice

We have audited the accompanying consolidated balance sheets of the U.S. Department of Justice (Department) 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 and custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the following components of the Department: the U.S. Marshals Service (USMS); the Federal Prison Industries, Inc. (FPI); and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), which statements reflect total assets of $2.1 billion and $2.4 billion, and total net costs of $2.8 billion and $2.8 billion, as of and for the years ended September 30, 2011 and 2010, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those components, is based solely on the reports of the other auditors.

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 Department'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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Justice as of September 30, 2011 and 2010, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating and combining information in the *Consolidating and Combining Financial Statements* section is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, and custodial activity of the Department's components individually. The consolidating and combining information has been subjected to the auditing procedures applied by us and the other auditors in the audits of the consolidated financial statements and, in our opinion, based on our audits and the reports of the other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The information in the *Introduction*, *FY 2011 Performance Report*, *Management Section*, and *Appendices* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audits of the consolidated financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 10, 2011, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 10, 2011

KPMG LLP
2001 M Street, NW
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Independent Auditors' Report on Internal Control over Financial Reporting

Acting Inspector General
U.S. Department of Justice

United States Attorney General
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice (Department) 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 and custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 10, 2011. We did not audit the financial statements of the following components of the Department: the U.S. Marshals Service (USMS); the Federal Prison Industries, Inc. (FPI); and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) as of and for the years ended September 30, 2011 and 2010. Those financial statements were audited by other auditors whose reports have been furnished to us, and our report, insofar as it relates to the amounts included for those components, is based solely on the reports of the other auditors.

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.

As stated above, we did not audit the fiscal year 2011 financial statements of the USMS, FPI, and ATF. Those financial statements were audited by other auditors whose reports thereon, including the other auditors' *Independent Auditors' Report on Internal Control over Financial Reporting*, have been furnished to us. Accordingly, our report on the Department's internal control over financial reporting, insofar as it relates to those components, is based solely on the reports and findings of the other auditors.

The Department's management is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2011 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department'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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department'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 fourth 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.

Exhibit I presents the status of the prior year's finding and recommendations.

We noted certain additional matters that we have reported to management of the Department in a separate letter dated November 10, 2011.

This report is intended solely for the information and use of the management of the U.S. Department of Justice, 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 10, 2011

EXHIBIT I

STATUS OF PRIOR YEAR'S FINDING 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 the prior year's finding and recommendations. The following table provides our assessment of the progress the Department has made in correcting the previously identified significant deficiency. We also provide the Office of the Inspector General report number where the deficiency was reported, our recommendations for improvement, and the status of the recommendations as of the end of fiscal year 2011:

Report	Significant Deficiency	Recommendation	Status
Annual Financial Statements Fiscal Year 2010 Report No. 11-03	Improvements are needed in the components' internal controls to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles	**Recommendation No. 1:** Monitor the corrective actions taken by the USMS to improve the condition of its funds management controls, in response to the specific recommendations made in the component auditor's *Independent Auditors' Report on Internal Control over Financial Reporting* issued in connection with the audit of the USMS's financial statements as of and for the year ended September 30, 2010.	Completed[1]
		Recommendation No. 2: Assess the adequacy of the Department's accounting, internal control, and financial reporting policies in the areas of: (1) seized and forfeited property and (2) undelivered orders and accounts payable. Based on the results of this assessment, determine the need to issue new guidance and/or reiterate to the AFF and ATF the existing policies for those areas in which the components' auditors identified significant deficiencies related to the recording of transactions and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Monitor the AFF's and ATF's adherence to the Department's accounting and financial reporting policies and procedures throughout the year.	Completed[1]
		Recommendation No. 3: Continue efforts to implement a Department-wide integrated financial management system that is in compliance with the United States Government Standard General Ledger, conforms to the financial management systems requirements established by the Financial Systems Integration Office (formerly the Joint Financial Management Improvement Program), and can accommodate the requirements of applicable Federal accounting standards.	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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Independent Auditors' Report on Compliance and Other Matters

Acting Inspector General
U.S. Department of Justice

United States Attorney General
U.S. Department of Justice

We have audited the consolidated balance sheets of the U.S. Department of Justice (Department) 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 and custodial activity (hereinafter referred to as the "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 10, 2011. We did not audit the financial statements of the following components of the Department: the U.S. Marshals Service (USMS); the Federal Prison Industries, Inc. (FPI); and the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) as of and for the years ended September 30, 2011 and 2010. Those financial statements were audited by other auditors whose reports have been furnished to us, and our report, insofar as it relates to the amounts included for those components, is based solely on the reports of the other auditors.

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.

As stated above, we did not audit the fiscal year 2011 financial statements of the USMS, FPI, and ATF. Those financial statements were audited by other auditors whose reports thereon, including the other auditors' *Independent Auditors' Reports on Compliance and Other Matters*, have been furnished to us. Accordingly, our report on the Department's compliance and other matters, insofar as it relates to those components, is based solely on the reports and findings of the other auditors.

The management of the Department is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Department. As part of obtaining reasonable assurance about whether the Department's fiscal year 2011 consolidated financial statements are free of material misstatement, we and the other auditors performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 and the other auditors limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the

Department. 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 and the other auditors' 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.

The results of our and the other auditors' tests of FFMIA disclosed no instances in which the Department'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 management of the U.S. Department of Justice, 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 10, 2011

Principal Financial Statements and Related Notes

See Independent Auditors' Report on Financial Statements

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

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department of Justice (Department) has a wide range of responsibilities which include: detecting, apprehending, prosecuting, and incarcerating criminal offenders; operating federal prison factories; upholding the civil rights of all Americans; enforcing laws to protect the environment; ensuring healthy competition of business in the United States' free enterprise system; safeguarding the consumer from fraudulent activity; carrying out the immigration laws of the United States; and representing the American people in all legal matters involving the U.S. Government. Under the direction of the Attorney General, these responsibilities are discharged by the components of the Department.

For purposes of these consolidated/combined financial statements, the following components comprise the Department's reporting entity:

- Assets Forfeiture Fund and Seized Asset Deposit Fund (AFF/SADF)
- Offices, Boards and Divisions (OBDs)
- U.S. Marshals Service (USMS)
- Office of Justice Programs (OJP)
- Drug Enforcement Administration (DEA)
- Federal Bureau of Investigation (FBI)
- Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF)
- Bureau of Prisons (BOP)
- Federal Prison Industries, Inc. (FPI)

The American Recovery and Reinvestment Act of 2009 (ARRA) (Public Law 111-5) was signed into law by President Obama on February 17, 2009. As one of its many elements, the Recovery Act provides the Department with funding for grants to assist state, local, and tribal law enforcement (including support for hiring), to combat violence against women, to fight internet crimes against children, to improve the functioning of the criminal justice system, to assist victims of crime, and to support youth mentoring.

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

B. Basis of Presentation

These financial statements have been prepared from the books and records of the Department in accordance with United States generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) and presentation guidelines in the Office of Management and Budget (OMB) Circular A-136. These financial statements are different from the financial reports prepared pursuant to OMB directives which are used to monitor and control the use of the Department's budgetary resources. The accompanying financial statements include the accounts of all funds under the Department's control. To ensure that the Department financial statements are meaningful at the entity level and to enhance reporting consistency within the Department, Other Assets and Other Liabilities as defined by OMB Circular A-136 have been disaggregated on the balance sheet. These include Forfeited Property, Net; Advances and Prepayments; Accrued Grant Liabilities; Accrued Federal Employees' Compensation Act Liabilities; Custodial Liabilities; Accrued Payroll and Benefits; Accrued Annual and Compensatory Leave Liabilities; Deferred Revenue; Seized Cash and Monetary Instruments; Contingent Liabilities; Capital Lease Liabilities; and Radiation Exposure Compensation Act Liabilities.

C. Basis of Consolidation

The consolidated/combined financial statements of the Department include the accounts of the AFF/SADF, OBDs, USMS, OJP, DEA, FBI, ATF, BOP, and FPI. All significant proprietary intra-departmental transactions and balances have been eliminated in consolidation. The Statements of Budgetary Resources and Statements of Custodial Activity are combined statements for FYs 2011 and 2010, and as such, intra-departmental 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. FPI is non-appropriated and self-sustaining. While FPI performs budgetary accounting in preparing its financial statements, FPI does not record budgetary information at the transaction level.

Custodial activity reported on the Combined Statement of Custodial Activity is prepared on the modified cash basis. Civil and Criminal Debt Collections are recorded when the Department receives payment from debtors. Accrual adjustments are made related to collections of fees and licenses.

These notes are an integral part of the financial statements.

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

D. Basis of Accounting (continued)

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

E. Non-Entity Assets

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

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

Funds with the Department of the Treasury (Treasury) represent primarily appropriated, revolving, and trust funds available to pay current liabilities and finance future authorized purchases. The Treasury, as directed by authorized certifying officers, processes cash receipts and disbursements. The Department does not, for the most part, maintain cash in commercial bank accounts. Certain receipts, however, are processed by commercial banks for deposit into individual accounts maintained at the Treasury. The Department's cash and other monetary assets consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, and seized cash.

G. Investments

Investments are market-based Treasury securities issued by the Bureau of Public Debt. When securities are purchased, the investment is recorded at face value (the value at maturity). The Department's intent is to hold investments to maturity, unless the invested funds are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity. The market value of the investments is the current market value at the end of the reporting period. It is calculated by using the "End of Day" price listed in The FedInvest Price File which can be found on the Bureau of Public Debt website (http://www.fedinvest.gov/). 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. The interest method is used for the amortization of premium and discount of Treasury notes and the straight-line method is used for Treasury bills. Amortization is based on the straight-line method over the term of the securities.

The AFF, the U.S. Trustee System Fund, and the Federal Prison Commissary Fund are three earmarked funds that invest in Treasury securities. The Treasury does not set aside assets to pay future expenditures associated with earmarked funds. Instead, the cash generated from earmarked funds is used by the Treasury for general Government purposes. When these earmarked funds redeem their Treasury securities to make expenditures, the Treasury will finance the expenditures in the same manner that it finances all other expenditures.

These notes are an integral part of the financial statements.

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

G. Investments (continued)

Treasury securities are issued to the earmarked funds as evidence of earmarked receipts and provide the funds with the authority to draw upon the U.S. Treasury for future authorized expenditures. Treasury securities held by an earmarked fund are an asset of the fund and a liability of the Treasury, so they are eliminated in consolidation for the U.S. Government-wide financial statements.

H. Accounts Receivable

Net accounts receivable includes reimbursement and refund receivables due from federal agencies and others, less the allowance for doubtful accounts. Generally, most intragovernmental accounts receivable are considered fully collectible. The allowance for doubtful accounts for public receivables is estimated based on past collection experience and analysis of outstanding receivable balances at year end.

I. Inventory and Related Property

Inventory is maintained primarily for the manufacture of goods for sale to customers. This inventory is composed of three categories: Raw Materials, Work in Process, and Finished Goods. Raw material inventory value is based upon moving average costs. Inventories are valued at the lower of average cost or market value (LCM) and include materials, labor and manufacturing overhead. Market value is calculated on the basis of the contractual or anticipated selling price, less allowance for administrative expenses. DOJ values its finished goods and sub-assembly items at a standard cost that is periodically adjusted to approximate actual cost. DOJ has established inventory allowances to account for LCM adjustments and obsolete items that may not be utilized in future periods.

Additional inventories consist of new and rehabilitated office furniture, equipment and supplies used for the repair of airplanes, administrative supplies and materials, commissary sales to inmates (sundry items), metals, plastics, electronics, graphics, and optics.

These notes are an integral part of the financial statements.

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

J. General Property, Plant and Equipment

With the exception of land, real property and leasehold improvements are capitalized when the cost of acquiring and/or improving the asset is $100 or more and the asset has a useful life of two or more years. Land is capitalized regardless of the acquisition cost. Real property is depreciated or amortized, based on historical cost, using the straight-line method over the estimated useful life of the asset.

Except for BOP and FPI, Department acquisitions of personal property, excluding internal use software, costing $25 or more is capitalized if the asset has an estimated useful life of two or more years. Personal property is depreciated, based on historical cost, using the straight-line method over the estimated useful life of the asset. BOP and FPI capitalize personal property acquisitions over $5.

Internal use software is capitalized when developmental phase costs or enhancement costs are $500 or more and the asset has an estimated useful life of two or more years. Except for FBI, aircraft are capitalized when the initial cost of acquiring those assets is $100 or more. FBI capitalized aircraft over $25. Internal use software and aircraft are depreciated, based on historical cost, using the straight-line method over the estimated useful life of the asset.

K. Advances and Prepayments

Advances and prepayments, classified as assets on the Consolidated Balance Sheets, consist primarily of funds disbursed to grantees in excess of total expenditures made by those grantees to third parties, funds advanced to state and local participants in the DEA Domestic Cannabis Eradication and Suppression Program, and travel advances issued to federal employees for official travel. Travel advances are limited to meals and incidental expenses expected to be incurred by the employees during official travel. Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of payment and are recognized as expenses when the goods and services are received.

L. Forfeited and Seized Property

Forfeited property is property for which the title has passed to the U.S. Government. This property is recorded at the estimated fair market value at the time of forfeiture and is not adjusted for any subsequent increases and decreases in estimated fair market value. The value of the property is reduced by the estimated liens of record.

Property is seized in consequence of a violation of public law. Seized property can include monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of the custodial agency. Most non-cash property is held by the USMS from the point of seizure until its disposition. This property is recorded at the estimated fair market value at the time of seizure and is not adjusted for any subsequent increases and decreases in estimated fair market value.

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

M. Liabilities

Liabilities represent the monies or other resources that are likely to be paid by the Department as the result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent proper budget authority. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11. Accrued payroll and benefits are accrued based on the number of days in a pay period earned but not paid to employees at the end of the quarter

On October 15, 1990, Congress passed the Radiation Exposure Compensation Act (RECA), 42 U.S.C. § 2210 (1990), providing for compassionate payments to individuals who contracted certain cancers and other serious diseases as a result of their exposure to radiation released during above-ground nuclear weapons tests or as a result of their exposure to radiation during employment in underground uranium mines. The September 30, 2011 and 2010 estimated liabilities are based on activity between FYs 2006 - 2011, and management's assumptions concerning receipt and approval of claims in the future.

Key factors in determining liability are the number of claims filed, the number of claims approved, and estimates for these factors through FY 2022. These estimates are then discounted in accordance with the discount rates set by OMB.

N. Accrued Grant Liabilities

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The OBDs and OJP accrue a liability for expenditures incurred by grantees prior to receiving grant funds for expenditures. The amount to be accrued is determined through an analysis of historic grant expenditures. These estimates are based on the most current information available at the time the financial statements are prepared.

Estimates for the grant accrual contain assumptions that have an impact on the financial statements. The key assumptions used in the grant accrual are: grantees have consistent spending patterns throughout the life of the grant, grantees will drawdown throughout the life of the grant, and the grant has a determined end date. The primary elements of these assumptions include, but are not limited to, type of grant that has been awarded, grant period, accounting basis used by the grantees, and the grant expenditure rate.

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

O. Contingencies and Commitments

The Department is involved in various legal actions, including administrative proceedings, lawsuits, and claims. A liability is generally recognized on the Balance Sheet as an unfunded liability for those legal actions where unfavorable decisions are considered "probable" and an estimate for the liability can be made. Contingent liabilities that are considered "probable" or "reasonably possible" are disclosed in Note 16. 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".

P. Annual, Sick, and Other Leave

Annual and compensatory leave is expensed with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of nonvested leave are expensed as taken.

Q. Interest on Late Payments

Pursuant to the Prompt Payment Act, 31 U.S.C. § 3901-3907, the Department pays interest on payments for goods or services made to business concerns after the due date. The due date is generally 30 days after receipt of a proper invoice or acceptance of the goods or services, whichever is later.

R. Retirement Plan

With few exceptions, employees hired before January 1, 1984 are covered by the Civil Service Retirement System (CSRS) and employees hired on or after that date are covered by the Federal Employees Retirement System (FERS). For employees covered by CSRS, the Department contributes 7% of the employees' gross pay for regular and 7.5% for law enforcement officers' retirement. For employees covered by FERS, the Department contributes 11.7% of employees' gross pay for regular and 25.7% for law enforcement officers' retirement. All employees are eligible to contribute to the Federal Thrift Savings Plan (TSP). For those employees covered by the FERS, a TSP account is automatically established to which the Department is required to contribute an additional 1% of gross pay and match employee contributions up to 4%. No contributions are made to the TSP accounts established by the CSRS employees. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, which may be applicable to its employees. Such reporting is the responsibility of the Office of Personnel Management (OPM). Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. Refer to Note 19, *Imputed Financing from Costs Absorbed by Others*, for additional details.

These notes are an integral part of the financial statements.

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

S. Federal Employee Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The total FECA liability consists of an actuarial and an accrued portion as discussed below.

Actuarial Liability: The Department of Labor (DOL) calculates the liability of the federal government for future compensation benefits, which includes the expected liability for death, disability, medical, and other approved costs. The liability is determined using the paid-losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments are discounted to present value. The resulting federal government liability is then distributed by agency. The Department's portion of this liability includes the estimated future cost of death benefits, workers' compensation, medical, and miscellaneous cost for approved compensation cases for the Department employees. The Department liability is further allocated to component reporting entities on the basis of actual payments made to the FECA Special Benefits Fund (SBF) for the three prior years as compared to the total Department payments made over the same period.

The FECA actuarial liability is recorded for reporting purposes only. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to the Department. The cost associated with this liability cannot be met by the Department without further appropriation action.

Accrued Liability: The accrued FECA liability is the amount owed to the DOL for the benefits paid from the FECA SBF directly to Department employees.

T. 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 the costs incurred to produce public and intragovernmental revenue.

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

U. Revenues and Other Financing Sources

The Department receives the majority of funding needed to support its programs through Congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenues, nonexchange revenues, and transfers-in.

Appropriations Used are recognized as budgetary financing sources at the time the related program or administrative expenses are incurred. Exchange revenues are recognized when earned, for example, when goods have been delivered or services rendered. Nonexchange revenues are resources that the government demands or receives, for example, forfeiture revenue and fines and penalties.

The Department's exchange revenue consists of the following activities: licensing fees to manufacture and distribute controlled substances; services rendered for legal activities; space management; data processing services; sale of merchandise and telephone services to inmates; sale of manufactured goods and services to other federal agencies; and other services. Fees are set by law and are periodically evaluated in accordance with OMB guidance.

The Department's nonexchange revenue consists of forfeiture income resulting from the sale of forfeited property, penalties in lieu of forfeiture, recovery of returned asset management cost, judgment collections, and other miscellaneous income. Other nonexchange revenue includes the OJP Crime Victims Fund receipts, ATF fees from firearms and ammunition industries, and AFF/SADF interest on investments with the Treasury.

The Department's deferred revenue includes fees received for processing various applications and licenses with DEA for which the process was not completed at the end of fiscal year or for licenses that are valid for multiple years. These monies are recorded as liabilities in the financial statements. Deferred revenue also includes forfeited property held for sale. When the property is sold, deferred revenue is reversed and forfeiture revenue in the amount of the gross proceeds of the sale is recorded.

V. 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;

These notes are an integral part of the financial statements.

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

V. Earmarked Funds (continued)

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 following funds meet the definition of an earmarked fund: AFF, UST System Fund, Antitrust Division, Crime Victims Fund, Diversion Control Fee Account, and Federal Prison Commissary Fund.

W. Allocation Transfer of Appropriation

The Department is a party to allocation transfers with other Federal agencies as a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. An exception to this general rule affecting the Department includes the funds transferred from the Judicial Branch to the USMS, for whom the USMS is the child to the allocation transfer, but, per OMB guidance, will report all activity relative to these allocation transfers in the USMS financial statements.

The activity related to these transfers, included as part of these financial statements, is highlighted below:

OJP, as the parent, transfers funds from the Crime Victims Fund (CVF) to the Department of Health and Human Services (HHS). This transfer is required by 42 U.S.C. §10603a {Sec. 14-4A} for *Child Abuse Prevention and Treatment Grants.* Amounts made available by section §10601(d)(2) of this title, for the purposes of this section, are to be obligated and expended by the Secretary of HHS for grants under section §5106c of this title.

The Department also allocated funds from BOP, as the parent, to the Public Health Service (PHS). PHS provides a portion of medical treatment for federal inmates. The money is designated and expended for current year obligation of PHS staff salaries, benefits, and applicable relocation expenses.

USMS, as the child, receives allocation transfers of appropriation from the Administrative Office of U.S. Courts (AOUSC). The allocation transfers are used for costs associated with protective guard services - Court Security Officers at United States courthouses and other facilities housing federal court operations. These costs include their salaries (paid through contracts), equipment, and supplies. This transfer is performed on an annual basis.

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

X. Tax Exempt Status

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

Y. Use of Estimates

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

Z. Reclassifications

The FY 2010 financial statements were reclassified to conform to the FY 2011 Departmental financial statement presentation requirements. The reclassifications had no material effect on total assets, liabilities, net position, change in net position or budgetary resources as previously reported.

AA. 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.

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

Note 2. Non-Entity Assets

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Fund Balance with U.S. Treasury	$ 727,647	$ 908,929
Investments, Net	3,989,294	1,379,942
Total Intragovernmental	4,716,941	2,288,871
With the Public		
Cash and Monetary Assets	233,376	228,085
Accounts Receivable, Net	7,304	15,257
Total With the Public	240,680	243,342
Total Non-Entity Assets	4,957,621	2,532,213
Total Entity Assets	37,835,469	37,558,477
Total Assets	$ 42,793,090	$ 40,090,690

These notes are an integral part of the financial statements.

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

Note 3. Fund Balance with U.S. Treasury

The Fund Balances with U.S. Treasury represent the unexpended balances on the Department's books for all the Department's Treasury Symbols.

As of September 30, 2011 and 2010

	2011	2010
Fund Balances		
Trust Funds	$ 104,879	$ 84,695
Special Funds	7,609,838	6,248,505
Revolving Funds	473,319	455,486
General Funds	15,105,225	16,746,926
Other Fund Types	61,191	60,975
Total Fund Balances with U.S. Treasury	$ 23,354,452	$ 23,596,587
Status of Fund Balances		
Unobligated Balance - Available	$ 2,637,205	$ 2,859,209
Unobligated Balance - Unavailable	1,245,118	1,180,089
Obligated Balance not yet Disbursed	14,885,995	16,006,230
Other Funds (With)/Without Budgetary Resources	4,586,134	3,551,059
Total Status of Fund Balances	$ 23,354,452	$ 23,596,587

Annual and multi-year budget authority expires at the end of its period of availability. During the first through the fifth expired years, the unobligated balance is unavailable and may only be used to adjust obligations and disbursements that were recorded before the budgetary authority expired or to meet a legitimate or bona fide need arising in the fiscal year for which the appropriation was made. The unobligated balance for no-year budget authority may be used to incur obligations indefinitely for the purpose specified by the appropriation act. No-year budget authority unobligated balances are still subject to the annual apportionment and allotment process.

Unobligated Balance - Unavailable includes amounts appropriated in prior fiscal years that are no longer available to fund new obligations, but can be used for upward and/or downward adjustments for existing obligations. Additionally, this line includes amounts received that are restricted to future use and as a result are not apportioned for current use. Other restricted funds include the collections of fees in excess of amounts budgeted for administering the Diversion Control Program. These collections may not be used until authorized by Congress.

Other Funds (With)/Without Budgetary Resources primarily represent the net of 1) investments in short-term securities with budgetary resources, 2) resources temporarily not available pursuant to public law, 3) custodial liabilities, and 4) miscellaneous receipts.

These notes are an integral part of the financial statements.

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

Note 4. Cash and Monetary Assets

As of September 30, 2011 and 2010

	2011	2010
Cash		
Undeposited Collections	$ 2,813	$ 3,132
Imprest Funds	14,071	14,068
Seized Cash Deposited	87,243	106,154
Other Cash	72,700	51,476
Total Cash	176,827	174,830
Monetary Assets		
Seized Monetary Instruments	73,426	70,453
Total Cash and Monetary Assets	$ 250,253	$ 245,283

The majority of Other Cash consists of project-generated proceeds from undercover operations.

Note 5. Investments, Net

	Face Value	Unamortized Premium (Discount)	Interest Receivable	Investments, Net	Market Value
As of September 30, 2011					
Intragovernmental					
Non-Marketable Securities					
Market Based	$ 6,919,892	$ (137)	$ 44	$ 6,919,799	$ 6,920,238
As of September 30, 2010					
Intragovernmental					
Non-Marketable Securities					
Market Based	$ 4,062,336	$ (798)	$ 195	$ 4,061,733	$ 4,061,690

These notes are an integral part of the financial statements.

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

Note 6. Accounts Receivable, Net

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Accounts Receivable	$ 380,562	$ 304,000
Allowance for Uncollectible Accounts	(131)	(1,690)
Total Intragovernmental	380,431	302,310
With the Public		
Accounts Receivable	141,934	93,552
Allowance for Uncollectible Accounts	(16,036)	(6,292)
Total With the Public	125,898	87,260
Total Accounts Receivable, Net	$ 506,329	$ 389,570

Intragovernmental accounts receivable consists mainly of amounts due under reimbursable agreements with federal entities for services and goods provided.

The accounts receivable with the public primarily consists of OBDs U.S. Trustee Chapter 11 quarterly fees, FBI Non-Federal User Fee Program, FBI National Name Check Program, court mandated restitution, and refunds due from the public.

Note 7. Inventory and Related Property, Net

As of September 30, 2011 and 2010

	2011	2010
Inventory		
Raw Materials	$ 42,832	$ 116,826
Work in Process	30,583	38,442
Finished Goods	60,697	53,308
Inventory Purchased for Resale	18,286	16,580
Excess, Obsolete, and Unserviceable	27,087	43,494
Inventory Allowance	(27,265)	(48,739)
Operating Materials and Supplies		
Held for Current Use	18,669	17,436
Total Inventory and Related Property, Net	$ 170,889	$ 237,347

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property

Equitable Sharing Payments:

The statute governing the use of the AFF (28 U.S.C. §524(c)) permits the payment of equitable shares of forfeiture proceeds to participating foreign governments and state and local law enforcement agencies. The statute does not require such sharing and permits the Attorney General wide discretion in determining those transfers. Actual sharing is difficult to predict because many factors influence both the amount and timing of disbursement of equitable sharing payments, such as the length of time required to move an asset through the forfeiture process to disposition, the amount of net proceeds available for sharing, the elapse of time for Departmental approval of equitable sharing requests for cases with asset values exceeding $1 million, and appeal of forfeiture judgments. Because of uncertainties surrounding the timing and amount of any equitable sharing payment, an obligation and expense are recorded only when the actual disbursement of the equitable sharing payment is imminent. The anticipated equitable sharing allocation level for FY 2012 is $446 million.

Analysis of Change in Forfeited Property:

The number of items represents quantities calculated using many different units of measure. If necessary, the adjustments column includes property status and valuation changes received after, but properly credited to the appropriate fiscal years. The valuation changes include updates and corrections to an asset's value recorded in the prior year.

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

Note 8. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2011

Forfeited Property Category		Beginning Balance	Adjust-ments	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
Non-Valued Firearms	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

For the Fiscal Year Ended September 30, 2010

Forfeited Property Category		Beginning Balance	Adjust-ments	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
Non-Valued Firearms	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

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property (continued)

Method of Disposition of Forfeited Property:

During FYs 2011 and 2010, $165,406 and $103,678 of forfeited property were sold, $16,211 and $6,560 were destroyed or donated, $9,262 and $17,045 were returned to owners, and $12,533 and $47,169 were disposed of by other means, respectively. Other means of distribution include property transferred to other federal agencies for official use or equitable sharing, or property distributed to a state or local agency.

Analysis of Change in Seized Property:

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

A seizure is the act of taking possession of goods in consequence of a violation of public law. Seized property consists of seized cash, monetary instruments, real property and tangible personal property in the actual or constructive possession of the seizing and the custodial agencies. The Department, until judicially or administratively forfeited, does not legally own such property. Seized evidence includes cash, financial instruments, non-monetary valuables, firearms, and illegal drugs. The AFF/SADF reports property seized for forfeiture and the FBI, DEA, and ATF report property seized for evidence.

The adjustments for FYs 2011 and 2010 include property status and valuation changes received after, but properly credited to FYs 2010 and 2009, respectively. The valuation changes include updates and corrections to an asset's value recorded in a prior year. During FY 2011, the DEA had access to better information that allowed the reporting of partial destructions of drugs held for evidence at the time of partial destruction rather than at the time the exhibit was fully destroyed. Therefore, the DEA has recorded an adjustment in the FY 2011 "Adjustment" column to primarily reflect the partial destruction of exhibits destroyed in prior years. ATF's adjustments for non-valued firearms are items determined to be seized for evidence that were not included in the seized for evidence balances in prior years.

The DEA, FBI, and ATF have custody of illegal drugs taken as evidence for legal proceedings. In accordance with Federal Financial Accounting and Auditing Technical Release No. 4, *Reporting on Non-Valued Seized and Forfeited Property*, the Department reports the total amount of seized drugs by quantity only, as illegal drugs have no value and are destroyed upon resolution of legal proceedings.

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

Note 8. Forfeited and Seized Property (continued)

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

"Other" primarily consist of illegal substances other than those discussed above. "Bulk Drug Evidence" is comprised of controlled substances housed by the DEA in secured storage facilities of which only a sample is taken for laboratory analysis. The actual bulk drug weight may vary from seizure weight due to changes in moisture content over time.

Unanalyzed drug evidence is qualitatively different from analyzed and bulk drug evidence because unanalyzed drug evidence includes the weight of packaging and drug categories are based on the determination of Special Agents instead of laboratory chemists. For these reasons, unanalyzed drug evidence is not reported by the Department. Seized drug evidence must be analyzed and confirmed through laboratory testing to be placed in one of the five categories of drug above.

"Disposals" occur when seized property is forfeited, returned to parties with a bona fide interest, or destroyed in accordance with federal guidelines.

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

Note 8. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2011

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Forfeiture								
Seized Cash Deposited and Seized Monetary Instruments	Value	$ 1,424,806	$ -	$ 3,844,026	$ (1,251,941)	$ 4,016,891	$ (92,080)	$ 3,924,811
Financial	Number	413	(109)	274	(101)	477	-	477
Instruments	Value	$ 99,712	$ (66,438)	$ 24,101	$ (4,134)	$ 53,241	$ (3,236)	$ 50,005
Real	Number	183	-	153	(190)	146	-	146
Property	Value	$ 61,270	$ -	$ 49,431	$ (62,337)	$ 48,364	$ (16,030)	$ 32,334
Personal	Number	7,319	-	7,171	(7,013)	7,477	-	7,477
Property	Value	$ 161,552	$ -	$ 124,371	$ (101,920)	$ 184,003	$ (16,209)	$ 167,794
Non-Valued Firearms	Number	34,281	-	23,858	(21,224)	36,915	-	36,915

For the Fiscal Year Ended September 30, 2010

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Forfeiture								
Seized Cash Deposited and Seized Monetary Instruments	Value	$ 1,451,259	$ -	$ 1,588,064	$ (1,614,517)	$ 1,424,806	$ (91,260)	$ 1,333,546
Financial	Number	365	-	114	(66)	413	-	413
Instruments	Value	$ 124,578	$ (37,259)	$ 28,692	$ (16,299)	$ 99,712	$ (9,045)	$ 90,667
Real	Number	210	-	162	(189)	183	-	183
Property	Value	$ 66,178	$ (5,699)	$ 56,409	$ (55,618)	$ 61,270	$ (9,675)	$ 51,595
Personal	Number	7,429	-	6,699	(6,809)	7,319	-	7,319
Property	Value	$ 158,880	$ -	$ 88,032	$ (85,360)	$ 161,552	$ (11,544)	$ 150,008
Non-Valued Firearms	Number	39,569	-	9,459	(14,747)	34,281	-	34,281

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property (continued)

For the Fiscal Year Ended September 30, 2011

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Evidence								
Seized Monetary Instruments	Value	$ 45,577	$ (4,903)	$ 45,419	$ (39,246)	$ 46,847	$ -	$ 46,847
Personal	Number	1,602	(85)	412	(508)	1,421	-	1,421
Property	Value	$ 26,691	$ 8,649	$ 13,946	$ (12,907)	$ 36,379	$ -	$ 36,379
Non-Valued								
Firearms	Number	44,465	7,405	14,268	(3,543)	62,595	-	62,595
Drug Evidence								
Cocaine	KG	278,449	(222,619)	27,429	(27,098)	56,161	-	56,161
Heroin	KG	3,450	(589)	812	(565)	3,108	-	3,108
Marijuana	KG	20,061	(1,521)	6,362	(7,095)	17,807	-	17,807
Bulk Drug Evidence	KG	227,564	1,043	1,058,390	(1,008,845)	278,152	-	278,152
Methamphetamine	KG	7,622	(1,928)	2,649	(1,386)	6,957	-	6,957
Other	KG	46,663	(16,935)	3,563	(8,528)	24,763	-	24,763
Total Drug Evidence	KG	583,809	(242,549)	1,099,205	(1,053,517)	386,948	-	386,948

For the Fiscal Year Ended September 30, 2010

Seized Property Category		Beginning Balance	Adjust-ments	Seizures	Disposals	Ending Balance	Liens and Claims	Ending Balance, Net of Liens
Seized for Evidence								
Seized Monetary Instruments	Value	$ 40,401	$ (2,164)	$ 34,425	$ (27,085)	$ 45,577	$ -	$ 45,577
Personal	Number	1,485	47	300	(230)	1,602	-	1,602
Property	Value	$ 27,943	$ (2,186)	$ 13,202	$ (12,268)	$ 26,691	$ -	$ 26,691
Non-Valued								
Firearms	Number	43,878	(230)	8,685	(7,868)	44,465	-	44,465
Drug Evidence								
Cocaine	KG	349,451	(34,698)	33,711	(70,015)	278,449	-	278,449
Heroin	KG	3,572	(20)	643	(745)	3,450	-	3,450
Marijuana	KG	19,913	(26)	5,400	(5,226)	20,061	-	20,061
Bulk Drug Evidence	KG	223,936	1,278	1,128,098	(1,125,748)	227,564	-	227,564
Methamphetamine	KG	6,791	(47)	2,154	(1,276)	7,622	-	7,622
Other	KG	47,180	386	5,359	(6,262)	46,663	-	46,663
Total Drug Evidence	KG	650,843	(33,127)	1,175,365	(1,209,272)	583,809	-	583,809

These notes are an integral part of the financial statements.

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

Note 8. Forfeited and Seized Property (continued)

Method of Disposition of Seized Property:

During FYs 2011 and 2010, $1,297,764 and $1,628,886 of seized property were forfeited, $120,156 and $155,022 of valued property seized for evidence were returned to parties with a bonafide interest, and $54,566 and $27,239 were either released to a designated party or transferred to the appropriate federal entity under forfeiture or abandonment procedures. Non-valued property was primarily disposed of through destruction.

Note 9. General Property, Plant and Equipment, Net

As of September 30, 2011

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 193,042	$ -	$ 193,042	N/A
Improvements to Land	4,584	(866)	3,718	15 yrs
Construction in Progress	894,755	-	894,755	N/A
Buildings, Improvements and Renovations	9,578,003	(4,001,606)	5,576,397	2-50 yrs
Other Structures and Facilities	849,524	(433,515)	416,009	10-50 yrs
Aircraft	450,418	(132,678)	317,740	5-30 yrs
Boats	10,078	(5,943)	4,135	5-25 yrs
Vehicles	594,285	(368,856)	225,429	2-25 yrs
Equipment	1,676,992	(1,007,478)	669,514	2-25 yrs
Assets Under Capital Lease	105,246	(61,623)	43,623	5-30 yrs
Leasehold Improvements	1,338,886	(714,246)	624,640	2-20 yrs
Internal Use Software	773,237	(287,106)	486,131	3-10 yrs
Internal Use Software in Development	762,637	-	762,637	N/A
Total	$ 17,231,687	$ (7,013,917)	$ 10,217,770	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2011	$ 229,207	$ 1,023,422	$ 1,252,629

These notes are an integral part of the financial statements.

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

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

As of September 30, 2010

	Acquisition Cost	Accumulated Depreciation	Net Book Value	Useful Life
Land and Land Rights	$ 192,821	$ -	$ 192,821	N/A
Improvements to Land	4,518	(552)	3,966	15 yrs
Construction in Progress	728,617	-	728,617	N/A
Buildings, Improvements and Renovations	9,365,319	(3,679,717)	5,685,602	2-50 yrs
Other Structures and Facilities	808,964	(395,986)	412,978	10-50 yrs
Aircraft	377,329	(115,798)	261,531	5-30 yrs
Boats	9,967	(5,302)	4,665	5-25 yrs
Vehicles	549,692	(335,338)	214,354	2-25 yrs
Equipment	1,612,309	(995,050)	617,259	2-25 yrs
Assets Under Capital Lease	107,399	(58,688)	48,711	5-30 yrs
Leasehold Improvements	1,129,117	(609,571)	519,546	2-20 yrs
Internal Use Software	408,472	(194,868)	213,604	3-10 yrs
Internal Use Software in Development	837,500	-	837,500	N/A
Total	$ 16,132,024	$ (6,390,870)	$ 9,741,154	

	Federal	Public	Total
Sources of Capitalized Property, Plant and Equipment Purchases for FY 2010	$ 235,776	$ 1,121,727	$ 1,357,503

These notes are an integral part of the financial statements.

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

Note 10. Other Assets

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Advances and Prepayments	$ 115,075	$ 122,609
Other Intragovernmental Assets	28	55
Total Intragovernmental	115,103	122,664
Other Assets With the Public	5,982	5,826
Total Other Assets	$ 121,085	$ 128,490

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

Note 11. Liabilities not Covered by Budgetary Resources

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Accrued FECA Liabilities	$ 247,813	$ 241,124
Other Unfunded Employment Related Liabilities	2,178	1,758
Other	3,690	58
Total Intragovernmental	253,681	242,940
With the Public		
Actuarial FECA Liabilities	1,359,360	1,314,105
Accrued Annual and Compensatory Leave Liabilities	822,891	816,970
Environmental and Disposal Liabilities (Note 12)	72,709	71,657
Deferred Revenue	358,742	311,164
Contingent Liabilities (Note 16)	68,652	101,760
Capital Lease Liabilities (Note 13)	23,941	30,703
RECA Liabilities	535,838	541,784
Other	122,152	47,300
Total With the Public	3,364,285	3,235,443
Total Liabilities not Covered by Budgetary Resources	3,617,966	3,478,383
Total Liabilities Covered by Budgetary Resources	9,651,511	7,096,754
Total Liabilities	$ 13,269,477	$ 10,575,137

These notes are an integral part of the financial statements.

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

Note 11. Liabilities not Covered by Budgetary Resources (continued)

Generally, liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. However, some liabilities do not require appropriations and will be liquidated by the assets of the entities holding these liabilities. Such assets include civil and criminal debt collections, seized cash and monetary instruments, and revolving fund operations.

Note 12. Environmental and Disposal Liabilities

Per SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and Technical Release No. 2, *Determining Probably and Reasonably Estimable for Environmental Liabilities in the Federal Government*, federal agencies are required to recognize liabilities for environmental clean-up costs when the future outflow or sacrifice of resources is probable and reasonably estimable.

Firing Ranges

The BOP operates firing ranges on 65 of the sites where its institutions are located. Use of these firing ranges generates waste consisting primarily of lead shot and spent rounds from rifles, shotguns, pistols, and automatic weapons. At operational firing ranges, lead-containing bullets are fired and eventually fall to the ground at or near the range. As of September 30, 2010, BOP management determined their estimated clean-up liability to be $25,069. In FY 2011, BOP management adjusted the estimated clean-up liability by the current U.S. inflation rate as determined by the U.S. Treasury and as such determined that an estimated firing range clean-up liability of $26,045, based on an inflation rate of 3.9 percent, should be recorded.

Asbestos

BOP conducted a review of 46 institutions that were built prior to 1980; the review provided an estimate of the extent of friable and non-friable Asbestos Containing Materials (ACM) remaining in each of the institutions as of October 30, 2009. As of September 30, 2010, BOP management determined their estimated clean-up liability to be $36,833. As of September 30, 2011, BOP management adjusted the clean-up liability in the amount of $156 for the removal of asbestos at 5 locations and by the U.S. inflation rate of 3.9 percent as determined by the U.S. Treasury and as such determined that an estimated asbestos clean-up liability of $36,677, should be recorded.

The FBI operates facilities in Quantico, Virginia that contain friable and non-friable ACM. The facilities have a useful life of 50 years. The estimated total liability of $11,613 is based on the square footage of the facilities that may be contaminated. This value, divided by the useful life and multiplied by the number of years in service, is the estimated cleanup liability. As of September 30, 2011 and 2010, the FBI recognized the estimated cleanup liability of $9,987 and $9,755. The estimated asbestos cleanup liability is increased each quarter by recording future expenses for the asbestos clean-up costs. During FY 2011, future funded expense for asbestos cleanup is $232. There are no other potentially responsible parties to the environmental liability and there are no unrecognized amounts to disclose as of September 30, 2011.

These notes are an integral part of the financial statements.

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

Note 13. Leases

Capital leases include a Federal Transfer Center (25 year lease term) in Oklahoma City, Oklahoma; an airplane hangar (20 year lease term) in Oklahoma City, Oklahoma, which expired in FY 2011 and will not be renewed; and other machinery and equipment that expire over future periods.

As of September 30, 2011 and 2010

Capital Leases	2011	2010
Summary of Assets Under Capital Lease		
Land and Buildings	$ 100,352	$ 100,352
Machinery and Equipment	4,894	7,047
Accumulated Amortization	(61,623)	(58,688)
Total Assets Under Capital Lease (Note 9)	$ 43,623	$ 48,711

Future Capital Lease Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2012	$ 9,073	$ 970	$ 10,043
2013	9,073	592	9,665
2014	9,073	15	9,088
2015	32	15	47
2016	32	14	46
After 2016	96	-	96
Total Future Capital Lease Payments	$ 27,379	$ 1,606	$ 28,985
Less: Imputed Interest	(3,438)	(41)	(3,479)
Less: Executory Costs	-	(365)	(365)
FY 2011 Net Capital Lease Liabilities	$ 23,941	$ 1,200	$ 25,141
FY 2010 Net Capital Lease Liabilities	$ 31,649	$ 2,000	$ 33,649

	2011	2010
Net Capital Lease Liabilities Covered by Budgetary Resources	$ 1,200	$ 2,946
Net Capital Lease Liabilities not Covered by Budgetary Resources	$ 23,941	$ 30,703

The net capital lease liability not covered by budgetary resources primarily represents the capital lease of the Federal Transfer Center for which the Department received Congressional authority to fund with annual appropriations.

These notes are an integral part of the financial statements.

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

Note 13. Leases (continued)

Future Noncancelable Operating Lease Payments

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
2012	$ 223,236	$ 10,505	$ 233,741
2013	283,190	9,543	292,733
2014	314,601	4,408	319,009
2015	313,075	4,386	317,461
2016	313,609	-	313,609
After 2016	3,417,847	-	3,417,847
Total Future Noncancelable Operating Lease Payments	$ 4,865,558	$ 28,842	$ 4,894,400

Note 14. Seized Cash and Monetary Instruments

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

As of September 30, 2011 and 2010

	2011	2010
Investments, Net	$ 3,903,069	$ 1,293,776
Seized Cash Deposited	87,243	106,154
Seized Monetary Instruments	73,426	70,453
Total Seized Cash and Monetary Instruments	$ 4,063,738	$ 1,470,383

These notes are an integral part of the financial statements.

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

Note 15. Other Liabilities

As of September 30, 2011 and 2010

	2011	2010
Intragovernmental		
Employer Contributions and Payroll Taxes Payable	$ 197,871	$ 176,303
Other Post-Employment Benefits Due and Payable	25	37
Other Unfunded Employment Related Liabilities	2,178	1,759
Advances from Others	169,108	262,847
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	13,138	4,208
Other Liabilities	7,202	506,213
Total Intragovernmental	389,522	951,367
With the Public		
Other Accrued Liabilities	122,184	47,360
Advances from Others	6,992	3,951
Liability for Deposit Funds, Clearing Accounts and Undeposited Collections	49,022	45,616
Custodial Liabilities	152,987	118,879
Other Liabilities	72,720	51,563
Total With the Public	403,905	267,369
Total Other Liabilities	$ 793,427	$ 1,218,736

In prior years, the majority of Intragovernmental Other Liabilities were related to miscellaneous receipts of civil and criminal debt collections where Treasury was designated as the recipient of either a portion of a collection or the entire amount. As of September 30, 2010 this amount totaled $485,769. In FY 2011, OBDs changed its method of reporting for these miscellaneous receipts. As outlined in Note 25, *Changes in Accounting Principle*, these miscellaneous receipts will no longer be reported as Other Liabilities on the Consolidated Balance Sheet.

Other Accrued Liabilities with the Public consists primarily of future funded energy savings performance contracts and utilities.

The majority of Other Liabilities with the Public consists of project-generated proceeds from undercover operations. The proceeds not subject to forfeiture will be returned to the Department of Treasury General Fund at the conclusion of the project.

The majority of Liabilities are current with the exception of a portion that consists of capital leases and those liabilities related to future employee related expenses, such as accrued retirement contributions, life insurance, and retiree health benefits.

These notes are an integral part of the financial statements.

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

Note 16. Contingencies and Commitments

	Accrued Liabilities	Estimated Range of Loss	
		Lower	Upper
As of September 30, 2011			
Probable	$ 68,652	$ 68,652	$ 190,144
Reasonably Possible		86,576	135,569
As of September 30, 2010			
Probable	$ 101,760	$ 101,760	$ 214,237
Reasonably Possible		95,585	124,326

Additionally, FPI has entered into firm purchase commitments for solar panel material totaling $36,801 of which $13,129 is to be delivered in FY 2012 and $23,672 is to be delivered in FY 2015.

These notes are an integral part of the financial statements.

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

Note 17. Earmarked Funds

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

As of September 30, 2011

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Balance Sheet							
Assets							
Fund Balance with U. S. Treasury	$ 229,030	$ 14,532	$ 33,106	$ 7,260,185	$ 104,565	$ 80,240	$ 7,721,658
Investments, Net	2,443,702	216,029	-	-	-	-	2,659,731
Other Assets	180,020	58,406	3,152	275	46,184	27,572	315,609
Total Assets	$ 2,852,752	$ 288,967	$ 36,258	$ 7,260,460	$ 150,749	$ 107,812	$ 10,696,998
Liabilities							
Accounts Payable	$ 918,358	$ 8,236	$ 5,949	$ 9,664	$ 6,923	$ 11,131	$ 960,261
Other Liabilities	173,850	21,594	15,090	48,548	375,988	13,124	648,194
Total Liabilities	$ 1,092,208	$ 29,830	$ 21,039	$ 58,212	$ 382,911	$ 24,255	$ 1,608,455
Net Position							
Unexpended Appropriations	$ -	$ -	$ 21,727	$ -	$ -	$ -	$ 21,727
Cumulative Results of Operations	1,760,544	259,137	(6,508)	7,202,248	(232,162)	83,557	9,066,816
Total Net Position	$ 1,760,544	$ 259,137	$ 15,219	$ 7,202,248	$ (232,162)	$ 83,557	$ 9,088,543
Total Liabilities and Net Position	$ 2,852,752	$ 288,967	$ 36,258	$ 7,260,460	$ 150,749	$ 107,812	$ 10,696,998

For the Fiscal Year Ended September 30, 2011

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Statement of Net Cost							
Gross Cost of Operations	$ 1,673,412	$ 234,356	$ 162,760	$ 662,569	$ 277,514	$ 332,106	$ 3,342,717
Less: Exchange Revenues	9,513	314,921	91,636	-	195,235	341,176	952,481
Net Cost of Operations	$ 1,663,899	$ (80,565)	$ 71,124	$ 662,569	$ 82,279	$ (9,070)	$ 2,390,236
Statement of Changes in Net Position							
Net Position Beginning of Period	$ 1,687,400	$ 176,675	$ 14,385	$ 5,866,596	$ (159,279)	$ 69,853	$ 7,655,630
Budgetary Financing Sources	1,585,180	1,070	71,420	1,998,221	-	-	3,655,891
Other Financing Sources	151,863	827	538	-	9,396	4,634	167,258
Total Financing Sources	1,737,043	1,897	71,958	1,998,221	9,396	4,634	3,823,149
Net Cost of Operations	(1,663,899)	80,565	(71,124)	(662,569)	(82,279)	9,070	(2,390,236)
Net Change	73,144	82,462	834	1,335,652	(72,883)	13,704	1,432,913
Net Position End of Period	$ 1,760,544	$ 259,137	$ 15,219	$ 7,202,248	$ (232,162)	$ 83,557	$ 9,088,543

These notes are an integral part of the financial statements.

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

Note 17. Earmarked Funds (continued)

As of September 30, 2010

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Balance Sheet							
Assets							
Fund Balance with U. S. Treasury	$ 180,150	$ 4,439	$ 30,210	$ 5,938,699	$ 123,755	$ 67,328	$ 6,344,581
Investments, Net	2,197,486	184,105	-	-	-	-	2,381,591
Other Assets	197,403	20,704	4,894	3,380	52,534	27,560	306,475
Total Assets	$ 2,575,039	$ 209,248	$ 35,104	$ 5,942,079	$ 176,289	$ 94,888	$ 9,032,647
Liabilities							
Accounts Payable	$ 698,517	$ 11,370	$ 5,652	$ 15,560	$ 8,479	$ 12,696	$ 752,274
Other Liabilities	189,122	21,203	15,067	59,923	327,089	12,339	624,743
Total Liabilities	$ 887,639	$ 32,573	$ 20,719	$ 75,483	$ 335,568	$ 25,035	$ 1,377,017
Net Position							
Unexpended Appropriations	$ -	$ -	$ 19,585	$ -	$ -	$ -	$ 19,585
Cumulative Results of Operations	1,687,400	176,675	(5,200)	5,866,596	(159,279)	69,853	7,636,045
Total Net Position	$ 1,687,400	$ 176,675	$ 14,385	$ 5,866,596	$ (159,279)	$ 69,853	$ 7,655,630
Total Liabilities and Net Position	$ 2,575,039	$ 209,248	$ 35,104	$ 5,942,079	$ 176,289	$ 94,888	$ 9,032,647

For the Fiscal Year Ended September 30, 2010

	Assets Forfeiture Fund	U.S. Trustee System Fund	Antitrust Division	Crime Victims Fund	Diversion Control Fee Account	Federal Prison Commissary Fund	Total Earmarked Funds
Statement of Net Cost							
Gross Cost of Operations	$ 1,291,742	$ 229,760	$ 166,135	$ 608,723	$ 255,152	$ 338,286	$ 2,889,798
Less: Exchange Revenues	7,324	289,191	72,958	-	189,376	331,199	890,048
Net Cost of Operations	$ 1,284,418	$ (59,431)	$ 93,177	$ 608,723	$ 65,776	$ 7,087	$ 1,999,750
Statement of Changes in Net Position							
Net Position Beginning of Period	$ 1,425,883	$ 116,141	$ 25,734	$ 4,112,981	$ (100,558)	$ 73,049	$ 5,653,230
Budgetary Financing Sources	1,506,330	319	81,311	2,362,338	-	-	3,950,298
Other Financing Sources	39,605	784	517	-	7,055	3,891	51,852
Total Financing Sources	1,545,935	1,103	81,828	2,362,338	7,055	3,891	4,002,150
Net Cost of Operations	(1,284,418)	59,431	(93,177)	(608,723)	(65,776)	(7,087)	(1,999,750)
Net Change	261,517	60,534	(11,349)	1,753,615	(58,721)	(3,196)	2,002,400
Net Position End of Period	$ 1,687,400	$ 176,675	$ 14,385	$ 5,866,596	$ (159,279)	$ 69,853	$ 7,655,630

These notes are an integral part of the financial statements.

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

Note 17. Earmarked Funds (continued)

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

United States Trustees (UST) supervise the administration of bankruptcy cases and private trustees in the Federal Bankruptcy Courts. The Bankruptcy Judges, UST, and Family Farmer Bankruptcy Act of 1986 (Public Law 99–554) expanded the pilot trustee program to a 21 region, nationwide program encompassing 88 judicial districts. The UST System Fund collects user fees assessed against debtors, which offset the annual appropriation.

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

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

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

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

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

Note 18. Net Cost of Operations by Suborganization

For the Fiscal Year Ended September 30, 2011

Dollars in Thousands	AFF/SADF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security											
Gross Cost	$ -	$ 378,325	$ 6,484	$ -	$ 106,082	$ 5,326,383	$ 5,649	$ -	$ -	$ (96,829)	$ 5,726,094
Less: Earned Revenue	-	116,209	-	-	693	463,936	-	-	-	(96,829)	484,009
Net Cost of Operations	-	262,116	6,484	-	105,389	4,862,447	5,649	-	-	-	5,242,085
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People											
Gross Cost	1,673,412	5,858,718	30,396	2,680,635	2,929,005	3,903,753	1,268,049	6,613	-	$ (1,123,450)	17,227,131
Less: Earned Revenue	9,513	1,002,609	-	32,322	722,217	813,186	91,300	-	-	(1,123,450)	1,547,697
Net Cost of Operations	1,663,899	4,856,109	30,396	2,648,313	2,206,788	3,090,567	1,176,749	6,613	-	-	15,679,434
Goal 3: Ensure the Fair and Efficient Administration of Justice											
Gross Cost	-	2,441,919	3,174,846	1,054,276	-	-	-	7,213,365	942,915	(1,813,663)	13,013,658
Less: Earned Revenue	-	203,511	1,583,960	10,440	-	-	-	385,676	904,683	(1,788,199)	1,300,071
Net Cost of Operations	-	2,238,408	1,590,886	1,043,836	-	-	-	6,827,689	38,232	(25,464)	11,713,587
Net Cost of Operations	$ 1,663,899	$ 7,356,633	$ 1,627,766	$ 3,692,149	$ 2,312,177	$ 7,953,014	$ 1,182,398	$ 6,834,302	$ 38,232	$ (25,464)	$ 32,635,106

For the Fiscal Year Ended September 30, 2010

Dollars in Thousands	AFF/SADF	OBDs	USMS	OJP	DEA	FBI	ATF	BOP	FPI	Eliminations	Consolidated
Goal 1: Prevent Terrorism and Promote the Nation's Security											
Gross Cost	$ -	$ 359,943	$ 5,159	$ -	$ 100,315	$ 5,185,327	$ 7,185	$ -	$ -	$ (112,397)	$ 5,545,532
Less: Earned Revenue	-	110,232	-	-	632	507,996	-	-	-	(112,397)	506,463
Net Cost of Operations	-	249,711	5,159	-	99,683	4,677,331	7,185	-	-	-	5,039,069
Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People											
Gross Cost	1,291,742	5,763,437	4,872	2,757,971	2,801,202	3,846,770	1,265,934	6,860	-	(1,073,345)	16,665,443
Less: Earned Revenue	7,324	968,224	-	49,851	677,670	767,210	91,159	-	-	(1,073,345)	1,488,093
Net Cost of Operations	1,284,418	4,795,213	4,872	2,708,120	2,123,532	3,079,560	1,174,775	6,860	-	-	15,177,350
Goal 3: Ensure the Fair and Efficient Administration of Justice											
Gross Cost	-	2,269,929	3,016,174	988,230	-	-	-	7,021,759	951,139	(1,697,058)	12,550,173
Less: Earned Revenue	-	180,804	1,514,103	26,252	-	-	-	372,199	857,542	(1,669,610)	1,281,290
Net Cost of Operations	-	2,089,125	1,502,071	961,978	-	-	-	6,649,560	93,597	(27,448)	11,268,883
Net Cost of Operations	$ 1,284,418	$ 7,134,049	$ 1,512,102	$ 3,670,098	$ 2,223,215	$ 7,756,891	$ 1,181,960	$ 6,656,420	$ 93,597	$ (27,448)	$ 31,485,302

These notes are an integral part of the financial statements.

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

Note 19. Imputed Financing from Costs Absorbed by Others

Imputed Inter-Departmental Financing Sources are the unreimbursed (i.e., non-reimbursed and under-reimbursed) portion of the full costs of goods and services received by the Department from a providing entity that is not part of the Department. 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 currently recognized by the Department include the cost of benefits for the Federal Employees Health Benefits Program (FEHB), the Federal Employees' Group Life Insurance Program (FEGLI), and the Federal Pension plans that are paid by other federal entities, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department. The Treasury Judgment Fund was established by the Congress and funded at 31 U.S.C. §1304 to pay in whole or in part the court judgments and settlement agreements negotiated by the Department on behalf of agencies, as well as certain types of administrative awards. Interpretation of Federal Financial Accounting Standards Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, requires agencies to recognize liabilities and expenses when unfavorable litigation outcomes are probable and the amount can be estimated and will be paid by the Treasury Judgment Fund.

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires that employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires OPM to provide cost factors necessary to calculate cost. OPM actuaries calculate the value of pension benefits expected to be paid in the future, and then determine the total funds to be contributed by and for covered employees, such that the amount calculated would be sufficient to fund the projected pension benefits. For employees covered by Civil Service Retirement System (CSRS), the cost factors are 30.1% of basic pay for regular, 51.1% law enforcement officers, 23.5% regular offset, and 45.6% law enforcement officers offset. For employees covered by Federal Employees Retirement System (FERS), the cost factors are 13.8% of basic pay for regular and 29.8% for law enforcement officers.

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

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Imputed Inter-Departmental Financing		
U.S. Treasury Judgment Fund	$ 71,537	$ 135,498
Health Insurance	594,476	553,366
Life Insurance	2,038	1,969
Pension	330,434	212,044
Total Imputed Inter-Departmental	$ 998,485	$ 902,877

These notes are an integral part of the financial statements.

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

Note 19. Imputed Financing from Costs Absorbed by Others (continued)

Imputed Intra-Departmental Financing Sources as defined in SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, are the unreimbursed portion of the full costs of goods and services received by a Department component from a providing entity that is part of the Department. Recognition is required for those transactions determined to be material to the receiving entity. The determination of whether the cost is material requires considerable judgment based on the specific facts and circumstances of each type of good or service provided. SFFAS No. 4 also states that costs for broad and general support need not be recognized by the receiving entity, unless such services form a vital and integral part of the operations or output of the receiving entity. Costs are considered broad and general if they are provided to many, if not all, reporting components and not specifically related to the receiving entity's output. The FPI imputed $25,464 and $27,448 for FYs 2011 and 2010, respectively of unreimbursed costs for BOP warehouse space used in the production of goods by the FPI and for managerial and operational services BOP provided to FPI. These imputed costs have been eliminated from the consolidated financial statements.

Note 20. Information Related to the Statement of Budgetary Resources

Apportionment Categories of Obligations Incurred:

	Direct Obligations	Reimbursable Obligations	Total Obligations Incurred
For the Fiscal Year Ended September 30, 2011			
Obligations Apportioned Under			
Category A	$ 28,235,878	$ 5,835,181	$ 34,071,059
Category B	3,604,743	46,787	3,651,530
Exempt from Apportionment	-	824,853	824,853
Total	$ 31,840,621	$ 6,706,821	$ 38,547,442
For the Fiscal Year Ended September 30, 2010			
Obligations Apportioned Under			
Category A	$ 29,509,630	$ 5,664,568	$ 35,174,198
Category B	2,747,673	30,019	2,777,692
Exempt from Apportionment	-	841,869	841,869
Total	$ 32,257,303	$ 6,536,456	$ 38,793,759

The apportionment categories are determined in accordance with the guidance provided in Part 4 "Instructions on Budget Execution" of OMB Circular A-11, *Preparation, Submission and Execution of the Budget.* Category A obligations represent resources apportioned for calendar quarters. Category B obligations represent resources apportioned for other time periods; for activities, projects, and objectives or for a combination thereof.

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

Note 20. Information Related to the Statement of Budgetary Resources (continued)

Status of Undelivered Orders:

Undelivered Orders (UDO) 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	$ 11,606,422	$ 12,835,522
UDO Obligations Prepaid/Advanced	1,344,717	1,824,439
Total UDO	$ 12,951,139	$ 14,659,961

Permanent Indefinite Appropriations:

A permanent indefinite appropriation is open-ended as to both its period of availability (amount of time the agency has to spend the funds) and its amount. Following are the Department's permanent indefinite appropriations.

- 28 U.S.C. §524(c)(4) authorized the Attorney General to retain AFF receipts to pay operations expenses, equitable sharing to state and local law enforcement agencies who assist in forfeiture cases, and lien holders.

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

These notes are an integral part of the financial statements.

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

Note 20. Information Related to the Statement of Budgetary Resources (continued)

Permanent Indefinite Appropriations (continued):

- Congress established the Federal Prison Commissary Fund (Trust Fund) in 1932 to allow inmates a means to purchase additional products and services above the necessities provided by appropriated federal funds. The BOP Trust Fund is now a self-sustaining revolving account that is funded through the sales of goods and services, rather than annual or no-year appropriations.

- The Public Safety Officers' Benefits Act of 1976 (the "PSOB Act") is generally codified at 42 U.S.C. §46 Subchapter XII.

  OJP's PSOB appropriation supports one mandatory and two discretionary programs that provide benefits to public safety officers who are severely injured in the line of duty and to the families and survivors of public safety officers killed or mortally injured in the line of duty.
  The PSOB Program offers three types of benefits:

  1. Death Benefits, a one-time financial benefit to survivors of public safety officers whose deaths resulted from injuries sustained in the line of duty. Under the Hometown Heroes Survivors Benefit Act of 2003, survivors of public safety officers who die of a heart attack or stroke within 24 hours of stressful, non-routine public safety activities may also qualify for death benefits.

  2. Disability Benefits, a one-time financial benefit to public safety officers permanently disabled by catastrophic injuries sustained in the line of duty.

  3. Education Benefits, which provide financial support for higher education expenses (such as tuition and fees, books, supplies, and room and board) to the eligible spouses and children of public safety officers killed or permanently disabled in the line of duty.

Legal Arrangements Affecting Use of Unobligated Balances:

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

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

Note 20. 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 presented below. 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)	$ 42,833	$ 38,794	$ 941	$ 29,948
Funds not Reported in the Budget				
Expired Funds: OBDs, USMS, DEA, OJP, FBI, ATF & BOP	(786)	(211)	-	-
AFF/SADF Forfeiture Activity	(12)	-	-	-
OCDETF Adjustments	(9)	15	-	-
USMS Court Security Funds	(418)	(398)	-	(380)
Distributed Offsetting Receipts	-	-	(368)	368
Special and Trust Fund Receipts	-	-	-	573
Other	(4)	2	1	(1)
Budget of the United States Government	$ 41,604	$ 38,202	$ 574	$ 30,508

Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the Department SBR and the Budget of the United States Government.

These notes are an integral part of the financial statements.

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

Note 21. Net Custodial Revenue Activity

Custodial revenue activity represents those collections of non-exchange revenue on behalf of other recipient entities. These collections are not recorded as revenue by the Department but as activity on the Statement of Custodial Activity. The custodial liabilities presented on the Consolidated Balance Sheet and Note 15 represent funds held by the Department that have yet to be disbursed to the appropriate Federal agency or individual.

The primary source of the Department's Office of Debt Collection Management (DCM) collections consists of civil litigated matters i.e., student loan defaults, health care fraud, etc. The DCM also processes certain payments on criminal debts as an accommodation for the BOP and the Clerks of the U.S. District Courts. The BOP aggregates collections of inmate criminal debt by correction facility, and the DCM sorts the collections by judicial district and disburses payments to the respective Clerks of the U.S. Court. The DCM also accepts wire transfers or other payments on a criminal debt if a Clerk of the U.S. Court is unable or unwilling to do so. In addition, other negligible custodial collections occur for interest, fines, and penalties.

The OBDs collect civil fines, penalties, and restitution payments that are incidental to its mission. By court order, the OBDs were given the investment authority and the settlement funds collected must be invested. The OBDs invest these funds with the Treasury, Bureau of the Public Debt. As of September 30, 2011 and 2010, the custodial assets and liabilities recorded by the OBDs on the Consolidated Balance Sheet are $752,797 and $448,467, respectively. The OBDs custodial collections totaled $5,260,397 and $4,822,740 for the fiscal years ended September 30, 2011 and 2010.

For the fiscal years ended September 30, 2011 and 2010, DEA collected $97,268 and $20,963, respectively. DEA's collections include $15 million of the total fees collected for the Diversion Control Program and civil monetary penalties related to violations of the Controlled Substances Act that were incidental to DEA's mission. Since DEA has no statutory authority to use these excess funds, DEA transmits them to the Treasury General Fund. The DEA has a custodial liability for funds that have not yet been transmitted to the Treasury General Fund. As of September 30, 2011 and 2010 balances for custodial liabilities were $5,199 and $1,584, respectively.

As an agent of the federal government and as authorized by 26 U.S.C. § 6301, ATF collects fees from firearms and explosives industries, as well as import, permit and license fees. Special Occupational Taxes are collected from certain firearms businesses. Miscellaneous collections include project-generated proceeds. As ATF is unable to use these collections in its operations, ATF also has the authority to transfer these collections to the Treasury General Fund. The ATF custodial collections totaled $21,444 and $14,674 for the fiscal years ended September 30, 2011 and 2010, respectively.

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

Note 22. OMB Circular A-136 Consolidated Balance Sheet Presentation

U.S. Department of Justice
Consolidated Balance Sheets
As of September 30, 2011 and 2010

Dollars in Thousands	2011	2010
ASSETS		
Intragovernmental		
Fund Balance with U.S. Treasury	$ 23,354,452	$ 23,596,587
Investments, Net	6,919,799	4,061,733
Accounts Receivable, Net	380,431	302,310
Other Assets	115,103	122,664
Total Intragovernmental	30,769,785	28,083,294
Cash and Other Monetary Assets	250,253	245,283
Accounts Receivable, Net	125,898	87,260
Inventory and Related Property, Net	170,889	237,347
General Property, Plant and Equipment, Net	10,217,770	9,741,154
Other Assets	1,258,495	1,696,352
Total Assets	**$ 42,793,090**	**$ 40,090,690**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ 366,027	$ 273,619
Other Liabilities	1,245,156	1,525,985
Total Intragovernmental	1,611,183	1,799,604
Accounts Payable	2,504,820	2,520,022
Federal Employee and Veteran Benefits	1,359,360	1,314,105
Environmental and Disposal Liabilities	72,709	71,657
Other Liabilities	7,721,405	4,869,749
Total Liabilities	**$ 13,269,477**	**$ 10,575,137**
NET POSITION		
Unexpended Appropriations - Earmarked Funds	$ 21,727	$ 19,585
Unexpended Appropriations - All Other Funds	11,952,581	13,791,272
Cumulative Results of Operations - Earmarked Funds	9,066,816	7,636,045
Cumulative Results of Operations - All Other Funds	8,482,489	8,068,651
Total Net Position	**$ 29,523,613**	**$ 29,515,553**
Total Liabilities and Net Position	**$ 42,793,090**	**$ 40,090,690**

These notes are an integral part of the financial statements.

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

Note 23. 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	$ 38,547,442	$ 38,793,759
Less: Spending Authority from Offsetting Collections and Recoveries	7,709,445	7,626,950
Obligations Net of Offsetting Collections and Recoveries	30,837,997	31,166,809
Less: Offsetting Receipts	1,025,644	941,368
Net Obligations	29,812,353	30,225,441
Other Resources		
Donations and Forfeitures of Property	157,607	71,204
Transfers-In/Out Without Reimbursement	44,556	(3,433)
Imputed Financing from Costs Absorbed by Others (Note 19)	998,485	902,877
Other	(4,613)	-
Net Other Resources Used to Finance Activities	1,196,035	970,648
Total Resources Used to Finance Activities	31,008,388	31,196,089
Resources Used to Finance Items not Part of the Net Cost of Operations		
Net Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided	1,608,057	139,965
Resources That Fund Expenses Recognized in Prior Periods (Note 24)	(45,816)	(77,146)
Budgetary Offsetting Collections and Receipts That do not Affect Net Cost of Operations	294,218	300,608
Resources That Finance the Acquisition of Assets	(1,184,420)	(1,295,160)
Other Resources or Adjustments to Net Obligated Resources That do not Affect Net Cost of Operations	14,296	(49,768)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	686,335	(981,501)
Total Resources Used to Finance the Net Cost of Operations	$ 31,694,723	$ 30,214,588

These notes are an integral part of the financial statements.

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

Note 23. Reconciliation of Net Cost of Operations (proprietary) to Budget (formerly the Statement of Financing) (continued)

For the Fiscal Years Ended September 30, 2011 and 2010	2011	2010
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 24)	$ 129,497	$ 450,866
Depreciation and Amortization	826,899	727,012
Revaluation of Assets or Liabilities	23,586	29,772
Other	(39,599)	63,064
Total Components of Net Cost of Operations That Will not Require or Generate Resources in the Current Period	940,383	1,270,714
Net Cost of Operations	$ 32,635,106	$ 31,485,302

These notes are an integral part of the financial statements.

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

Note 24. 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 $3,617,966 and $3,478,383 on September 30, 2011 and 2010, respectively, are discussed in Note 11, *Liabilities not Covered by Budgetary Resources.* Decreases in these liabilities result from current year budgetary resources that were used to fund expenses recognized in prior periods. Increases in these liabilities represent unfunded expenses that were recognized in the current period. These increases along with the change in the portion of exchange revenue receivables from the public, which are not considered budgetary resources until collected, represent components of current period net cost of operations that will require or generate budgetary resources in future periods. The changes in liabilities not covered by budgetary resources and receivables generating resources in future periods are comprised of the following:

For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010
Resources that Fund Expenses Recognized in Prior Periods		
Other		
Decrease in Contingent Liabilities	$ (33,108)	$ (70,893)
Decrease in Unfunded Capital Lease Liabilities	(6,762)	(6,253)
Decrease in RECA Liabilities	(5,946)	-
Total Resources that Fund Expenses Recognized in Prior Periods	$ (45,816)	$ (77,146)
Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods		
Increase in Accrued Annual and Compensatory Leave Liabilities	$ 5,921	$ 45,156
Increase in Environmental and Disposal Liabilities	1,052	49,545
(Increase)/Decrease in Exchange Revenue Receivable from the Public	(51,628)	(1,671)
Other		
Increase in Actuarial FECA Liabilities	45,255	80,206
Increase in Accrued FECA Liabilities	6,689	6,951
Increase in Deferred Revenue	47,578	41,324
Increase in RECA Liabilities	-	197,949
Increase in Other Unfunded Employee Related Liabilities	420	230
Increase in Other Liabilities	78,484	33,030
(Increase)/Decrease in Nonexchange Receivables from the Public	(94)	(63)
(Increase)/Decrease in Surcharge Revenue Receivable from Other Federal Agencies	(4,180)	(1,791)
Total Other	174,152	357,836
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 129,497	$ 450,866

These notes are an integral part of the financial statements.

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

Note 25. Changes in Accounting Principle

Based upon guidance received from the U.S. Department of Treasury in FY 2011, the OBDs has changed its method of reporting for Debt Collection Management miscellaneous receipts, which as of September 30, 2011 totaled $618,814. This change in method of reporting results in a change in accounting principle, which OBDs is applying prospectively beginning with FY 2011. The cumulative amount of miscellaneous receipts from prior years that were reported as Other Liabilities (Note 15) will no longer be reported in the Consolidated Balance Sheet, and will be reflected in the Statement of Custodial Activity as Transfers to the Treasury General Fund.

Based upon guidance received from OMB regarding their interpretation of P.L. 112-10, Section 1101, OJP has changed its method of accounting for previous years' unobligated CVF collections, which as of October 1, 2010, totaled $4,801,473. As a result of this change in accounting principle, which OJP is applying prospectively beginning with FY 2011 (subject to the annual appropriation language for the CVF fund), the cumulative amount of unobligated CVF collections from prior years is included in the 'Appropriations Received' and 'Temporarily Not Available Pursuant to Public Law' line items of the Combined Statement of Budgetary Resources.

These notes are an integral part of the financial statements.

Consolidating and Combining Financial Statements

See Independent Auditors' Report on Financial Statements

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Required Supplementary Stewardship Information Unaudited

See Independent Auditors' Report on Financial Statements

U.S. Department of Justice
Required Supplementary Stewardship Information
Consolidated Stewardship Investments
For the Fiscal Years Ended September 30, 2011, 2010, 2009, 2008 and 2007

The Violent Offender Incarceration and Truth-In Sentencing (VOI/TIS) and the Correctional Grants for Tribal Programs are administered by OJP's Bureau of Justice Assistance (BJA). The VOI/TIS and Correctional Grants for Tribal Land programs provide grants to all states as well as the District of Columbia, Puerto Rico, Virgin Islands, American Samoa, Guam, the Northern Mariana Islands, and Tribes for the purposes of building or expanding correctional facilities and jails to increase secure confinement space for violent offenders. The facilities built or expanded with these funds constitute non-federal physical property.

VOI/TIS and CSCATL funds are available for the following purposes:

- Build or expand correctional facilities to increase the bed capacity for the confinement of persons convicted of a Part 1 violent crime or adjudicated delinquent for an act that, if committed by an adult, would be a Part 1 violent crime. NOTE: Part 1 violent crime included murder and non-negligent manslaughter, forcible rape, robbery, and aggravated assault as reported to the Federal Bureau of Investigation for purposes of the Uniform Crime Reports.

- Build or expand temporary or permanent correctional facilities, including facilities on military bases, prison barges, and boot camps, for the confinement of convicted offenders and criminal aliens, for the purpose of freeing suitable existing prison space for the confinement of persons convicted of a Part 1 violent crime.

- Build or expand jails.

- Additionally, since fiscal year (FY) 1999, up to 10.0 percent of a state's VOI/TIS award may be applied to the costs of offender drug testing or intervention programs during periods of incarceration and post-incarceration criminal justice supervision and/or pay the costs of providing the required reports on prison drug use.

VOI/TIS and CSCATL funds expended from FY 2007 through FY 2011 are as follows:

Dollars in Thousands	2011	2010	2009	2008	2007
Cooperative Agreement Program Administered by USMS	$0	$0	$0	$1,140	$2,839
Discretionary Grants to Indian Tribes	52,339	24,768	14,320	5,094	11,334
Formula Grants to States	-1,139	11,389	41,561	59,011	188,171
Total	$51,200	$36,157	$55,881	$65,245	$202,344