Audit Report

OIG-13-020

Audit of the Department of the Treasury Forfeiture Fund's

Fiscal Years 2012 and 2011 Financial Statements

December 7, 2012

Office of Inspector General

Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 7, 2012

MEMORANDUM FOR ERIC HAMPL, DIRECTOR
TREASURY FORFEITURE FUND

FROM: Michael Fitzgerald
Director, Financial Audits

SUBJECT: Audit of the Department of the Treasury Forfeiture Fund's Fiscal Years 2012 and 2011 Financial Statements

I am pleased to transmit the attached audited Department of the Treasury Forfeiture Fund (TFF) financial statements for Fiscal Years 2012 and 2011. Under a contract monitored by the Office of Inspector General, GKA, P.C. (GKA), an independent certified public accounting firm, performed an audit of the financial statements of TFF as of September 30, 2012 and 2011 and for the years then ended. The contract required that the audit be performed in accordance with generally accepted government auditing standards; applicable provisions of Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended; and the *GAO/PCIE Financial Audit Manual*.

The following reports, prepared by GKA, are incorporated in the attachment:

- Independent Auditor's Report on Financial Statements;
- Independent Auditor's Report on Internal Control over Financial Reporting; and
- Independent Auditor's Report on Compliance with Laws and Regulations.

In its audit, GKA found:

- the financial statements were fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- no deficiencies in internal control over financial reporting that are considered material weaknesses; and
- no instances of reportable noncompliance with laws and regulations tested.

In connection with the contract, we reviewed GKA's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or compliance with laws and regulations. GKA is responsible for the attached auditor's reports dated October 31, 2012 and the conclusions expressed in the reports. However, our review disclosed no instances where GKA did not comply, in all material respects, with generally accepted government auditing standards.

Should you have any questions, please contact me at (202) 927-5789, or a member of your staff may contact Catherine Yi, Manager, Financial Audits at (202) 927-5591.

Attachment

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Treasury Forfeiture Fund
ACCOUNTABILITY REPORT
Fiscal Year 2012

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

Member of the American Institute of Certified Public Accountants

Message from the Director

I am pleased to present the fiscal year (FY) 2012 Accountability Report for the Treasury Forfeiture Fund (the Fund). While highlighting the Fund's financial and operational performance over the past year, this report also focuses on some of the significant investigative achievements of our participating law enforcement agencies this year. FY 2012 was another highly successful revenue year for the law enforcement bureaus participating in the Treasury Forfeiture Fund, with earned revenue and recoveries of $516.6 million from all sources, as compared to $868.1 million in FY 2011.

The continued high-impact performance of the Fund reflects the ongoing hard work of our law enforcement bureaus as well as Fund management's emphasis on major case initiatives, asset forfeiture program training and a focused approach regarding our performance measure which gauges revenue from high-impact cases. The mission of the Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by our law enforcement bureaus to disrupt and dismantle criminal enterprise. It is our view that the greatest damage to criminal enterprise can be achieved through large forfeitures; hence we have set a target level of 80 percent of our forfeitures to be high-impact, i.e., cash forfeitures equal to or greater than $100,000. This target level is up from 75 percent set for FY 2010 and prior years. For FY 2012, our member bureaus fell just short of the new target with a performance level of 76.38 percent high-impact forfeitures as compared to 91.44 percent in FY 2011.

Contributing to this year's revenue levels–were two exceptionally large equitable sharing deposits received from the Department of Justice (DOJ) forfeiture fund in recognition of the role of Treasury member bureaus in those forfeitures. Shares received in FY 2012 included just under $60 million from the Google Inc. forfeiture to DOJ. In total, Google agreed to forfeit $500 million in ill-gotten gains related to taking advertisements from online Canadian pharmacies; i.e., the shipment of prescription drugs from pharmacies outside the United States to customers in the United States typically violates the Federal Food, Drug and Cosmetic Act and in the case of controlled prescription drugs, the Controlled Substances Act.

Regarding another large equitable share received from the DOJ forfeiture fund in FY 2012, Wachovia Bank, N.A. entered into a Deferred Prosecution Agreement (DPA) with the federal government in which the bank accepted responsibility for failing to maintain an effective anti-money laundering program. Wachovia failed to block Mexican currency exchange houses from laundering billions of dollars, including drug-trafficking proceeds, through the bank. Wachovia acknowledged that more than $110 million was involved in the transaction violations and were, therefore, subject to forfeiture to the United States. The Treasury Forfeiture Fund's equitable share from the DOJ forfeiture fund in this case was $34.6 million.

During FY 2012, the Treasury Executive Office for Asset Forfeiture (TEOAF), the management component of the Treasury Forfeiture Fund, suspended training seminars. TEOAF hopes to return to these valuable and productive training segments as soon as possible.

The Treasury Forfeiture Fund continues in its capacity as a successful multi-Departmental Fund representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus. We look forward to another successful year in FY 2013.

Eric E. Hampl, Director
Executive Office for Asset Forfeiture
U.S. Department of the Treasury

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Treasury Forfeiture Fund
FY 2012 Management Overview

Profile of the Treasury Forfeiture Fund

The Treasury Forfeiture Fund (the Fund) is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. The Fund was established in October of 1992 as the successor to the Forfeiture Fund of the United States Customs Service. The Fund is a "special receipt account." This means the Fund can provide money to other federal entities toward the accomplishment of a specific objective for which the recipient bureaus are authorized to spend money and toward other authorized expenses. The use of Fund resources is governed by law, policy and precedent as interpreted and implemented by the Department of the Treasury which manages the Fund. A key objective for management is the long-term viability of the Fund to ensure that there are ongoing resources to support member-bureau seizure and forfeiture activities well into the future. The emphasis of Fund management is on high impact cases that can do the most damage to criminal infrastructure.

The Treasury Forfeiture Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. Our member bureaus include the Internal Revenue Service's Criminal Investigation (IRS-CI), the U.S. Secret Service, Immigration and Customs Enforcement (ICE), and Customs and Border Protection (CBP). The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity.

The Executive Office for Asset Forfeiture (EOAF), which provides management oversight of the Fund, falls under the auspices of the Under Secretary for Terrorism and Financial Intelligence. EOAF's organizational structure includes the Fund Director, Legal Counsel, Assistant Director for Financial Management and Assistant Director for Policy. Functional responsibilities are delegated to various team leaders. EOAF is located in Washington, D.C., and currently has 25 authorized full time equivalent positions.

Strategic Mission

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus that participate in the Treasury Forfeiture Fund to disrupt and dismantle criminal enterprises.

Strategic Vision

Fund management works to focus the asset forfeiture program on strategic cases and investigations that result in high-impact forfeitures. Management believes this approach incurs the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal enterprises.

The following case highlights are intended to give the reader an idea of the types of investigative cases worked by the Fund's law enforcement bureaus during FY 2012 that resulted in the seizure and forfeiture of assets. Such cases as those profiled below are consistent with the Strategic Mission and Vision of the Treasury Forfeiture Program, which is to use high-impact asset forfeiture in investigative cases to disrupt and dismantle criminal enterprises.

Internal Revenue Service, Criminal Investigation (IRS-CI)
Department of the Treasury

$16 Million forfeited *In Rem* from indicted Swiss Bank's U.S. Account

Information included in the following forfeiture article is attributed to: U.S. Department of Justice Press Release dated February 2, 2012, entitled: *"Swiss Bank Indicted on U.S. Tax Charges," and* U.S. Department of Justice Press Release dated April 24, 2012, entitled: *"Manhattan U.S. Attorney Forfeits Over $16 Million Seized from Indicted Swiss Bank's U.S. Account"*

In February 2012, Wegelin & Co. (Wegelin), a Swiss bank, was indicted for conspiring with U.S. taxpayers and others to hide more than $1.2 billion in secret accounts, and the income these accounts generated, from the Internal Revenue Service (IRS). At the same time, the U.S. government seized more than $16 million from Wegelin's correspondent bank account in the United States, in accordance with a civil forfeiture *in rem* forfeiture complaint and seizure warrant. In April 2012, a U.S. District Court Judge entered a default judgment and final order of forfeiture of these funds.

According to the Indictment and the *in rem* Forfeiture Complaint, Wegelin, Switzerland's oldest bank, founded in 1741, provided private banking, asset management and other services to clients around the world, including U.S. taxpayers living in the Southern District of New York. Wegelin had no branches outside Switzerland, but it directly accessed the U.S. banking system through a correspondent bank account that it held at UBS AG in Stamford, Connecticut.

From 2002 through 2011, Wegelin conspired with various U.S. taxpayers and others to hide the existence of bank accounts held at Wegelin and the income generated in those secret accounts from the IRS. Among other things, in 2008 and 2009, Wegelin opened and serviced dozens of undeclared accounts for U.S. taxpayers in an effort to capture clients lost by UBS in the wake of widespread news reports that the IRS was investigating UBS for helping U.S. taxpayers evade taxes and hide assets in Swiss bank accounts. By mid-2008, UBS had stopped servicing undeclared accounts for U.S. taxpayers.

In the wake of the IRS investigation of UBS, members of Wegelin's senior management affirmatively decided to capture the illegal business that UBS exited. To capitalize on the business opportunity this presented and to increase the assets under management, along with the fees earned from managing those assets, individuals acting on behalf of Wegelin told various U.S. taxpayer-clients that their undeclared accounts would not be disclosed to U.S. authorities because the bank had a long tradition of secrecy.

U.S. taxpayers are required to report the existence of any foreign bank account on their federal income tax returns if it holds more than $10,000 at any time during a given year, as well as any income it earns. By 2010, the collective maximum value of the assets in undeclared accounts beneficially owned by U.S. taxpayer-clients of Wegelin was more than $1.2 billion, with many accounts holding more than $10,000 in any one year. As the result of this case, the sum of $16.3 million was subsequently forfeited and deposited into the Treasury Forfeiture Fund (the Fund) in June 2012.

Significant Equitable Sharing Revenue Cases[1]

Wachovia Bank, N.A., forfeits $110 Million of which $35 Million is equitably shared with the Treasury Forfeiture Fund

Information included in the following forfeiture article is attributed to: United States District Court, Southern District of Florida, Deferred Prosecution Agreement, Case No. 10-20165-CR-LENARD, dated March 16, 2010; Article by Curt Anderson, entitled: "160M Wachovia penalty a record," published in the *Atlanta Business News*, on March 17, 2010; and the Article by Jay Weaver, entitled: "Bank pays for lapse in laundering," published in *The Miami Herald*, on March 18, 2010.

In March 2010, Wachovia Bank, N.A. ("Wachovia") entered into a Deferred Prosecution Agreement (DPA) in which the bank accepted responsibility for failing to maintain an effective anti-money laundering program, in violation of Title 31 U.S.C. §5318(h)(1) and §5322(a). Wachovia acknowledged that more than $110 million was involved in transactions in accounts in violation of 18 U.S.C. §1956 and §1957, and, therefore, the funds were subject to forfeiture to the United States pursuant to 18 U.S.C. §981 and §982. In addition, Wachovia agreed to pay a fine of $50 million for the violations.

At issue, Wachovia failed to block Mexican currency exchange houses from laundering billions of dollars, including drug-trafficking proceeds, through the bank. Authorities stopped short of labeling Wachovia as a knowing partner with drug cartels, saying only that the bank lacked sufficient anti-money laundering programs to detect the flood of tainted currency into its financial network.

The agreement is the largest penalty paid by a U.S. financial institution for violating the Bank Secrecy Act. The Act was passed by Congress in 1970 and requires banks to set up aggressive anti-money laundering safeguards, including reporting suspicious transactions to the government. Authorities said that Wachovia's Miami offices and other branches "willfully failed" to monitor potential money laundering activity exceeding $420 billion by the exchange houses in Mexico, including at least $110 million authorities were able to positively identify as cocaine proceeds.

The Treasury Forfeiture Fund's equitable share from the DOJ forfeiture fund was $34.6 million, deposited into the Fund in April 2012.

[1] Pursuant to 31 U.S.C. 9703(d)(2)(C), the Treasury Forfeiture Fund is authorized to deposit into the Fund all amounts representing the equitable share of a Department of the Treasury law enforcement organization or the United States Coast Guard from the forfeiture of property under any Federal, State, local or foreign law.

Google Pays $500 Million Forfeiture Penalty to U.S. Government

Information included in the following forfeiture article is attributed to: Fox Business News Article, dated August 24, 2011, entitled: "Google to Pay $500M Forfeiture Penalty to Feds;"and the Non-Prosecution Agreement with Google Inc., entered into by the United States Attorney's Office for the District of Rhode Island in August 2011.

In one of the largest forfeiture penalties ever, Google Inc. agreed to forfeit $500 million in ill-gotten gains garnered from taking advertisements from online Canadian pharmacies. The sum represents the gross revenue Google received from its AdWords program, along with that made by Canadian pharmacies via sales to U.S. consumers.

The U.S. Government charged that Google was aware as early as 2003 that it is generally illegal for pharmacies to ship controlled and non-controlled prescription drugs into the United States from Canada. Google was aware that importation of prescription drugs to consumers in the United States is almost always unlawful because the U.S. Food and Drug Administration (FDA) cannot ensure the safety and effectiveness of foreign prescription drugs that are not FDA-approved and because the drugs may not meet FDA's labeling requirements, may not have been manufactured, stored and distributed under proper conditions, and may not have been dispensed pursuant to a valid prescription.

Treasury Forfeiture Fund member bureaus IRS CI, Immigration and Customs Enforcement (ICE) and the U.S. Secret Service participated in the investigation leading to forfeiture and received a combined total of nearly $60 million in equitable shares from the DOJ forfeiture fund reflecting their efforts. In March 2012, equitable shares totaling $59,974,671 were deposited into the Fund.

Immigration and Customs Enforcement (ICE)
Department of Homeland Security

Joint Cocaine and Bulk Cash Smuggling Investigation nets $917,900 in U.S. Currency

Information included in the following forfeiture article is attributed to: Case information from the Treasury Executive Office for Asset Forfeiture Liaison for Immigration and Customs Enforcement (ICE).

In mid-November 2011, ICE agents seized $917,900 in U.S. Currency pursuant to a joint cocaine and bulk cash smuggling investigation. The currency was located in the cargo hold of a tractor trailer listed as belonging to Ochoa Trucking in Southern California. The driver was interviewed and subsequently released. The seizure occurred on I-70 in Howard County, Maryland. The seized funds were subsequently forfeited and deposited into the Fund in June 2012.

Houston-based Champion Window and Advanced Containment Systems, Inc. enter Non-Prosecution Agreement regarding Illegal Employment Practices, each forfeits $2 Million

Information included in the following forfeiture article is attributed to: Immigration and Customs Enforcement (ICE) News Release dated January 24, 2012, entitled: "2 companies admit to hiring illegal aliens, each forfeit $2 million"

In January 2012, Atrium Companies, the owner of Houston-based Champion Window and Advanced Containment Systems Inc. (ACSI), agreed to adhere to revised immigration compliance programs and to each pay $2 million as forfeited funds as part of a Non-Prosecution Agreement with the federal government. Atrium Companies is the largest manufacturer and distributor of residential vinyl and aluminum windows and patio doors in the United States with a total workforce of around 3,700 employees. The company operates 13 subsidiaries located in seven different states and Canada.

Both companies received multiple notices from the Social Security Administration known as "no-match letters," which indicated employee names and Social Security numbers did not match SSA records. The companies failed to take corrective measures, resulting in the continued employment of the undocumented aliens. For ACSI, this resulted in about $2 million in wages paid to these undocumented aliens between 2005 and 2009. Champion derived at least $2 million in revenue from the sales of its products manufactured and services provided with the use of its predominantly illegal workforce from 2006 through 2010. Two deposits, each in the amount of $2 million, were deposited into the Fund in August 2012.

Chicago ICE Agents seize $1,695,710 in U.S. Currency consistent with Bulk Cash Smuggling

Information included in the following forfeiture article is attributed to:
Case information from the Treasury Executive Office for Asset Forfeiture Liaison.

In March 2012, Chicago ICE agents responded to a request for assistance by a local police department conducting a consent search. During the search, $1,695,710 in U.S. Currency was discovered with a previously deported alien. Vacuum sealers and bags consistent with bulk cash smuggling and money laundering activities were also detected, which indicated the cash was part of an ongoing bulk cash smuggling investigation. The seized funds were subsequently forfeited and deposited into the Fund in May 2012.

A Look Back to Prior-Year Cases with continuing Forfeiture Deposits

IFCO Systems North America makes final forfeiture payment of $6 Million pursuant to Agreement to pay $18.1 Million in Civil Forfeitures for Illegal Immigration and Employment Practices

Information included in the following forfeiture article is attributed to: News Release dated January 23, 2009, "Superseding indictments charge 7 IFCO managers with violating federal immigration law….." and; About.Com article by Rick LeBlanc, dated January 19, 2011, entitled: "IFCO Systems – Taking Steps to Avoid Illegal Hires"

On April 19, 2006, ICE agents, in concert with other federal and state authorities, conducted a work site enforcement action at over 40 IFCO Systems of North America (IFCO) plants in 26 states, which resulted in the detention of 1,182 illegal aliens working at those plants. In January 2009, a federal grand jury in Albany, New York, returned superseding indictments on seven IFCO managers stemming from an ICE investigation of illegal immigration and employment-related practices at IFCO's pallet management services plants nationwide.

The seven defendants were accused of conspiring, between 2003 and 2006, to harbor illegal aliens employed by IFCO and to encourage and induce those illegal aliens to reside in the United States. Four of these defendants were charged in a related conspiracy to defraud the IRS and the Social Security Administration by submitting false payroll-related information to those agencies and to facilitate the misuse of social security numbers by IFCO employees.

In December 2008, IFCO agreed to pay, over four years, $2.6 million in back pay and penalties related to overtime violations, and $18.1 million in civil forfeitures. The last of the forfeiture payments, $6,000,000, required pursuant to the agreement was deposited in the Fund in January 2012.

Another Look Back at Continuing Forfeiture Deposits from a Caribbean Drug Trafficking Organization

ICE takes down Puerto Rican Drug Lord, dismantles largest Drug Trafficking Organization in the Caribbean, with another deposit into the Fund, $1,488,290

Information included in the following forfeiture article is attributed to: Immigration and Customs Enforcement (ICE) News Release, dated November 21, 2010, entitled: "*ICE takes down Puerto Rican drug lord, dismantles largest drug trafficking organization in the Caribbean;*"and Immigration and Customs Enforcement (ICE) News Release dated March 28, 2012, entitled: "*Puerto Rican drug lord and leader of largest Caribbean drug trafficking organization pleads guilty*"

In late 2010, ICE arrested Jose Figueroa-Agosto (Agosto), the leader of the largest drug trafficking organization in the Caribbean and 12 other members of his organization. The defendants were charged in a 12-count indictment with conspiracy to import narcotics into the United States, conspiracy to possess with intent to distribute controlled substances, and money laundering. The indictment sought to forfeit the proceeds obtained as a result of such offenses, up to an amount of $100 million.

According to the indictment, from 2005, the defendants conspired to import multi-kilogram quantities of cocaine into Puerto Rico from places outside the United States, mainly the Dominican Republic, all for significant financial gain and profit. The defendants also conspired to possess with intent to distribute the multi-kilogram quantities of cocaine in Puerto Rico. Co-conspirators assumed various roles within the drug trafficking organization in order to further the object of the conspiracy, including but not limited to leaders, transporters, and facilitators.

According to the indictment, defendants attempted to create the appearance that their narcotics proceeds were legitimate by purchasing assets through the use of "straw owners," or "jockeys." The defendants purchased assets, utilized nominee bank accounts to deposit narcotics proceeds and made payments for services with cash and money orders. This was done in order to conceal the true ownership of the assets, conceal the source of the funds, and avoid tracing by financial institutions and civil and criminal authorities, thereby protecting their interest in the properties. In March 2012, Agosto pled guilty to drug trafficking.

A forfeiture related to this case in the amount of $1,488,290 was deposited in the Fund in July 2012.

CBP had another productive year for seizures of cash and drugs at the border and border regions; the following represents a sample of their law enforcement seizures that have been deposited into the Treasury Forfeiture Fund in FY 2012[2].

CBP Officers seize $304,389 in Smuggled Currency at El Paso Port

Information included in the following forfeiture article is attributed to: News Release dated November 7, 2011, entitled "CBP Seizes $304,000 in Smuggled Currency at El Paso Port"

In early November 2011, CBP officers and Border Patrol agents working at the El Paso port of entry seized $304,389, discovered hidden in a vehicle at the Bridge of the Americas international crossing. Authorities were conducting a southbound inspection operation when a 2002 Dodge Ram pickup being driven by a 22-year-old female attempted to leave the United States. CBP officers selected the vehicle for an intensive examination, during which time currency detector canine, "Bora," searched the vehicle and alerted to the truck bed area.

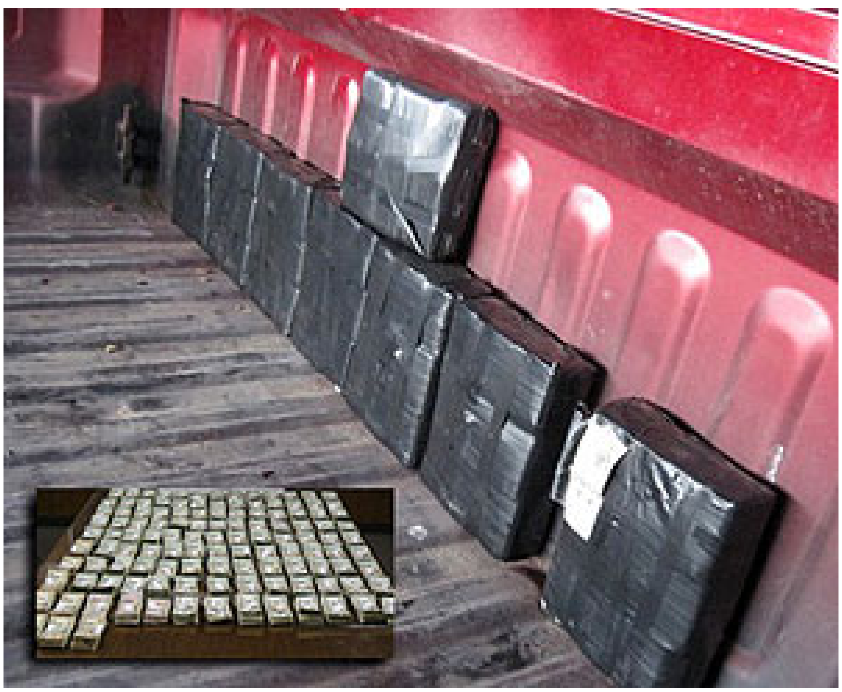

Figure 1 $304,389 Seized from a Vehicle at the Bridge of the Americas International Crossing

The officers continued their search and located a hidden compartment between the rear wall of the cab of the pickup and a plastic bed liner. They removed eight tape-wrapped bundles from the

[2] With regard to any undeclared currency seizures identified in the following investigative narratives, individuals are permitted to carry any amount of currency or monetary instruments into or out of the United States. However, if the quantity is $10,000 or more, they must formally report the currency to CBP. Failure to declare may result in seizure of the currency and/or arrest. An individual may petition for the return of currency seized by CBP officers, but the petitioner must prove that the source and intended use of the currency was legitimate.

compartment which contained $304,389 in U.S. Currency. The currency was seized, subsequently forfeited and deposited in the Fund in May 2012.

U.S. Border Patrol seizes $1,128,836 in Suspected Drug Money

Information included in the following forfeiture article is attributed to: Press Release dated November 14, 2011, entitled: "*U.S. Border Patrol Seizes more than $1 Million in Suspected Drug Money*"

In mid November 2011, U.S. Border Patrol agents arrested one male and two elderly female Mexican nationals for attempting to smuggle more than $1 million inside a Ford Explorer. Agents on patrol in California stopped a suspicious 1997 Ford Explorer traveling southbound on Interstate 5, in Oceanside. They requested and were granted consent to search the vehicle. An interior inspection of the vehicle revealed two large black duffle bags with 74 cellophane-wrapped bundles containing U.S. Currency. The 41-year old male driver was taken into custody. The two elderly female passengers were found to be in violation of their terms of admission and were returned to Mexico. The currency and vehicle were seized by the U.S. Border Patrol pending forfeiture proceedings. A total of $1,128,836.00 was subsequently forfeited in this case and deposited in the Fund in January 2012.

CBP Officers seize $260,640 in Undeclared Currency

Information included in the following forfeiture article is attributed to: Press Release dated February 3, 2012, entitled: "CBP Officers Intercept Illicit Currency"

In early February 2012, officers conducting outbound inspections selected a 40-year-old Mexican woman and her teen-aged son for additional questioning, and a closer examination of their Buick sedan. When officers noticed someone had tampered with the gas tank, they decided to remove it for further inspection. Inside the tank, officers found 21 packages containing $260,640. The unreported funds and vehicle were seized. The woman was arrested and her son was released to family members. The seized currency was subsequently forfeited and deposited in the Fund in April 2012.

Figure 2 $260,640 in Undeclared Currency seized from inside the Gas Tank of a Buick Sedan

CBP Officers seize $124,800 in Undeclared Currency

Information included in the following forfeiture article is attributed to: Press Release dated January 25, 2012, entitled "CBP Officers Intercept Undeclared Currency"

In late January 2012, CPB officers assigned to Tucson seized $124,800 in undeclared U.S. Currency from a couple headed for Mexico through the Dennis DeConcini Port. Officers conducting outbound inspections selected a 37-year old Mexican man and his 33-year-old wife for additional questioning. When officers put the couple's Ford truck on a vehicle lift, they noticed someone had tampered with the transfer case. When the transfer case was opened, officers discovered 34 packages containing $124,800 in U.S. Currency. The male subject was arrested and his wife was released. The currency was seized, subsequently forfeited and deposited in the Fund in April 2012.

Figure 3 $124,800 in Undeclared U.S. Currency seized from a Mexico-bound Vehicle

U.S. Border Patrol Officers seize $118,187 from a Suspicious Vehicle

Information included in the following forfeiture article is attributed to:
Press Release dated November 8, 2011, entitled: "Yuma Border Patrol Agents Seize Large Sum of Cash"

Figure 4 $118,187.52 seized from Vehicle in Yuma District

In early November 2011, Border Patrol agents from the Yuma Sector conducting roving patrol duties noticed suspicious behavior and erratic actions of the driver of blue Nissan Sentra. Agents followed the vehicle, developed additional suspicions and pulled the vehicle over. The occupants, two U.S. citizens, consented to a vehicle search. Agents searched the trunk of the vehicle and found a bag containing neatly folded bed linens. Agents opened the bag and discovered multiple stacks of cash bundled together with rubber bands. In total, agents seized $118,187.52. The cash was subsequently forfeited and deposited in the Fund in January 2012.

CBP Officers seize $112,500 in U.S. Currency headed into Mexico

Information included in the following forfeiture article is attributed to: Press Release dated December 21, 2011, entitled: "San Ysidro CBP Officers Stop More than $112,000 Headed into Mexico"

In late December 2011, CBP officers conducting inspections of travelers in San Diego selected a black Honda Accord for inspection. Two 20-year old male U.S. citizens were in the car. A CBP officer screened the vehicle with a currency/firearms detector dog and the canine alerted to the dashboard area of the vehicle. Officers also utilized an x-ray imaging system that revealed anomalies within the dashboard and a fiber optic scope that showed packages in a non-factory compartment in the dash. Officers discovered six cellophane-wrapped packages of unreported currency totaling $112,500 within the compartment. The vehicle and currency were seized and the two occupants were turned over to Immigration and Customs Enforcement agents for further investigation. The $112,500 was subsequently forfeited and deposited in the Fund in May 2012.

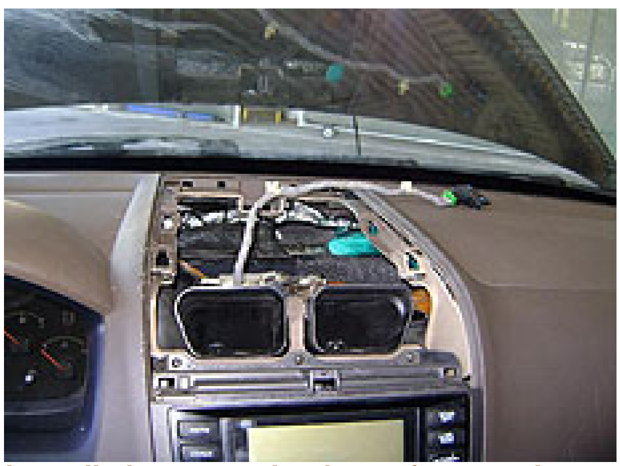

Figure 5 CBP officers discovered six cellophane-wrapped packages of unreported currency totaling $112,500 hidden within a non-factory compartment of a vehicle.

CBP Officers seize $350,000 in U.S. Currency headed into Mexico

Information included in the following forfeiture article is attributed to: Case information provided by a TEOAF Liaison from Immigration and Customs Enforcement (ICE).

Again, in late October 2011, the Laredo Anti-Terrorism Contraband Enforcement Team (A-TCET) Team, along with Laredo Sector Border Patrol Agents, was conducting pulse and surge operations at Lincoln Juarez Bridge, Laredo Texas. A 2006 tan Subaru bearing Texas plates driven by a female, later identified as a U.S. citizen, was selected for inspection. A CBP Officer obtained a negative declaration from the driver for currency or monetary instruments in excess of $10,000, weapons and ammunition. A positive K-9 alert led to the discovery of tampering on bolts on the front driver side quarter panel. A secondary x-ray of the vehicle resulted in the identification of anomalies in the firewall and rocker panels. A total of 20 bundles wrapped in black electrical tape and clear plastic were extracted from the firewall and rocker panels. The bundles contained U.S. Currency totaling $350,000. The currency was subsequently forfeited and deposited in the Fund in June 2012.

Good Government

Law Enforcement Seizures by Member Bureaus that May Not Result in Treasury Forfeiture Fund Deposits but are Valuable to the International Community

CBP Officers Nab a Man Trying to Smuggle Heroin in Bottles of Scotch

Information included in the following forfeiture article is attributed to: An article in APP.com, dated January 4, 2012, entitled "Man nabbed at Newark Airport trying to smuggle heroin in bottles of scotch." The article is also the source of the photo.

In late December 2011, a man traveling from South America to the United States via the Newark Liberty International Airport was arrested for trying to smuggle 25 pounds of heroin into the country. CBP Officers selected the individual for a baggage examination upon his arrival in New Jersey aboard a flight originating in Medellin, Colombia. He admitted to ownership of two pieces of checked luggage, and during a search of that luggage, a brown powdery substance was discovered concealed in packages of plastic flags and between glued photographs. The substances tested positive for heroin. After further scrutiny, four bottles of Chivas Royal Solute Scotch were found to contain packages of a substance that also tested positive for heroin. The approximate street value of the heroin was nearly $700,000. The man was arrested and faces federal narcotics smuggling charges.

Figure 6 Bottles of Chivas Royal Solute found to contain heroin.

U. S. Secret Service
Department of Homeland Security

U.S. v. $2,755,349.56 *In Rem* Forfeiture

Information included in the following forfeiture article is attributed to: Case Information from the U.S. Secret Service; and Seizure Warrant for Case Number 2:11-mj-1016 F + M SPC, filed in the Middle District of Florida, Fort Myers Division, dated February 10, 2011.

In March 2010, the U.S. Secret Service identified a shell company in Switzerland that was laundering illicit funds to persons across the United States. The investigation revealed Lakesand Pesim Energy AG was transmitting millions of dollars while attempting to conceal the actual source. The company had not registered as a money remitting business and was in violation of both state and federal law. In February 2010, a seizure warrant was issued for "certain property known as the contents of all incoming monetary wire transfers originating from BHF Bank, sent on behalf of Lakesand Pesim Energey AG c/o Swiss Corporate Services GMBA to United States-based customers, through Standard Charter Bank located at One Madison Avenue, New York, New York for a period of (10) days." The sum of $2,755,349.56 was seized, subsequently forfeited and deposited in the Fund in January 2012.

U.S. v. $2,963,256 *In Rem* Forfeiture

Information included in the following forfeiture article is attributed to: Case Information from the U.S. Secret Service; the United States Amended Complaint for Forfeiture *in rem* Civil Action No. 6:11-01337-JMC filed June 15, 2011 ($1,323,590.19) ; the United States Complaint for Forfeiture *in rem* Civil Action No. 6:11-1322-JMC ($819,117.82); and the Order Granting Default Judgment, and Granting Judgment and Decree of Forfeiture - Civil Action No. 6:11-1336-HFF filed September 27, 2011 ($820,548.11).

In February 2011, the U.S. Secret Service identified three foreign shell companies laundering illicit funds to persons across the United States. The investigation revealed that Trading 24/7 Limited, IXS International, and Prime Investments Consultants were transmitting millions of dollars while attempting to conceal the actual source. These companies had not registered as money remitting businesses and were in violation of both state and federal law. In June 2011, Warrants *In Rem* were issued against $819,117.82, $1,323,590.19, and $820,548.11 in U.S. currency. The first two amounts were seized from Citibank, NA, and the third amount was seized from Standard Charter Bank, New York. These sums, totaling $2,963,256.12, were subsequently forfeited and deposited in the Fund in October and November 2011.

Tax and Trade Bureau (TTB), Department of the Treasury

Equitable Sharing Revenue Case

Jacobs Manufacturing agrees to forfeit $1.25 Million, $187,433.83 deposited this year

Information included in the following forfeiture article is attributed to: News Release dated July 5, 2011, entitled: *ATF and TTB Accept $1.25 Million Cigarette Settlement.*

Jacobs Manufacturing, an unlicensed cigarette manufacturer on the New York St. Regis Mohawk Indian Reservation, agreed to forfeit $1.25 million dollars to the Department of Justice, Bureau of Alcohol, Tobacco and Firearms (ATF) for prior violations of the Contraband Cigarette Trafficking Act (CCTA) and additionally agreed to come into compliance with all applicable federal statutes and regulations. Jacobs will also have to pay all required cigarette taxes under the Internal Revenue Code of 1986 (IRC) and agreed not to illegally operate a cigarette internet site in violation of the Prevent All Cigarette Trafficking Act (PACT) Act. Treasury's Tax and Trade Bureau (TTB), which investigated the case along with ATF, agreed to issue a tobacco manufacturing permit to Jacobs.

TTB will receive equitable sharing revenue from the Department of Justice Assets Forfeiture Fund, reflecting the role of Treasury Forfeiture Fund member bureaus in the forfeiture. TTB's share is 60 percent of the $1.25 Million, for a total of $750,000. Pursuant to the agreement, payments are due to the Department of Justice (DOJ) in three installments in March 2012, December 2012, and June 2013. The first installment of $250,000 was received by DOJ in March 2012. Related to this installment payment, in August 2012, an equitable share in the amount of $187,433.83 was received from the DOJ forfeiture fund for this case.

Continuing Deposits from this Equitable Sharing Revenue Case

Tarbell Inc. forfeits $1.75 Million for Licensing Violations, $437,411.16 deposited this year

Information included in the following forfeiture article is attributed to: Lori Shull article in Watertown Daily Times, April 14, 2010, "Tarbell agrees to get licenses"

In FY 2010, Tarbell Inc., a cigarette manufacturer on the Akwesasne reservation voluntarily agreed to comply with federal tax laws and obtain licenses from the government, and agreed to forfeit $1.75 million to the Bureau of Alcohol, Tobacco, Firearms and Explosives of the Department of Justice as payment for selling unlicensed cigarettes. The company also agreed not to sell cigarettes over the Internet, which violates federal law. The financial settlement does not mean that the company admits any wrongdoing, but future violations would be criminal offenses. Of the amount forfeited, $875,000 was equitably shared with the Treasury Forfeiture Fund representing the role of TTB in the forfeiture. In August 2012, equitable shares in the amount of $437,411.16 were received from the DOJ forfeiture fund and deposited in the Fund.

The U.S. Coast Guard continues its close working relationship with the legacy Customs bureaus and functions in a member-bureau capacity. The Coast Guard also maintains a close working relationship with the Drug Enforcement Administration (DEA) of the Department of Justice, assisting with drug boat interceptions on the high seas which are then turned over to the Department of Justice for prosecution.

Coast Guard Cutter Cushing seizes $190,000

Information included in the following forfeiture article is attributed to: CBP Press Release, dated: December 30, 2011, entitled: "CBP *Personnel Assist in seizure of $190,000 from Vessel in Puerto Rico*;" and the Coast Guard Compass article, by Lt. Stephanie Young, dated January 5, 2012, entitled: *"Weapon & ammunition seized in Caribbean waters."*

In late December 2011, Customs and Border Patrol (CBP) Maritime Patrol Aircraft detected a vessel approximately 60-nautical miles northwest of Puerto Rico. The vessel had no visible registration, flag or markings. CBP personnel coordinated with watch-standers at Coast Guard Sector San Juan to intercept the vessel at sea. An HC-144 Ocean Sentry fixed-wing aircraft crew from Cost Guard Air Station Miami and Coast Guard Cutter Cushing were diverted to interdict the vessel.

Figure 7 The vessel boarded by the Coast Guard Cutter Cushing, no visible registration.

Once onboard, members of the Cutter Cushing boarding team searched the vessel. Caribbean Border Interagency Group (CBIG) federal law enforcement authorities seized $190,000, a Cal-Tech 5.56mm semi-automatic pistol and approximately 300 rounds of ammunition from inside a single-engine, yola-type vessel, northwest of Puerto Rico.

Figure 8 $190,000 in currency, a Semi-automatic weapon and 300 rounds of ammunition seized from the vessel.

The five individuals onboard the vessel claimed to be citizens of the Dominican Republic. Cutter Cushing crew members took custody of the five suspects, seized the currency and the weapon and turned them over to Immigration and Customs Enforcement (ICE) personnel at Arecibo, at the Mayaguez Sea Port, Puerto Rico.

The Treasury Forfeiture Fund is a "special receipt account." Such accounts represent federal fund collections earmarked by law for a specific purpose. The enabling legislation for the Treasury Forfeiture Fund (31 U.S.C. § 9703) defines those purposes for which Treasury forfeiture revenue may be used. Once property or cash is seized, there is a forfeiture process. Upon forfeiture, seized currency, initially deposited into a suspense account, or holding account, is transferred to the Fund as forfeited revenue. Once forfeited, physical properties are sold and the proceeds are deposited into the Fund as forfeited revenue. It is this forfeiture revenue that comprises the budget authority for meeting expenses of running Treasury's forfeiture program.

Expenses of the Fund are set in a relative priority so that unavoidable or "mandatory" costs are met first as a matter of policy. Expenses may not exceed revenue in the Fund. The Fund has several different spending authorities. Each of them is described below.

Mandatory Authority

The mandatory authority items are generally used to meet "business expenses" of the Fund, including expenses of storing and maintaining seized and forfeited assets, valid liens and mortgages, investigative expenses incurred in pursuing a seizure, information and inventory systems, and certain costs of local police agencies incurred in joint law enforcement operations. Following forfeiture, equitable shares are paid to state and local law enforcement agencies that contributed to the seizure activity at a level proportionate to their involvement.

It is a strategic goal of the Fund to emphasize and monitor high impact forfeitures. To make significant forfeitures requires longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives. These authorities include the Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, and Asset Identification and Removal Groups. In recent years, funding provided to computer forensic investigative tools has yielded high impact results.

Secretary's Enforcement Fund

The Secretary's Enforcement Fund (SEF) is derived from equitable shares received from the Justice Department's forfeiture fund for work done by law enforcement bureaus participating in the Treasury Forfeiture Fund leading to Justice forfeitures. SEF revenue is available for federal law enforcement purposes of any Treasury law enforcement organization or law enforcement bureau that participates in the Treasury Forfeiture Fund. In FY 2012, the Fund expensed just over $9.5 million in SEF authority as compared to just under $1 million in FY 2011, an increase of about $8.5 million. The allocation of SEF resources to bureaus was restricted in FY 2011 and FY 2012 by the need to meet enacted budget rescissions.

Super Surplus

Super Surplus represents the remaining unobligated balance after an amount is reserved for Fund operations in the next fiscal year. Super Surplus can be used for any federal law enforcement purpose. In FY 2012, the Fund expensed $78.7 million in Super Surplus authority as compared to $102.5 million in FY 2011, a decrease of 23 percent.

Strategic View

Fund management continues to focus on strategic cases and investigations that result in high-impact forfeitures. We believe this approach affects the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity. Generally, significant forfeitures require longer, more in-depth investigations. To this end, Fund management emphasizes the use of mandatory funding authorities that fuel large case initiatives including Purchase of Evidence and Information, expenses associated with Joint Operations, Investigative Expenses Leading to Seizure, Asset Identification and Removal teams and state-of-the-art Computer Forensics capability.

FY 2012 was a successful revenue year by our member bureaus and a banner year in equitable share deposits received from the Department of Justice (DOJ) forfeiture fund for forfeitures in which one or more of our member bureaus played a role. Equitable shares totaled $108.8 million in FY 2012 as compared to $95.4 million in FY 2011. In addition, the Fund continues to support record levels of sharing of federal forfeitures with the state and local and foreign governments that contributed to the successful seizure and forfeiture activity of the Fund. The Fund expensed $110.9 million for state, local and foreign equitable sharing expenses in FY 2012 as compared to $68.5 million in FY 2011. Included in these sums are $3.5 million and $0.2 million for equitable sharing expenses with foreign countries that assisted in cases during FY 2012 and FY 2011, respectively. These are important resources afforded by policy of the Treasury Forfeiture Fund to protect and preserve the valuable working relationships between our federal law enforcement bureaus and the critically important state, local and foreign law enforcement agencies that work with them in an investigative capacity day-in and day-out.

Strategic Mission and Goal

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Department of the Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. To achieve our mission and goal, the program must be administered in a fiscally responsible manner that seeks to minimize the administrative costs incurred, thereby maximizing the benefits for law enforcement and the society it protects.

Multi-Departmental Fund

The Treasury Forfeiture Fund continued in its capacity as a multi-Departmental Fund in FY 2012, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security. FY 2012 posed continued management challenges including oversight of significant general property contract expenses associated with an increasingly complex forfeiture program. In addition, commensurate with the successful revenue year, there were significant expenses incurred by the bureaus to run their programs. In the midst of this period of growth and change, the Fund's family of law enforcement bureaus continued their hard work of federal law enforcement and the application of asset forfeiture as a sanction to bring criminals to justice.

FY 2012 continued a pattern of robust revenue years with regular revenue of $516.6 million from all sources, very successful even if less than the FY 2011 revenue of $868.1 million. As we enter fiscal year 2013, the Fund remains focused on support for strategic investigative initiatives that will have the greatest impact on national and international criminal enterprise including valuable training and investigative expense funding which emphasizes high-impact cases.

Performance Measure

In FY 2012, the Fund measured performance through the use of the following performance measure: Percent of forfeited cash proceeds resulting from high-impact cases. This measures the percentage of forfeited cash proceeds resulting from high-impact cases (those with currency seizures in excess of $100,000). Focusing on strategic cases and investigations which result in high-impact seizures will affect the greatest damage to criminal organizations while accomplishing the ultimate objective – to disrupt and dismantle criminal activity.

Results

The Fund performance measure and result for FY 2012 is as follows:

Performance Measure	FY 2011 Actual	FY 2012 Target	FY 2012 Actual
Percent of forfeited cash proceeds resulting from high-impact cases	91.44%	80%	76.38%

A target of 75 percent high-impact cases was set for FY 2010 and prior years since inception of the performance measure in FY 2002. However, for FY 2011, the target was increased to 80 percent, reflecting member bureaus' prior success in meeting the previous target. This is a fixed target for the Fund designed to afford our law enforcement bureaus the opportunity to undertake smaller seizure activity that is important to the overall federal law enforcement mission. The final percentage for FY 2012 was 76.38 percent, just under the new target. This compares with our FY 2010 and FY 2011 performance of 93.11 percent and 91.44 percent, respectively. Our member bureaus missed the target because of smaller, non high-impact cases during FY 2012. While TEOAF management works to urge high-impact cases, our member bureaus decide which forfeitures to pursue.

The performance of our member bureaus is excellent and reflects Fund management's longstanding emphasis on high-impact forfeiture strategies as well as the use of Fund authorities to assist member bureaus with larger cases that may take longer or require additional resources not otherwise available. This measure was put into effect beginning with FY 2002, and in all but 3 years, member bureaus met the target for high-impact forfeitures.

This measure is calculated by dividing the total amount of forfeited cash proceeds from cases greater than $100,000 by the total amount of forfeited cash proceeds for all cases.

The following provides a brief explanation for each major section of the audited financial statements accompanying this report for the fiscal year ended September 30, 2012.

These statements have been prepared to disclose the financial position of the Fund, its net costs, changes in net position, and budgetary resources, pursuant to the requirements of the *Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 (GMRA).* While the financial statements have been prepared from the books and records of the Fund in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records and are subsequently presented in federal budget documents. Further, the notes to the financial statements and the independent auditor's opinion and reports on internal control over financial reporting, and compliance with laws and regulations are also integral components to understanding fully the financial highlights of Fund operations described in this chapter.

Statements: Changes in Net Position

Follows are brief highlights from the Statements of Changes in Net Position for FY 2012 and 2011.

Net Position – End of Year. For FY 2012, the Net Position for the Fund at the end of the year, an indicator of the future capability to support ongoing operations of the Fund, totaled $1.556 billion versus $1.453 billion at the end of FY 2011. Both years closed with a strong and viable net position with which to commence the next fiscal year's operations.

Total Gross Non-Exchange Revenues. This line item on the *Statements of Changes in Net Position* is the best indicator of regular "business-type" income of the account on an annual basis. For FY 2012, the Fund closed with $516.6 million in Gross Non-Exchange Revenues and a total of $868.1 million for FY 2011, reflecting two successful, high-impact revenue years for the Treasury Forfeiture Fund.

Proceeds from Participating with other Federal Agencies. This line item on the *Statements of Changes in Net Position* indicates revenue earned from the participation of Treasury Forfeiture Fund law enforcement bureaus in the seizures leading to forfeiture of bureaus that participate in the Department of Justice Assets Forfeiture Fund or with the forfeiture fund of the U.S. Postal Service (Postal Service). It is noted that this category of revenue is recognized when received on deposit by the Treasury Forfeiture Fund. Therefore, there is no accrual recorded on the Fund's financial statements for this category of revenue.

As of the close of FY 2012, Treasury Forfeiture Fund bureaus earned a total of $108.8 million in revenue from participation in the seizures leading to forfeiture of the Justice and Postal Service forfeiture funds as compared to a total of $95.4 million during FY 2011. Fund management continues to work with the Department of Justice to identify delays and/or explain downward adjustments to percentages associated with equitable sharing payments owed to the Treasury Forfeiture Fund. This revenue affords Treasury management significant funding flexibilities for our participating agencies as the authority is broad and not confined to funding program costs; it can be used for any law enforcement purpose of our participating bureaus. The allocation of this type of revenue for FY 2011 and FY 2012 was restricted by the need to meet enacted budget rescissions.

Cost of Operations. For FY 2012, the Cost of Operations totaled $161.0 million, down from $177.1 million in FY 2011.

Investment Interest Income. The Fund is authorized to invest cash balances in Treasury securities. As of September 30, 2012, investments totaled $3.1 billion, up from $2.3 billion invested as of September 30, 2011. Given the similar investment balance and continuing negligible interest rates on Treasury securities during FY 2012, investment income totaled just over 1.0 million in FY 2012, as compared to just under $1.4 million in FY 2011.

Equitable Sharing with Federal, State and Local Governments, and Foreign Countries. Each year, the Fund pays tens of millions of dollars to state and local law enforcement agencies, and foreign governments, for their participation in seizures that lead to forfeitures of the Treasury Forfeiture Fund. State and local law enforcement agencies can use these resources to augment their law enforcement budgets to fight crime in their jurisdictions. Without these funds, budgets of the local municipalities would be taxed to provide these important resources or the need would go unmet. During FY 2012, the Fund shared a total of $114.4 million with other federal, state and local law enforcement agencies, and another $3.5 million with foreign countries. This compares with $96.3 million shared with other federal, state and local law enforcement agencies during FY 2011, and another $0.2 million with foreign countries in FY 2011.

Victim Restitution. During FY 2012, the Fund paid $46.6 million in restitution to victims as compared to $24.3 million in FY 2011.

Summary of Statements of Changes in Net Position. The Fund closed with a strong net position in FY 2012. Management will continue to emphasize high-impact cases by participating law enforcement bureaus. The FY 2012 performance with forfeiture revenue earnings of $516.6 million from all sources, and nearly meeting the new higher performance measure target rate of high-impact cases, is truly a credit to the dedicated law enforcement personnel of our participating law enforcement bureaus.

Statements: Net Cost

Costs of the Forfeiture Program – Intra-governmental. After revenue is applied toward policy mandates such as equitable sharing, shown in the Statements of Changes in Net Position as negative revenue or applied non-exchange revenue, the remaining financing supports the law enforcement activities of the Fund and pays for the storage of seized and forfeited property and sales associated with the disposition of forfeited property.

On the Statements of Net Cost, the Net Cost of Operations totaled $161.0 million in FY 2012, down from $177.1 million in FY 2011.

Intra-governmental. This cost category totaled $100.5 million in FY 2012, down from $115.1 million in FY 2011. The amounts represent costs incurred by participating bureaus in running their respective forfeiture programs.

National Seized Property Contracts. One of the largest program costs of the Fund is the storage, maintenance and disposal of real and personal property. During FY 2012, general property was maintained by VSE Corporation and real property was maintained by the CWS Marketing Group both contracts of the Department of the Treasury. In FY 2012, expenses of these two contracts totaled $48.3 million, down from $50.4 million expensed for the two contracts in FY 2011.

Balance Sheet

Assets, Liabilities and Net Position

Total assets of the Fund increased in FY 2012 to $3.4 billion, up from $2.5 billion in FY 2011, an increase in asset value of over 36.0 percent. If seized currency and other monetary assets, which are assets in the custody of the government but not yet owned by the government, are backed out of both figures, the adjusted total assets of the Fund increased to $1.75 billion in FY 2012, up very slightly from $1.7 billion in FY 2011. During FY 2012, total liabilities of the Fund increased to $1.9 billion, up from $1.1 billion in FY 2011. If seized currency and other monetary assets, which are also shown as a liability because they are not yet owned by the government, are backed out of both figures, the adjusted total liabilities of the Fund decreases to $195.5 million in FY 2012, down from $229.2 million in FY 2011.

With increasing asset amounts and more moderately increasing costs, the Cumulative Results of Operations, i.e., retained earnings, increased at the end of FY 2012 to a total of $1.556 billion, up from $1.453 billion at the end of FY 2011.

Financial and Program Performance - What is needed and planned. OMB Circular A-136, *Financial Reporting Requirements*, requires that agencies include an explanation of what needs to be done and what is being planned to improve financial or program performance. In this regard, Fund management continues to work closely with member bureaus, through the financial planning process, to review revenue and expense projections during the operating year.

Auditor's Findings

FY 2012 Audit. The Fund's independent auditors have given the FY 2012 financial statements an Unqualified Opinion with no material weaknesses or significant deficiencies in internal control over financial reporting identified. There are no management letter findings for FY 2012.

Summary of Financial Statement Highlights

Net Position. To summarize, Fund management concluded a highly productive FY 2012 "in the black," with the necessary resources to commence the business of the asset forfeiture program for FY 2013. Fund management declared a Super Surplus from FY 2012 operations and will work to recognize the hard work of our participating bureaus in the allocation of these resources.

Fund management will continue to work with our large and diverse array of federal law enforcement bureaus as they undertake increasingly sophisticated methods and global effort to secure the financial and commercial markets of the nation and the world given the interdependence of financial systems. In addition, our bureaus support immigration enforcement that is designed to identify illegal smuggling to deter its impact on the nation's financial infrastructure and terrorism initiatives and to ensure that human smugglers do not harm unsuspecting victims keen on seeking a new if illegal start in the United States. Emphasis will continue to be placed on ever-evolving state-of-the-art investigative techniques, high-impact major case initiatives and training to support these areas of emphasis. This has and will continue to be the key to the growing success and law enforcement reach of the Treasury Forfeiture Fund.

Limitations of the Financial Statements. As required by OMB Circular A-136, Fund management makes the following statements regarding the limitations of the financial statements:

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC § 3515(b).

- While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

SECTION II

INDEPENDENT AUDITOR'S REPORTS

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Certified Public Accountants
& Consultants

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Independent Auditor's Report on Financial Statements

Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the years ended September 30, 2012 and 2011. These financial statements are the responsibility of Fund Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Fund Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012, on our consideration of the Fund's internal control over financial reporting and a report dated October 31, 2012, on our tests of its compliance with laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing*

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Standards, and should be read in conjunction with this report in considering the results of our audits.

U.S. generally accepted accounting principles require that the information in Section I: Overview, and Section IV: Required Supplemental Information be presented to supplement the basic financial statements referred to in the first paragraph of this report. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the *Message from the Director*, and Section V: Other Accompanying Information is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

GKA, P.C.

October 31, 2012

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit 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, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the Fund's internal control over financial reporting by obtaining an understanding of the design effectiveness of the Fund's internal control, determining whether these 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 financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to express an opinion on the effectiveness of the Fund's internal control over financial reporting. Consequently, we do not express an opinion on internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Under standards issued by the American Institute of Certified Public Accountants, 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

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their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Department of the Treasury Office of Inspector General and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2012

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Independent Auditor's Report on Compliance with Laws and Regulations

Inspector General
United States Department of the Treasury
Washington, D.C.

We have audited the Principal Statements (balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements") of the Department of the Treasury Forfeiture Fund (the Fund) as of and for the year ended September 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit 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, applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

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

The results of our tests of compliance disclosed no instances of noncompliance with laws, regulations, and contracts discussed in the preceding paragraph, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04.

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Under FFMIA, we are required to report whether the Fund's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests of FFMIA disclosed no instances in which the Fund's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of the Fund, the U.S. Department of the Treasury, OMB, the U.S. Congress, the Department of the Treasury Office of Inspector General, and the Government Accountability Office and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2012

SECTION III

FINANCIAL STATEMENTS AND NOTES

Department of the Treasury Forfeiture Fund
BALANCE SHEETS
As of September 30, 2012 and 2011
(Dollars in thousands)

	2012	**2011**
Assets:		
Intragovernmental:		
Fund balance with Treasury	$ 14,526	$ 23,094
Investments and related interest receivable (Note 3)	3,136,274	2,309,275
Advances	40	79
Total Intragovernmental	3,150,840	2,332,448
Cash and other monetary assets (Note 5)	205,137	119,766
Accounts Receivable	1,987	430
	207,124	120,196
Forfeited property (Note 6)		
Held for sale, net of mortgages, liens and claims	83,143	52,227
To be shared with federal, state or local, or foreign governments	1,157	1,517
Total forfeited property, net of mortgages, liens and claims	84,300	53,744
Capitalized software (Note 9)	660	-
Total Assets	$3,442,924	$2,506,388
Liabilities:		
Intragovernmental:		
Accounts payable	$ 32,665	$ 56,253
Total Intragovernmental	32,665	56,253
Seized currency and other monetary instruments (Note 8)	1,691,498	824,219
Distributions payable (Note 10)		
State and local agencies and foreign governments	71,123	111,311
Accounts payable	7,443	7,939
Deferred revenue from forfeited assets	84,300	53,744
Total Liabilities	1,887,029	1,053,466
Net Position:		
Cumulative results of operations (Note 11)	1,555,895	1,452,922
Total Liabilities and Net Position	$3,442,924	$2,506,388

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF NET COST
For the years ended September 30, 2012 and 2011
(Dollars in thousands)

	2012	2011
Program:		
ENFORCEMENT		
Intragovernmental:		
Seizure investigative costs and asset management	$ 62,942	$ 73,300
Other asset related contract services	7,290	8,565
Data systems, training and others	30,255	33,253
Total Intragovernmental	100,487	115,118
With the Public:		
National contract services seized property and other	48,328	50,359
Joint operations	12,198	11,593
Total with the Public	60,526	61,952
Net Cost of Operations	$ 161,013	$ 177,070

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF CHANGES IN NET POSITION
For the years ended September 30, 2012 and 2011
(Dollars in thousands)

	2012	2011
Net Position – Beginning of year	$ 1,452,922	$ 986,071
Financing Sources (Non-Exchange Revenues):		
Intragovernmental		
Investment interest income	1,047	1,379
Public		
Forfeited currency and monetary instruments	344,789	763,378
Sales of forfeited property net of mortgages and claims	52,213	53,776
Proceeds from participating with other federal agencies	108,781	95,377
Value of property transferred in equitable sharing	1,600	4,675
Payments in lieu of forfeiture, net of refunds (Note 19)	2,914	(57,026)
Reimbursed costs	2,457	3,559
Other	2,828	2,958
Total Gross Non-Exchange Revenues	516,629	868,076
Less: Equitable Sharing		
Intragovernmental		
Federal	(7,020)	(27,927)
Public		
State and local agencies	(107,365)	(68,373)
Foreign countries	(3,488)	(176)
Victim restitution	(46,589)	(24,261)
	(157,442)	(92,810)
Total Equitable Sharing	(164,462)	(120,737)
Total Non-Exchange Revenues, Net	352,167	747,339
Transfers –Out		
Intragovernmental		
Super surplus (Note 13)	(78,654)	(102,464)
Secretary's enforcement fund (Note 14)	(9,527)	(954)
Total Transfers Out	(88,181)	(103,418)
Total Financing Sources - Net	263,986	643,921
Net Cost of Operations	(161,013)	(177,070)
Net Results of Operations	102,973	466,851
Net Position – End of Year	$ 1,555,895	$ 1,452,922

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

Department of the Treasury Forfeiture Fund
STATEMENTS OF BUDGETARY RESOURCES
For the years ended September 30, 2012 and 2011
(Dollars in thousands)

	2012	2011
Budgetary Resources:		
Unobligated balances- beginning of year	$ 646,405	$ 580,785
Recoveries of prior year unpaid obligations	29,747	57,464
Unobligated balance from prior year budget authority, net	676,152	638,249
Budget authority	(3,822)	598,570
Total Budgetary Resources	$ 672,330	$1,236,819
Status of Budgetary Resources:		
Obligations incurred	$ 527,417	$ 590,414
Unobligated balances – apportioned	$ 144,913	$ 646,405
Unobligated balances – end of year	$ 144,913	$ 646,405
Total Status of Budgetary Resources	$ 672,330	$1,236,819
Change in Obligated Balance:		
Obligated balance, net-beginning of year	$ 539,063	$ 745,715
Obligations incurred	527,417	590,414
Less: Gross outlays	(485,892)	(739,602)
Less: Recoveries of prior year unpaid obligations, actual	(29,747)	(57,464)
Obligated balance, net – end of year	$ 550,841	$ 539,063
Budget Authority and Outlays		
Budget authority, net	$ (3,822)	$ 598,570
Net outlays	$ 485,892	$ 739,602

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

Note 1: Reporting Entity

The Department of the Treasury Forfeiture Fund (Treasury Forfeiture Fund or the Fund) was established by the Treasury Forfeiture Fund Act of 1992, Public Law 102-393 (the TFF Act), and is codified at 31 USC 9703. The Fund was created to consolidate all Treasury law enforcement bureaus under a single forfeiture fund program administered by the Department of the Treasury (Treasury). Treasury law enforcement bureaus fully participating in the Fund upon enactment of this legislation were the U.S. Customs Service (Customs); the Internal Revenue Service (IRS); the United States Secret Service (Secret Service); the Bureau of Alcohol, Tobacco and Firearms (ATF); the Financial Crimes Enforcement Network (FinCEN); and the Federal Law Enforcement Training Center (FLETC). FinCEN and FLETC contribute no revenue to the Fund, however in recent years, significant amounts of Super Surplus funds have been allocated to FinCEN towards Bank Secrecy Act (BSA) Information Technology (IT) modernization, a tool used in the fight against money laundering and other criminal activity. The U.S. Coast Guard, formerly part of the Department of Transportation, now part of the Department of Homeland Security (DHS), also participates in the Fund. However, all Coast Guard seizures are treated as Customs seizures because the Coast Guard lacks forfeiture authority.

With enactment of the Homeland Security Act of 2002 (Homeland Security Act), law enforcement bureaus currently participating in the Fund are: the Internal Revenue Service - Criminal Investigation (IRS - CI) of Treasury, Customs and Border Protection (CBP), Immigration and Customs Enforcement (ICE) and the U.S. Secret Service (USSS) of DHS. The U.S. Coast Guard of DHS joins these bureaus. The Fund continues in its capacity as a multi-Departmental Fund, representing the interests of law enforcement components of the Departments of Treasury and Homeland Security.

The Fund is a special fund that is accounted for under Treasury symbol number 20X5697. From this no-year account, expenses may be incurred consistent with 31 USC 9703, as amended. A portion of these expenses, referred to as discretionary expenses, are subject to annual appropriation limitations. Others, referred to as non-discretionary (mandatory) expenses, are limited only by the availability of resources in the Fund. Both expense categories are limited in total by the amount of revenue in the Fund. The Fund is managed by the Treasury's Executive Office for Asset Forfeiture (EOAF).

The mission of the Treasury Forfeiture Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Treasury Forfeiture Fund is to support the Treasury's national asset forfeiture program in a manner that results in federal law enforcement's continued and effective use of asset forfeiture as a high-impact law enforcement sanction to disrupt and dismantle criminal activity. Under a Memorandum of Understanding (MOU) with Treasury, CBP acts as the executive agent for certain operations of the Fund. Pursuant to that executive agency role, CBP's National Finance Center (NFC) is responsible for accounting and financial reporting for the Fund, including timely and accurate reporting and compliance with Treasury, the Comptroller General and the Office of Management and Budget (OMB) regulations and reporting requirements.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Fund began preparing audited financial statements in Fiscal Year 1993 as required by the Fund's enabling legislation 31 USC§9703(f)(2)(H), and the Chief Financial Officers Act of 1990. Beginning with the Fiscal Year 1996 report, the Government Management Reform Act of 1994 (GMRA) requires executive agencies, including the Treasury, to produce audited consolidated accountability reports and related footnotes for all activities and funds.

The financial statements have been prepared from the accounting records of the Fund in conformity with accounting principles generally accepted in the United States of America (GAAP) and specified by OMB in OMB Circular A-136, *Financial Reporting Requirements (OMB Circular A-136)*. GAAP for federal entities is prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants. The statement of budgetary resources for fiscal year 2011 has been reclassified to make it comparable to the fiscal year 2012 presentation.

Allowable Fund Expenses

The majority of the revenue recorded by the Fund is utilized for operating expenses or distributed to state and local law enforcement agencies, other federal agencies, and foreign governments, in accordance with the various laws and policies governing the operations and activities of the Fund. Under the TFF Act, the Fund is authorized to pay certain expenses using discretionary or mandatory funding authorities of the Fund.

Discretionary authorities include but may not be limited to: the payment of expenses for the purchase of awards for information or assistance leading to a civil or criminal forfeiture involving any law enforcement bureau participating in the Fund; purchase of evidence or information that meet the criteria set out in 31 USC 9703(a)(2)(B); payment for equipment for vessels, vehicles, or aircraft available for official use as described by 31 USC 9703(a)(2)(D) and (F); reimbursement of private persons for expenses incurred while cooperating with a Treasury law enforcement organization in investigations; publication of the availability of certain awards; and payment for training foreign law enforcement personnel with respect to seizure or forfeiture activities of the Fund. Discretionary expenses are subject to an annual, definite Congressional appropriation from revenue in the Fund.

Expenses from the mandatory authorities of the Fund include but are not limited to: all proper expenses of the seizure, including investigative costs and purchases of evidence and information leading to seizure, holding cost, security costs, etc., awards of compensation to informers under section 619 of the Tariff Act (19 USC 1619); satisfaction of liens against the forfeited property, and claims of parties with interest in forfeited property; expenses incurred by state and local law enforcement agencies in joint law enforcement operations with law enforcement agencies participating in the Fund; and equitable sharing payments made to state and local law enforcement agencies in recognition of their efforts in a Fund seizure leading to forfeiture. These mandatory expenses are paid pursuant to the permanent indefinite authorities of the Fund; are only limited by revenue in the Fund each year and do not require additional Congressional action for expenditure.

The Fund's expenses are either paid on a reimbursement basis or paid directly on behalf of a participating bureau. Reimbursable expenses are incurred by the respective bureaus participating in the Fund against their appropriation and then submitted to the Fund for reimbursement. The bureaus are reimbursed through Inter-Agency Transfers (SF-1081) or Intra-governmental Payments and Collection (IPAC) System. Certain expenses such as equitable sharing, liens, claims and state and local joint operations costs are paid directly from the Fund.

Further, the Fund is a component unit of the Treasury with participating bureaus in the DHS. As such, employees of both Departments may perform certain operational and administrative tasks related to the Fund. Payroll costs of employees directly involved in the security and maintenance of forfeited property are also recorded as expenses in the financial statements of the Fund (included in the line item "seizure investigative costs and asset management" in the statement of net cost.)

Revenue and Expense Recognition

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

Revenue from currency is recognized upon forfeiture. Payments in lieu of forfeiture (mitigated seizures) are recognized as revenue when the payment is received. Revenue received from participating with certain other federal agencies is recognized when the payment is received. Operating costs are recorded as expenses and related liabilities when goods are received or services are performed. Certain probable equitable sharing liabilities existing at year end are accrued based on estimates.

As provided for in the TFF Act, the Fund invests seized and forfeited currency that is not needed for current operations. Treasury's Bureau of Public Debt invests the funds in obligations of, or guaranteed by, the United States Government. Interest is reported to the Fund and recorded monthly as revenue in the general ledger.

Earmarked Funds

Earmarked funds are 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. In accordance with SFFAS 27, *Earmarked Funds,* all of the TFF's revenue meets these criteria and constitutes an earmarked fund.

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

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

Equitable Sharing (Assets Distributed)

Forfeited property, currency, or proceeds from the sales of forfeited property may be shared with federal, state and local law enforcement agencies or foreign governments, which provided direct or indirect assistance in the related seizure. In addition, the Fund may transfer forfeited property to other federal agencies, which would benefit from the use of the item. A class of asset distribution was established for victim restitution in 1995. These distributions include property and cash returned to victims of fraud and other illegal activity. Upon approval by Fund management to share or transfer the assets, both revenue from distributed forfeited assets and distributions are recognized for the net realizable value of the asset to be shared or transferred, thereby resulting in no gain or loss recognized. Revenue and /or expenses are recognized for property and currency, which are distributed to or shared with non-federal agencies, per SFFAS No. 7, *Accounting for Revenue and Other Financing Sources.*

Entity Assets

Entity assets are used to conduct the operations and activities of the Fund. Entity assets comprise intragovernmental and non-intragovernmental assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Entity assets consist of cash or other assets, which could be converted into cash to meet the Fund's current or future operational needs. Such other assets include investments of forfeited balances, accrued interest on seized balances, receivables, and forfeited property, which are held for sale or to be distributed.

- **Fund Balance with Treasury –** This represents amounts on deposit with Treasury.

- **Investments and Related Interest Receivable –** This includes forfeited cash held by the Fund and seized currency held in the Customs Suspense Account that had been invested in short term U.S. Government Securities.

- **Receivables –** The values reported for other receivables are primarily funds due from the national seized property contractor for properties sold; the proceeds of which have not yet been deposited into the Fund. No allowance has been made for uncollectible amounts as the accounts recorded as a receivable at year end were considered to be fully collectible as of September 30, 2012 and 2011.

- **Advances –** This primarily represents cash transfers to Treasury or law enforcement bureaus participating in the Fund for orders to be delivered.

- **Cash and Other Monetary Assets –** This includes forfeited currency on hand not yet deposited and forfeited currency held as evidence.

- **Forfeited Property and Currency –** Forfeited property and currency is recorded in the respective seized property and forfeited asset tracking systems at the estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the market value at the end of the fiscal year for financial statement reporting purposes. Direct and indirect holding costs are not capitalized for individual forfeited assets. Forfeited currency not deposited into the Fund is included as part of Entity Assets - Cash and Other Monetary Assets.

Further, mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and is reflected as a reduction of sales of forfeited property.

Additionally, SFFAS No. 3, *Accounting for Inventory and Related Property,* requires certain additional disclosures in the notes to the financial statements, including an analysis of changes in seized and forfeited property and currency, for both carrying value and quantities, from that on hand at the beginning of the year to that on hand at the end of the year. These analyses are disclosed in Notes 7 and 8.

Non-entity Assets

Non-entity assets held by the Fund are not available for use by the Fund. Non-entity assets comprise intragovernmental and other assets. Intragovernmental balances arise from transactions among federal agencies. These assets are claims of a federal entity against another federal entity. Non-entity assets are not considered as financing sources (revenue) available to offset operating expenses, therefore, a corresponding liability is recorded and presented as governmental liabilities in the balance sheet to reflect the custodial/fiduciary nature of these activities.

- **Seized Currency and Property –** Seized Currency is defined as cash or monetary instruments that are readily convertible to cash on a dollar for dollar basis. SFFAS No. 3 requires that seized monetary instruments (cash and cash equivalents) be recognized as an asset in the financial statements and a liability be established in an amount equal to the seized asset value due to: (i) the fungible nature of monetary instruments, (ii) the high level of control that is necessary over these assets; and (iii) the possibility that these monies may be returned to their owner in lieu of forfeiture.

  Seized property is recorded at its appraised value at the time of seizure. The value is determined by the seizing entity and is usually based on a market analysis such as a third party appraisal, standard property value publications or bank statements. Seized property is not recognized as an asset in the financial statements, as transfer of ownership to the government has not occurred as of September 30. Accordingly, seized property other than monetary instruments is disclosed in the footnotes in accordance with SFFAS No. 3.

- **Investments and Related Interest Receivable –** This balance includes seized cash on deposit in the Fund's suspense account held by Treasury, which has been invested in short term U.S. Government Securities.

- **Cash and Other Monetary Assets –** This balance represents the aggregate amount of the Fund's seized currency on deposit in the Fund's suspense account held by Treasury, seized cash on deposit held with other financial institutions and, cash on hand in vaults held at field office locations.

Liabilities Covered by Budgetary Resources

Liabilities covered by budgetary resources represent liabilities incurred, which are covered by available budgetary resources. The components of such liabilities for the Fund are as follows:

- **Distributions Payable –** Distributions payable to federal and non-federal agencies is primarily related to equitable sharing payments and payments to be made by the Fund to the victims of fraud.

- **Accounts Payable –** Amounts reported in this category include accrued expenses authorized by the TFF Act (See "Allowable Fund Expenses") for which payment was pending at year end.

- **Seized Currency –** Amounts reported in this category represent the value of seized currency that is held by the Fund which equals the amount of seized currency reported as an asset.

- **Deferred Revenue from Forfeited Assets –** At year end, the Fund held forfeited assets, which had not yet been converted into cash through a sale. The amount reported here represents the value of these assets, net of mortgages and claims.

Liabilities Not Covered by Budgetary Resources

The Fund does not currently have liabilities not covered by available budgetary resources.

Net Position

The components of net position are classified as follows:

- **Retained Capital –** There is no cap on amounts that the Fund can carry forward into Fiscal Year 2013. The cap was removed by the Fiscal Year 1997 Omnibus Appropriations Act (PL 104-208).

- **Unliquidated Obligations –** This category represents the amount of undelivered purchase orders, contracts and equitable sharing requests which have been obligated with current budget resources or delivered purchase orders and contracts that have not been invoiced. An expense and liability are recognized and the corresponding obligations are reduced as goods are received or services are performed. A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities at year end. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain liabilities at year end. (See also Distributions Payable at Note 10).

- **Net Results of Operations –** This category represents the net difference, for the activity during the year, between: (i) financing sources including transfers, and revenues; and (ii) expenses.

Note 3: Investments and Related Interest Receivable

All investments are intragovernmental short-term (35 days or less) non-marketable par value federal debt securities issued by, and purchased through Treasury's Bureau of the Public Debt. Investments are always purchased at a discount and are reported at acquisition cost, net of discount. The discount is amortized into interest income over the term of the investment. The investments are always held to maturity. They are made from cash in the Fund and from seized currency held in the Customs Suspense Account. The Customs Suspense Account became the depository for seized cash for the Fund following enactment of the TFF Act.

The following schedule presents the investments on hand as of September 30, 2012 and 2011, respectively (dollars in thousands):

Entity Assets

Description.	**Cost**	**Unamortized Discount**	**Investment, Net**
September 30, 2012			
Treasury Forfeiture Fund -			
35 days 0.0450% U.S. Treasury Bills	$1,631,299	($71)	$1,631,228
Interest Receivable			39
Total Investment, Net, and Interest Receivable			$1,631,267
Fair Market Value			$1,631,234
September 30, 2011			
Treasury Forfeiture Fund -			
28 days 0.0000% U.S. Treasury Bills	$1,584,974	($0)	$1,584,974
Interest Receivable			0
Total Investment, Net, and Interest Receivable			$1,584,974
Fair Market Value			$1,584,959

Non-entity Assets

Description.	Cost	Unamortized Discount	Investment, Net
September 30, 2012			
Treasury Forfeiture Fund – Seized Currency Suspense Account			
35 days 0.0450% U.S. Treasury Bills	$1,505,073	($66)	$1,505,007
Fair Market Value			$1,505,013
September 30, 2011			
Treasury Forfeiture Fund – Seized Currency Suspense Account			
28 days 0.0000% U.S. Treasury Bills	$724,301	($0)	$ 724,301
Fair Market Value			$ 724,294

Note 4: Analysis of Non-Entity Assets

The following schedule presents the non-entity assets as of September 30, 2012 and 2011, respectively, (dollars in thousands):

	2012	2011
Seized currency:		
Intragovernmental Investments (Note 3)	$ 1,505,007	$ 724,301
Cash and other monetary assets (Note 5)	186,491	99,918
Total Non-Entity Assets	1,691,498	824,219
Total Entity Assets	1,751,426	1,682,169
Total Assets	$ 3,442,924	$ 2,506,388

Note 5: Cash and Other Monetary Assets

Entity Assets

Cash and Other Monetary Assets held on hand included forfeited currency not yet deposited, as well as forfeited currency held as evidence, amounting to $18.6 million and $19.8 million as of September 30, 2012 and 2011, respectively.

Non-Entity Assets

Cash and Other Monetary Assets included seized currency not yet deposited, as well as deposited seized currency which is not invested in order to pay remissions, amounted to $186.5 million and $99.9 million as of September 30, 2012 and 2011, respectively.

Note 6: Forfeited Property/Deferred Revenue

The following summarizes the components of forfeited property (net), as of September 30, 2012 and 2011, respectively, (dollars in thousands):

	2012	2011
Held for Sale	$ 86,191	$ 59,497
To be shared with federal, state or local, or foreign government	1,157	1,517
Total forfeited property (Note 7)	87,348	61,014
Less: Allowance for liens and claims	(3,048)	(7,270)
Total forfeited property, net	$ 84,300	$ 53,744

Note 7: FY 2012 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2011 to September 30, 2012. (Dollar value is in thousands.)

	10/1/11 Financial Statement Balance		Adjustments		10/1/11 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers			
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.		
Currency	$19,629	-	$-	-	$19,629	-	$307,400	-	$(337,273)	-	$ -	-		
Other Monetary Instruments	219	-	-	-	219	-	9	-	(209)	-	(2)	-		
Subtotal	**19,848**	**-**	**-**	**-**	**19,848**	**-**	**307,409**	**-**	**(337,482)**	**-**	**(2)**	**-**		
Real Property	40,967	251	36,742	-	77,709	251	16,735	93	(29,073)	(118)	(834)	(2)		
General Property	12,107	12,358	32,021	-	44,128	12,358	36,829	27,824	(32,516)	(4,034)	(1,907)	(3,683)		
Vessels	529	46	453	-	982	46	1,988	160	(1,327)	(57)	(182)	(9)		
Aircraft	335	6	228	-	563	6	2,462	16	(1,976)	(13)	(514)	(1)		
Vehicles	7,076	2,636	4,981	-	12,057	2,636	36,971	9,467	(28,105)	(8,423)	(7,921)	(1,094)		
Subtotal	**61,014**	**15,297**	**74,425**	**-**	**135,439**	**15,297**	**94,985**	**37,560**	**(92,997)**	**(12,645)**	**(11,358)**	**(4,789)**		
Grand Total	**$80,862**	**15,297**	**$74,425**	**-**	**$155,287**	**15,297**	**$402,394**	**37,560**	**$(430,479)**	**(12,645)**	**$(11,360)**	**(4,789)**		

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2012 Carrying Value		Fair Market Value Adjustment		9/30/12 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	$-	-	$-	-	$29,454	-	$(769)	-	$18,441	-	$-	-	$18,441	-
Other Monetary Instruments	-	-		-	205	-	(17)	-	205	-	-	-	205	-
Subtotal	**-**	**-**	**-**	**-**	**29,659**	**-**	**(786)**	**-**	**18,646**	**-**	**-**	**-**	**18,646**	**-**
Real Property	-	-	-	-	10,455	46	445	-	75,437	270	(8,930)	-	66,507	270
General Property	-	-	(73)	(19,758)	(9,876)	977	(1,320)	-	35,265	13,684	(24,117)	-	11,148	13,684
Vessels	-	-	-	(82)	183	8	(18)	-	1,626	66	(852)	-	774	66
Aircraft	-	-	-	-	269	1	-	-	804	9	(404)	-	400	9
Vehicles	-	-	-	(388)	2,044	116	(594)	-	14,452	2,314	(5,933)	-	8,519	2,314
Subtotal	**-**	**-**	**(73)**	**(20,228)**	**3,075**	**1,148**	**(1,487)**	**-**	**127,584**	**16,343**	**(40,236)**	**-**	**87,348**	**16,343**
Grand Total	**$-**	**-**	**$(73)**	**(20,228)**	**$32,734**	**1,148**	**$(2,273)**	**-**	**$146,230**	**16,343**	**$(40,236)**	**-**	**$105,994**	**16,343**

Note 7 (Cont’d): FY 2011 Analysis of Changes in Forfeited Property and Currency

The following schedule presents the changes in the forfeited property and currency balances from October 1, 2010 to September 30, 2011. (Dollar value is in thousands.)

	10/1/10 Financial Statement Balance		Adjustments		10/1/10 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	$12,559	-	$-	-	$12,559	-	$731,485	-	$(749,316)	-	$(243)	-
Other Monetary Instruments	1,070	-	-	-	1,070	-	95	-	(164)	-	-	-
Subtotal	**13,629**	**-**	**-**	**-**	**13,629**	**-**	**731,580**	**-**	**(749,480)**	**-**	**(243)**	**-**
Real Property	48,953	223	24,090	-	73,043	223	37,517	133	(35,442)	(120)	(5,946)	(14)
General Property	10,661	9,336	9,234	-	19,895	9,336	57,195	26,273	(30,969)	(3,128)	(3,900)	(2,004)
Vessels	558	53	520	-	1,078	53	3,125	179	(2,048)	(75)	(1,014)	(19)
Aircraft	149	3	164	-	313	3	877	11	(727)	(8)	-	-
Vehicles	6,215	2,199	5,005	-	11,220	2,199	42,399	10,247	(33,308)	(8,804)	(9,614)	(1,244)
Subtotal	**66,536**	**11,814**	**39,013**	**-**	**105,549**	**11,814**	**141,113**	**36,843**	**(102,494)**	**(12,135)**	**(20,474)**	**(3,281)**
Grand Total	**$80,165**	**11,814**	**$39,013**	**-**	**$119,178**	**11,814**	**$872,693**	**36,843**	**$(851,974)**	**(12,135)**	**$(20,717)**	**(3,281)**

	Victim Restitution		Destroyed		Other Adjustments		Value Change		2011 Carrying Value		Fair Market Value Adjustment		9/30/11 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	$-	-	$-	-	$25,118	-	$26	-	$19,629	-	$-	-	$19,629	-
Other Monetary Instruments	-	-		-	(12)	-	(770)	-	219	-	-	-	219	-
Subtotal	**-**	**-**	**-**	**-**	**25,106**	**-**	**(744)**	**-**	**19,848**	**-**	**-**	**-**	**19,848**	**-**
Real Property	-	-	-	-	8,252	29	285	-	77,709	251	(36,742)	-	40,967	251
General Property	-	-	(195)	(18,747)	5,038	628	(2,936)	-	44,128	12,358	(32,021)	-	12,107	12,358
Vessels	-	-	-	(103)	(36)	11	(123)	-	982	46	(453)	-	529	46
Aircraft	-	-	-	(1)	100	1	-	-	563	6	(228)	-	335	6
Vehicles	-	-	-	(70)	1,591	308	(231)	-	12,057	2,636	(4,981)	-	7,076	2,636
Subtotal	**-**	**-**	**(195)**	**(18,921)**	**14,945**	**977**	**(3,005)**	**-**	**135,439**	**15,297**	**(74,425)**	**-**	**61,014**	**15,297**
Grand Total	**$-**	**-**	**$(195)**	**(18,921)**	**$40,051**	**977**	**$(3,749)**	**-**	**$155,287**	**15,297**	**$(74,425)**	**-**	**$80,862**	**15,297**

Note 8: FY 2012 Analysis of Changes in Seized Property and Currency

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/11 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/12 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	$804,427	-	$1,236,049	-	$(80,924)	-	$(307,400)	-	$18,027	-	$ (833)	-	$1,669,346	-
Other Monetary Instruments	19,792	-	1,804	-	(99)	-	(9)	-	1,366	-	(702)	-	22,152	-
Subtotal	**824,219**	**-**	**1,237,853**	**-**	**(81,023)**	**-**	**(307,409)**	**-**	**19,393**	**-**	**(1,535)**	**-**	**1,691,498**	**-**
Real Property	206,061	546	52,622	198	(9,267)	(66)	(16,735)	(93)	(24,359)	(14)	(1,839)	-	206,483	571
General Property	225,508	24,408	156,842	39,104	(55,430)	(4,533)	(36,829)	(27,824)	13,948	(5,547)	(2,075)	-	301,964	25,608
Vessels	5,149	138	3,814	228	(846)	(28)	(1,988)	(160)	513	(12)	(136)	-	6,506	166
Aircraft	6,121	29	9,910	23	(2,309)	(13)	(2,462)	(16)	(289)	(2)	(236)	-	10,735	21
Vehicles	51,035	5,779	82,057	13,302	(45,922)	(4,800)	(36,971)	(9,467)	(2,455)	(478)	(2,284)	-	45,460	4,336
Subtotal	**493,874**	**30,900**	**305,245**	**52,855**	**(113,774)**	**(9,440)**	**(94,985)**	**(37,560)**	**(12,642)**	**(6,053)**	**(6,570)**	**-**	**571,148**	**30,702**
Grand Total	**$1,318,093**	**30,900**	**$1,543,098**	**52,855**	**$(194,797)**	**(9,440)**	**$(402,394)**	**(37,560)**	**$6,751**	**(6,053)**	**$(8,105)**	**-**	**$2,262,646**	**30,702**

Note 8 (Cont'd): FY 2011 Analysis of Changes in Seized Property and Currency

Seized property and currency result primarily from enforcement activities. Seized property is not legally owned by the Fund until judicially or administratively forfeited. Because of the fungible nature of currency and the high level of control necessary over these assets and the possibility that these monies may be returned to their owners in lieu of forfeiture, seized currency is reported as a custodial asset upon seizure. Seized property other than currency is reported as a custodial asset upon forfeiture. (Dollar value is in thousands.)

	9/30/10 Financial Statement Balance		Seizures		Remissions		Forfeitures		Adjustments		Value Changes		9/30/11 Financial Statement Balance	
	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.	Value	No.
Currency	$776,100	-	$881,144	-	$(108,526)	-	$(731,485)	-	$(13,380)	-	$ 574	-	$804,427	-
Other Monetary Instruments	13,337	-	8,699	-	(3)	-	(95)	-	(2,145)	-	(1)	-	19,792	-
Subtotal	**789,437**	**-**	**889,843**	**-**	**(108,529)**	**-**	**(731,580)**	**-**	**(15,525)**	**-**	**573**	**-**	**824,219**	**-**
Real Property	210,589	505	63,124	224	(10,897)	(58)	(37,517)	(133)	(4,538)	8	(14,700)	-	206,061	546
General Property	276,883	22,377	87,196	37,101	(58,075)	(4,129)	(57,195)	(26,273)	(8,300)	(4,668)	(15,001)	-	225,508	24,408
Vessels	6,772	167	3,271	206	(1,665)	(37)	(3,125)	(179)	(261)	(19)	157	-	5,149	138
Aircraft	16,754	29	3,695	23	(13,262)	(10)	(877)	(11)	(103)	(2)	(86)	-	6,121	29
Vehicles	46,525	5,758	92,004	14,973	(42,263)	(4,338)	(42,399)	(10,247)	(2,040)	(367)	(792)	-	51,035	5,779
Subtotal	**557,523**	**28,836**	**249,290**	**52,527**	**(126,162)**	**(8,572)**	**(141,113)**	**(36,843)**	**(15,242)**	**(5,048)**	**(30,422)**	**-**	**493,874**	**30,900**
Grand Total	**$1,346,960**	**28,836**	**$1,139,133**	**52,527**	**$(234,691)**	**(8,572)**	**$(872,693)**	**(36,843)**	**$(30,767)**	**(5,048)**	**$(29,849)**	**-**	**$1,318,093**	**30,900**

Note 9: Capitalized Software

During fiscal year 2012, the Fund spent $660 thousand developing Automated Obligation & Equitable Sharing Management System to be used to process requests to transfer funds from the Suspense Account to the Fund, obligate assets for equitable sharing and issue equitable sharing payments, along with documenting the disposition of forfeited assets. The system is expected to be operational in FY 2013.

Note 10: Distributions Payable (state and local agencies and foreign governments)

Distributions Payable (state and local agencies and foreign governments) amounted to $71.1 million and $111.3 million as of September 30, 2012 and 2011, respectively. Fund management recognizes as a liability a portion (based on the average of historical pay-out percentage) of the equitable sharing requests, that were approved or in final stages of approval on September 30, 2012 and 2011, respectively. Prior experience with the nature of this account indicated that a substantial portion of these requests were certain to be paid out by the Fund during the following fiscal year.

Note 11: Net Position

Cumulative Results

The following summarizes components of cumulative results as of and for the years ended September 30, 2012 and 2011, respectively, (dollars in thousands):

	2012	2011
Retained Capital	$ 1,013,826	$ 622,905
Unliquidated Obligations	439,096	363,166
Net Results of Operations	102,973	466,851
	$ 1,555,895	$ 1,452,922

Unliquidated Obligations

The following summarizes the components of unliquidated obligations as of September 30, 2012 and 2011 respectively, (dollars in thousands):

	2012	2011
Equitable Sharing	$ 161,416	$ 150,392
Mandatory	277,680	212,774
	$ 439,096	$ 363,166

Note 12: Related Party Transactions

The Fund reimbursed agencies for the purchase of certain capital assets. These assets are reported by the participating agencies in their financial statements.

Note 13: Super Surplus

31 USC 9703 (g)(4)(B) allows for the expenditure, without fiscal year limitation, after the reservation of amounts needed to continue operations of the Fund. This "Super Surplus" balance may be used for law enforcement activities of any federal agency.

Amounts distributed to other federal agencies for law enforcement activities under "Super Surplus" requirements amounts to $78.7 million and $102.5 million in fiscal years 2012 and 2011, respectively.

Note 14: Secretary's Enforcement Fund

31 USC 9703(b)(5) is another category of permanent indefinite authority. These funds are available to the Secretary, without further action by Congress and without fiscal year limitation, for federal law enforcement purposes of Treasury law enforcement organizations. The source of Section 9703(b)(5) funds is equitable sharing payments received from the Department of Justice and the U.S. Postal Service (USPS) representing Treasury's share of forfeiture proceeds from Justice and USPS cases.

Amounts distributed for federal law enforcement purposes of Treasury law enforcement organizations amounted to $9.5 million and $1 million in fiscal years 2012 and 2011, respectively.

Note 15: Commitments and Contingencies

COMMITMENTS

A portion of the equitable sharing requests that were in final stages of approval are recognized as liabilities as of September 30 (See also Note 10, Distributions Payable).

In addition to the amounts estimated above, there are other amounts, which may ultimately be shared, that are not identified at this time.

CONTINGENCIES

In the opinion of the Fund's management and legal counsel, there are no pending or threatened litigation claims for which the amount of potential loss, individually, or in aggregate, will have a material adverse effect on the Fund's financial statements.

Note 16: Disclosures Related to the Statements of Net Cost

Gross costs and earned revenue related to Law Enforcement Programs administered by the Fund are presented in Treasury's budget functional classification (in thousands) as set out below:

	2012	2011
Gross Costs	$ 161,013	$ 177,070
Earned Revenues	-	-
Net Costs	$ 161,013	$ 177,070

The Fund falls under the Treasury's budget functional classification related to Administration of Justice.

Note 17: Disclosures Related to the Statements of Budgetary Resources

The Fund's net amount of budgetary resources obligated at the end of fiscal years 2012 and 2011 were $550.8 million and $539.1 million, respectively. This amount is fully covered by cash on hand in the Fund and Entity Investments. The Fund does not have borrowing or contract authority and, therefore, has no repayment requirements, financing sources for repayment, or other terms of borrowing authority. There are no legal arrangements, outside of normal government wide restrictions, specifically affecting the Fund's use of unobligated balances of budget authority.

Adjustments to budgetary resources available at the beginning of fiscal years 2012 and 2011 consist of the following (in thousands):

	2012	2011
Recoveries of Prior Year Unpaid Obligations	$ 29,747	$ 57,464

Recoveries of prior year obligations are the difference between amounts that Fund management obligated (including equitable sharing) and amounts subsequently approved for payment against those obligations.

Note 18: Dedicated Collections

The Fund is classified as a special fund. All its activities are reported as dedicated collections held for later use.

Note 19: Payments in Lieu of Forfeiture, Net of Refunds

The following summarizes Payments in Lieu of Forfeiture, Net of Refunds as of September 30, 2012 and 2011, respectively, (dollars in thousands):

	2012	2011
Payments in Lieu of Forfeiture	$ 9,159	$ 12,653
Refunds	(6,245)	(69,679)
Total	$ 2,914	($ 57,026)

Note 20: Reconciliation of Net Cost of Operations (Proprietary) to Budget

The reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the Fund's proprietary (net cost of operations) and budgetary accounting (net obligations) information.

	2012	2011
Resources Used to Finance Activities:		
Budgetary resources obligated		
Obligations incurred	$ 527,417	$ 590,414
Less: Spending authority from offsetting Collections and recoveries	(29,747)	(57,464)
Net Obligations	497,670	532,950
Other resources		
Transfers – out	(88,181)	(103,418)
Total Resources Used to Finance Activities	409,489	429,532
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(74,992)	(57,251)
Other resources or adjustments to net obligated resources that do not affect net cost of operations		
Mortgages and claims	(2,777)	(4,795)
Refunds	(6,245)	(69,679)
Equitable Sharing (federal, state/local and foreign)	(117,873)	(96,476)
Victim restitution	(46,589)	(24,261)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(248,476)	(252,462)
Total Resources Used to Finance the Net Cost of Operations	161,013	177,070
Net Cost of Operations	$ 161,013	$ 177,070

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SECTION IV

REQUIRED SUPPLEMENTAL INFORMATION

(UNAUDITED)

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Intragovernmental Amounts – Assets (Dollars in thousands)

Partner Agency	2012 Fund Balance with Treasury	2012 Accounts Receivable/ Advances	2012 Investments	2011 Fund Balance with Treasury	2011 Accounts Receivable/ Advances	2011 Investments
Treasury	$ 14,526	$ -	$ -	$ 23,094	$ -	$ -
Departmental Offices	-	40	-	-	79	-
Bureau of Public Debt	-	-	3,136,274	-	-	2,309,275
Totals	$ 14,526	$ 40	$ 3,136,274	$ 23,094	$ 79	$ 2,309,275

Intragovernmental Amounts – Liabilities (Dollars in thousands)

Partner Agency	2012 Accounts Payable	2011 Accounts Payable
Department of Justice	$ 5,440	$ -
Departmental Offices	1,305	6,574
Fincen	2,527	6,340
Tax and Trade	68	83
Treasury Office of the Inspector General	14	-
Internal Revenue Service	23,311	43,256
Totals	$ 32,665	$ 56,253

Intragovernmental Amounts – Revenues and Costs (Dollars in thousands)

Budget Functions	2012 Cost to Generate Exchange Intragovernmental Revenue	2012 Costs to Generate Non-Exchange Intragovernmental Revenue	2011 Cost to Generate Exchange Intragovernmental Revenue	2011 Costs to Generate Non-Exchange Intragovernmental Revenue
Administration of Justice	$ -	$ 100,487	$ -	$ 115,118

Intragovernmental Amounts – Non-exchange Revenue (Dollars in thousands):

Partner Agency	2012 In	2012 Out	2011 In	2011 Out
Department of Justice (Including CIA)	$ -	$ 2,267	$ -	$ 610
Department of Homeland Security	-	43,524	-	58,529
Department of Treasury	-	1,266	-	284
Internal Revenue Service	-	28,818	-	30,131
Financial Crimes Enforcement Network	-	11,509	-	13,633
Tax and Trade	-	91	-	231
Department of Defense	-	206	-	-
Department of Commerce	-	500	-	-
Totals	$ -	$ 88,181	$ -	$ 103,418

SECTION V

OTHER ACCOMPANYING INFORMATION

(UNAUDITED)

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2012
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Alabama	$ 199	$ 17
Alaska	68	73
Arizona	2,445	9
Arkansas	525	7
California	17,069	195
Colorado	190	453
Connecticut	64	3
D.C. Washington	83	-
Delaware	84	-
Florida	8,296	73
Georgia	5,238	41
Guam	655	-
Hawaii	12	-
Idaho	34	118
Illinois	3,244	1
Indiana	1,167	160
Iowa	1,220	-
Kansas	356	1
Kentucky	837	9
Louisiana	188	-
Maine	44	3
Maryland	2,876	-
Massachusetts	832	50
Michigan	402	49
Minnesota	74	7
Mississippi	217	-
Missouri	729	19
Montana	125	4
Nebraska	1,548	-
Nevada	3,340	52
New Jersey	3,843	-
New Hampshire	14	50
New Mexico	432	-
New York	27,886	551
North Carolina	4,094	14
North Dakota	-	2
Ohio	1,575	98
Oklahoma	1,000	-
Oregon	709	21
Pennsylvania	1,136	2
Puerto Rico	1,200	-
Rhode Island	89	-
South Carolina	3,574	44
South Dakota	-	-
Tennessee	168	12
Texas	34,854	339
Utah	88	-
Subtotal carried forward	$ 132,823	$2,477

TREASURY FORFEITURE FUND
Equitable Sharing Summarized by State and U.S. Territories
For the Year Ended September 30, 2012
(Dollars in Thousands)
(Unaudited)

State/U.S. Territories	Currency Value	Property Value
Subtotal brought forward	$132,823	$2,477
Vermont	33	-
Virgin Islands	7	-
Virginia	623	5
Washington	1,332	8
West Virginia	-	-
Wisconsin	319	-
Wyoming	-	-
Totals	$135,137	$2,490

Summarized above are the currency and property values of assets forfeited and shared with state and local agencies and U.S. Territories participating in the seizure. This supplemental schedule is not a required part of the financial statement of the Department of the Treasury Forfeiture Fund. Information presented on this schedule represents assets physically transferred during the year and, therefore, does not agree with total assets shared with state and local agencies in the financial statements. In addition, the above numbers do not include the adjustment to present property distributed at net realizable value.

TREASURY FORFEITURE FUND
Uncontested Seizures of Currency and Monetary Instruments Valued Over $100 Thousand Taking More Than 120 Days from Seizure to Deposit in Fund
For the Year Ended September 30, 2012
(Dollars in Thousands)

31 U.S.C. 9703(f)(2)(E) requires the Secretary of the Treasury to report annually to Congress uncontested seizures of currency or proceeds of monetary instruments over $100 thousand which were not deposited in the Department of the Treasury Forfeiture Fund within 120 days of the seizure date. There were 71 administrative seizures over $100 thousand over 120 days old totaling $24,856 that had not been transferred from the Seized Currency Suspense Account to the Treasury Forfeiture Fund as of the end of FY 2012.

TREASURY FORFEITURE FUND
Analysis of Revenue and Expenses and Distributions
For the Year Ended September 30, 2012
(Dollars in Thousands)

Revenue, Expenses and Distributions by Asset Category:

	Revenue	Expenses and Distributions
Vehicles	$ 12,498	$ 59,806
Vessels	3,472	76,199
Aircraft	3,472	24,549
General Property	11,109	241,861
Real Property	38,883	9,473
Currency and monetary instruments	456,217	113,763
	525,651	525,651
Less:		
Mortgages and claims	(2,777)	(2,777)
Refunds	(6,245)	(6,245)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$ 516,629	$ 516,629

	Revenue	Expenses and Distributions
Revenue, Transfers, Expenses and Distributions by Type of Disposition:		
Sales of property and forfeited currency and monetary instruments	$ 358,731	$ 99,875
Reimbursed storage costs	2,457	52,565
Assets shared with state and local agencies	107,366	107,366
Assets shared with other federal agencies	7,020	7,020
Assets shared with foreign countries	3,488	3,488
Victim Restitution	46,589	46,589
Destructions	--	63,078
Pending disposition	--	145,670
	525,651	525,651
Less:		
Mortgages and claims	(2,777)	(2,777)
Refunds	(6,245)	(6,245)
Add:		
Excess of net revenues and financing sources over total program expenses	--	--
Total	$ 516,629	$ 516,629

The revenue amount of $516,629 is from the Statement of Changes in Net Position. This supplemental schedule “Analysis of Revenues, Expenses and Distributions” is required under the Treasury Forfeiture Fund Act of 1992.

TREASURY FORFEITURE FUND
Schedule of Spending
For the Year Ended September 30, 2012
(Dollars in Thousands)

What Money is Available to Spend?	
Total resources	$ 672,330
Less amount not agreed to be spent	(144,913)
Total Amounts Agreed to be Spent	$ 527,417
How was the Money Spent?	
Other contractual services	$ 266,557
Supplies and materials	17
Grants, subsidies and contributions	163,720
Interest and dividends	309
Refunds	55,289
Total Spending	485,892
Unpaid obligations, end of year (gross)	550,841
Less unpaid obligations, brought forward, October 1 (gross)	(539,063)
Recoveries of prior year unpaid obligations	29,747
Total Spending Amounts Remaining to be Spent	41,525
Total Amounts Agreed to be Spent	$ 527,417
Who did the Money go to?	
Federal	$ 235,581
Non-Federal	291,836
Total Amounts Agreed to be Spent	$ 527,417
How was the Money Given?	
Contracts	$ 287,227
Equitable sharing and joint operations with state/local/foreign governments	152,131
Interest	325
Other	87,734
Total Amounts Agreed to be Spent	$ 527,417

TREASURY FORFEITURE FUND
Information Required by 31 U.S.C. 9703(f)
For the Year Ended September 30, 2012
(Dollars in Thousands)

The Treasury Forfeiture Fund Act of 1992, 31 U.S.C. 9703(f), requires the Secretary of the Treasury to transmit to Congress, no later than February 1, of each year, certain information. The following summarizes the required information.

(1) A report on:

(A) The estimated total value of property forfeited with respect to which funds were not deposited in the Department of the Treasury Forfeiture Fund during the preceding fiscal year under any law enforced or administered by the Department of the Treasury law enforcement organizations of the United States Coast Guard, in the case of fiscal years beginning after 1993.

As reported in the audited financial statements, at September 30, 2012, the Fund had forfeited property held for sale of $86,191. The realized proceeds will be deposited in the Fund when the property is sold.

Upon seizure, currency and other monetary instruments not needed for evidence in judicial proceedings are deposited in a Customs and Border Protection (CBP) suspense account. Upon forfeiture, it is transferred to the Treasury Forfeiture Fund. At September 30, 2012, there was $18,646 of forfeited currency and other monetary instruments that had not yet been transferred to the Fund. This is reported as a part of "Cash and Other Monetary Assets" in the audited financial statements.

(B) The estimated total value of all such property transferred to any state or local law enforcement agency.

The estimated total value of all such property transferred to any state or local law enforcement bureau is summarized by state and U.S. territories. Total currency transferred was $135,137 and total property transferred was $2,490 at appraised value.

(2) A report on:

(A) The balance of the Fund at the beginning of the preceding fiscal year.

The total net position of the Treasury Forfeiture Fund on September 30, 2011 which became the beginning balance for the Fund on October 1, 2011, as reported in the audited financial statements is $1,452,922.

(Dollars in Thousands)

(B) Liens and mortgages paid and the amount of money shared with federal, state, local and foreign law enforcement bureaus during the preceding fiscal year.

Mortgages and claims expense, as reported in the audited financial statements, was $2,777. The amount actually paid on a cash basis was not materially different.

The amount of forfeited currency and property shared with federal, and distributed to state, local and foreign law enforcement bureaus as reported in the audited financial statements was as follows:

	Amount
State and local	**$107,365**
Foreign countries	**3,488**
Other federal agencies	**7,020**
Victim restitution	**46,589**

(C) The net amount realized from the operations of the Fund during the preceding fiscal year, the amount of seized cash being held as evidence, and the amount of money that has been carried over into the current fiscal year.

The net cost of operations of the Fund as shown in the audited financial statements is $161,013.

The amount of seized currency not on deposit in the Fund's suspense account at September 30, 2012, was $186,491. This amount includes some funds in the process of being deposited at year-end; cash seized in August or September 2012 that is pending determination of its evidentiary value from the U.S. Attorney; and the currency seized for forfeiture being held as evidence.

On a budgetary basis, unobligated balances as originally reported on the Office of Management and Budget Reports, SF-133, "Report on Budget Execution" was approximately $144,913 for fiscal year 2012. This excludes $950,000 in FY 2012 rescinded authority that is classified as "temporary." If this figure is added to the unobligated balances at the end of FY 2012, the figure becomes $1,094,913.

(Dollars in Thousands)

(D) Any defendant's property not forfeited at the end of the preceding fiscal year, if the equity in such property is valued at $1 million or more.

The total approximate value of such property for the Treasury Forfeiture Fund, at estimated values determined by bureau and contractor's officials, and the number of seizures is as follows:

Bureau	**Amount**	**Number**
CBP	**$213,615**	**39 seizures**
IRS	**743,448**	**116 seizures**
U.S. Secret Service	**282,375**	**31 seizures**

(E) The total dollar value of uncontested seizures of monetary instruments having a value of over $100 thousand which, or the proceeds of which, have not been deposited into the Fund within 120 days after the seizure, as of the end of the preceding fiscal year.

The total dollar value of such seizures is $24,856. This is also documented on page 54.

(F) The balance of the Fund at the end of the current fiscal year.

The total net position of the Fund at September 30, 2012, as reported in the audited financial statements is $1,555,895.

(G) The net amount, if any, of the excess unobligated amounts remaining in the Fund at the end of the preceding fiscal year and available to the Secretary for Federal law enforcement related purposes.

There is no cap on amounts that can be carried forward into Fiscal Year 2012 per the fiscal year 1997 Omnibus Appropriations Act (PL 104-208).

(H) A complete set of audited financial statements prepared in a manner consistent with the requirements of the Chief Financial Officers Act of 1990.

The audited financial statements, including the Independent Auditor's Report, are found in Sections II and III.

(I) An analysis of income and expense showing revenue received or lost: (i) by property category (such as general property, vehicles, vessels, aircraft, cash, and real property); and (ii) by type of disposition (such as sale, remission, cancellation, placement into official use, sharing with state and local agencies, and destruction).

A separate schedule is presented on page 55

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