PART 2:

Annual Financial Report

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MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

In fiscal year 2011, the Department of the Treasury continued to build on the framework established during the preceding years to spur economic growth and job creation, strengthen the Nation's financial system through the ongoing implementation of reforms, advance our national security and global economic interests, and improve management of the government's finances. Treasury played an important role in implementing the sweeping financial reforms of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* by providing support for the start-up of the Consumer Financial Protection Bureau; delivered $474 million to states and $4 billion to community banks and community development loan funds for loan programs to support small business growth under the *Small Business Jobs Act*; and implemented additional health care reform provisions of the *Patient Protection and Affordable Care Act*.

As the Troubled Asset Relief Program (TARP) winds down, Treasury continues to make progress in exiting our outstanding investments. The bank programs under the investment portion of the TARP provided a substantial positive return to the taxpayer. In addition, Treasury's administration of TARP programs helped over 800,000 families facing foreclosure to receive permanent modifications lowering their mortgage payments. Treasury also began reducing its mortgage-backed security portfolio acquired under the *Housing and Economic Recovery Act*.

In fiscal year 2011, Treasury demonstrated strong fiscal prudence and a commitment to management reforms by:

- Achieving $325.9 million in acquisition savings, exceeding the goal of $318 million
- Realizing a 21 percent overall reduction in high-risk contract obligations, substantially exceeding the reduction goal of 10 percent
- Implementing paperless initiatives such as eliminating the sale of issuance of paper U.S. Savings Bonds and paying more benefits electronically
- Beginning implementation of the GOVerify Business Center, which will provide additional information to federal agencies as they strive to reduce improper payments
- Moving the Treasury.gov website to a cloud hosting environment to save costs
- Laying the framework to close and consolidate data centers to reduce spending on energy consumption, equipment, hardware, software, personnel, and contractor support

The Department received an unqualified audit opinion on both the Treasury-wide and Office of Financial Stability/TARP fiscal year 2011 financial statements. Treasury closed the material weakness on the IRS's Modernization Management Controls and Processes during fiscal year 2011, and made progress toward resolving the three material weaknesses remaining open as of September 30, 2011 [IRS – Computer Security (due to close by 2012), Unpaid Tax Assessments (due to close by 2015), and FMS – Preparation of the Government-wide Financial Statements (due to close by 2014)]. The complexity of Treasury's financial systems contributes greatly to these material weaknesses; however, we have made great progress toward resolving the issues.

Dan Tangherlini
November 15, 2011

INSPECTOR GENERAL'S TRANSMITTAL LETTER

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 15, 2011

INFORMATION MEMORANDUM FOR SECRETARY GEITHNER

FROM: Eric M. Thorson
Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2011 and 2010

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2011 and 2010.

The Chief Financial Officer's Act of 1990, as amended, requires the Department of the Treasury Office of Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department's financial statements. Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the Department's FY 2011 and 2010 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended; and the *GAO/PCIE Financial Audit Manual*.

RESULTS OF INDEPENDENT AUDIT

In its audit of the Department, KPMG LLP

- reported that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;

- reported that two material weaknesses related to unpaid tax assessments and information security and a significant deficiency related to tax refund disbursements identified by the auditor of the Internal Revenue Service collectively represent a material weakness for the Department as a whole;

- reported that weaknesses related to 1) financial reporting practices at the Departmental level, 2) financial accounting and reporting at the Office of Financial Stability, and 3) information systems controls at the Financial Management Service represent significant deficiencies for the Department as a whole;

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- reported an instance of noncompliance with laws and regulations related to the Internal Revenue Code Section 6325 whereby the IRS did not always release federal tax liens against taxpayers' property within the 30-day legal requirement;

- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 related to Federal financial management system requirements and applicable Federal accounting standards; and

- reported an instance of a potential Anti-deficiency Act violation related to voluntary services provided to the Departmental Offices.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. Additionally, we provide oversight of the audits of financial statements and certain accounts and activities conducted at 13 component entities of the Department. 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 on whether the Department's financial management systems substantially complied with the Federal Financial Management Improvement Act of 1996 or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditors' report dated November 15, 2011, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Daniel Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT ON THE DEPARTMENT'S FINANCIAL STATEMENTS

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

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (Department) as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, the combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *U.S. Department of the Treasury Fiscal Year 2011 Agency Financial Report* (AFR).

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS) and the Office of Financial Stability (OFS), component entities of the Department. The financial statements of IRS and OFS were audited by another auditor whose reports have been provided to us. Our opinion, insofar as it relates to the amounts included for IRS and OFS, is based solely on the reports of the other auditor.

In connection with our fiscal year 2011 audit, we, and the other auditor, also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. Our conclusions on internal control over financial reporting and compliance and other matters, insofar as they relate to IRS and OFS, are based solely on the reports of the other auditor.

Summary

As stated in our opinion on the consolidated financial statements, based on our audits and the reports of the other auditor, we concluded that the Department's consolidated financial statements as of, and for the years ended, September 30, 2011 and 2010, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 7, 8, 11 and 26, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Notes 1A, 1V, 7, 8, and 11, respectively, discuss the following matters:

- The consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements.

- The valuation of certain investments, loans, commitments, and asset guarantees is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the amounts that the Department will realize from its investments. As such, there will be differences between the net estimated value of these investments, loans, commitments, and asset guarantees at September 30, 2011, and the amounts that will ultimately be realized from these assets or be required to pay to settle these commitments and guarantees. Such differences may be material and will also affect the ultimate cost of these programs.

Our, and the other auditor's, consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to collectively be a material weakness and other deficiencies that we consider to be significant deficiencies, as defined in the Internal Control Over Financial Reporting section of this report, as follows:

Material Weakness

- Financial Systems and Reporting at the Internal Revenue Service (Repeat Condition)

Significant Deficiencies

- Financial Reporting Practices at the Departmental Level (Repeat Condition)
- Financial Accounting and Reporting at the Office of Financial Stability (Repeat Condition)
- Information Systems Controls at the Financial Management Service (Repeat Condition)

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed an instance of noncompliance with *Internal Revenue Code* (IRC) Section 6325, that is required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) requirements related to compliance with Federal financial management system requirements and applicable Federal accounting standards. Our, and the other auditor's, audits disclosed no instances in which the Department's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

The Department informed us of an instance of a potential violation of the *Anti-Deficiency Act* related to voluntary services provided to the Departmental Offices. The Department is reviewing this matter.

The following sections discuss our opinion on the Department's consolidated financial statements; our, and the other auditor's, consideration of the Department's internal control over financial reporting; our, and the other auditor's, tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury as of September 30, 2011 and 2010, and the related consolidated statements of net cost, changes in net position, the combined statements of budgetary resources, and the statements of custodial activity, for the years then ended.

We did not audit the amounts included in the consolidated financial statements related to IRS, a component entity of the Department, which consist of total assets of $43.3 billion and $43.2 billion, net cost of operations of $13.0 billion and $13.4 billion before applicable eliminating entries, budgetary resources of $13.5 billion and $13.4 billion, and custodial revenues of $2.4 trillion and $2.3 trillion, each as of and for the years ended September 30, 2011 and September 30, 2010, respectively. The IRS financial statements were audited by another auditor whose report dated November 4, 2011 has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditor.

We did not audit the amounts included in the consolidated financial statements related to OFS, a component entity of the Department, which consist of total assets of $164.2 billion and $244.2 billion, net cost of operations and net (income) of $9.5 billion and ($23.1) billion before applicable eliminating entries, and budgetary resources of $103.0 billion and $195.3 billion, each as of and for the years ended September 30, 2011 and September 30, 2010, respectively. The OFS financial statements were audited by another auditor whose report dated November 4, 2011 has been furnished to us, and our opinion, insofar as it relates to the amounts included for OFS, is based solely on the report of the other auditor.

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

As discussed in Notes 7, 8, 11, and 26, the Department is a participant in significant transactions whose purpose is to assist in stabilizing the financial markets.

Notes 1A, 1V, 7, 8, and 11, respectively, discuss the following matters:

- The consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements.

- The valuation of certain investments, loans, commitments, and asset guarantees is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the amounts that the Department will realize from its investments. As such, there will be differences between the net estimated value of these investments, loans, commitments, and asset guarantees at September 30, 2011, and the amounts that will ultimately be realized from these assets or be required to pay to settle these commitments and guarantees. Such differences may be material and will also affect the ultimate cost of these programs.

The information, in the AFR in Part 1: *Management's Discussion and Analysis (MD&A)* and the Required Supplemental Information in Part 2: *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the *Message from the Secretary of the Treasury*, the *Message from the Assistant Secretary for Management and Chief Financial Officer*, and the *Inspector General's Transmittal Letter* in Part 2, and Part 3: *Other Accompanying Information* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. This report also includes our consideration of the results of the other auditor's testing of internal control over financial reporting that is reported on separately by the other auditor. The other auditor performed an examination of internal control over financial reporting for the purpose of providing an opinion on the effectiveness of IRS's and OFS's internal controls. This report, insofar as it relates to the results of the other auditor, is based solely on the reports of the other auditor.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a 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. In our fiscal year 2011 audit, we, and the other auditor, identified the significant deficiencies in internal control over financial reporting, discussed below.

The significant deficiency related to Financial Systems and Reporting at the IRS is considered to be a material weakness. Because of the IRS material weakness in internal control over financial reporting discussed below, the other auditor's opinion on IRS's internal control over financial reporting stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2011, and thus did not provide reasonable assurance that losses and misstatements that were material in relation to the IRS's financial statements would be prevented or detected and corrected on a timely basis. The other auditor's opinion on OFS's internal control stated that OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

MATERIAL WEAKNESS

Financial Systems and Reporting at the IRS (Repeat Condition)

IRS continued to make progress in addressing its deficiencies in internal control over financial reporting. However, material weaknesses related to unpaid tax assessments and information security, and a significant deficiency related to tax refund disbursements at the IRS, continued to exist in fiscal year 2011 and are collectively considered a material weakness at the Department level.

This material weakness represents a significant IRS management challenge and has (1) impaired management's ability to prepare its financial statements without extensive compensating procedures, (2) limited the availability of reliable information to assist management in making well-informed decisions concerning its unpaid tax assessments on an ongoing basis, (3) resulted in errors in taxpayer accounts that increased taxpayer burden, and (4) reduced assurance that data processed by IRS's information systems are reliable and that sensitive taxpayer information is appropriately protected. This deficiency is summarized as follows:

- Serious internal control deficiencies continue to affect IRS's management of unpaid tax assessments. Specifically, 1) IRS's reported balances for taxes receivable and other unpaid tax assessments were not traceable from its general ledger system for tax administration-related transactions to individual transactions in underlying source records, 2) IRS lacked a subsidiary ledger for unpaid tax assessments that would allow it to produce reliable, useful, and timely information with which to manage and report externally on its unpaid tax assessments, and 3) IRS experienced errors and delays in recording taxpayer information, payments, and other tax assessment-related activities. (Material Weakness)

- Internal control over information security continued to be ineffective, particularly as it relates to access controls over the automated systems and software applications relied upon to process its financial transactions, produce its internal and external financial reports, and safeguard related sensitive information. As a result, the IRS could not rely on the internal controls over its automated financial management system to provide reasonable assurance that 1) its financial statements, taken as a whole, were fairly presented, 2) the financial information IRS relied on to make decisions on a daily basis was accurate, complete, and timely, and 3) proprietary financial and taxpayer information was appropriately safeguarded. (Material Weakness)

- Weaknesses in IRS's internal controls over tax refund disbursements resulting from the processing of manually prepared tax refunds and First-time Homebuyer Credit claims. (Significant Deficiency)

The other auditor noted that the deficiencies in internal control noted above may adversely affect any decision by IRS's management that are based, in whole or in part, on information that is inaccurate because of these deficiencies.

Additional details related to the deficiencies identified above have been provided separately to IRS management by the auditor of the IRS's financial statements

Recommendation

The other auditor separately provided IRS management with recommendations to address the above material weakness. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) ensure that IRS takes corrective action to improve controls over its financial systems and reporting.

SIGNIFICANT DEFICIENCIES

Financial Reporting Practices at the Departmental Level (Repeat Condition)

While the Department continued to improve its financial reporting processes during fiscal year 2011, we identified incorrect amounts and disclosures in unique program transactions which the Department records annually in the financial statements and notes. The Department did not detect these items in its review process. Specifically, the Department misclassified the amounts related to the Government-Sponsored Enterprise Senior Preferred Stock Purchase Program in its draft Statement of Budgetary Resources. In addition, because the Department does not have documented accounting and reporting policies and procedures related to investments in, and letters of commitment to, the Multilateral Development Banks (MDBs), it did not disclose certain commitments to MDBs in its draft notes to the financial statements. The Department subsequently revised its financial statements to correct for this misclassification and inadequate disclosure.

Recommendations

We recommend that the ASM/CFO ensure that the Department's Office of Accounting and Internal Control:

1. Perform, in conjunction with the Office of Financial Management and the Office of Performance Budgeting, a comprehensive analysis of amounts reported in the financial statements and notes as part of its year-end reporting procedures, and

2. Develop, document, and implement, in conjunction with the Office of International Assistance, policies and procedures surrounding the accounting treatment and disclosure of financial transactions related to the MDBs.

Financial Accounting and Reporting at the Office of Financial Stability (Repeat Condition)

During fiscal year 2011, OFS addressed several of the internal control issues related to its significant deficiency concerning accounting and financial reporting processes. However, the remaining control issues along with other control deficiencies that the other auditor identified collectively represent a continuing significant deficiency in OFS's internal control over its accounting and financial reporting processes. The

OFS deficiencies identified by the other auditor also collectively constitute a significant deficiency for the Department and are summarized below:

- Significant, but not material, incorrect amounts and inconsistent disclosures in OFS's draft financial statements that OFS did not detect.

- Instances where OFS's accounting and financial reporting procedures were not complete or effectively implemented.

For significant errors and issues that were identified, OFS revised the financial statements, notes and MD&A, as appropriate. Properly designed and implemented controls over the accounting and financial reporting processes are key to providing reasonable assurance regarding the reliability of the balances and disclosures reported in the financial statements and related notes in conformity with generally accepted accounting principles. Misstatements may occur in other financial information reported by OFS and not be prevented or detected by OFS because of this significant deficiency.

Additional details related to the significant deficiency identified above have been provided separately to OFS management by the auditor of the OFS's financial statements.

Recommendation

The other auditor separately provided OFS management with recommendations to address the above significant deficiency. We recommend that the ASM/CFO ensure that OFS takes corrective action to improve controls over its financial accounting and reporting processes.

Information Systems Controls at the Financial Management Service (Repeat Condition)

The Financial Management Service (FMS) made progress in its efforts to address prior year weaknesses in the Information System (IT) controls and security programs it manages. Despite these improvements, current year tests conducted over IT general controls revealed that the necessary policies and procedures to detect and correct control and functionality weaknesses have not been consistently documented, implemented, or enforced. Specifically, issues were identified in the areas of 1) security management, 2) access, 3) change configuration, 4) segregation of duties, and 5) contingency planning. These weaknesses could compromise FMS's ability to ensure security over sensitive financial data and reliability of key systems and collectively serve to weaken the IT general control environment at FMS.

Recommendation

We separately provided FMS management with recommendations to address the above significant deficiency. We recommend that the ASM/CFO ensure that FMS takes corrective action to improve its information systems controls.

Compliance

The results of certain of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed the following instance of noncompliance or other matters that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

- ***Noncompliance with Internal Revenue Code Section 6325***

  The IRC grants IRS the authority to obtain a statutory lien against the property of any taxpayer who neglects or refuses to pay all assessed federal taxes. Under IRC Section 6325, IRS is required to release federal tax liens within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. Despite actions taken over the years to improve its lien release processing, the other auditor continued to find that the IRS did not always release all tax liens within 30 days after taxpayers paid or were otherwise relieved of a tax liability. (Repeat Condition)

The results of our other tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

The results of our tests of FFMIA, and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements (Repeat Condition) related to compliance with (1) federal financial management systems requirements (FFMSR), and (2) applicable Federal accounting standards. Our, and the other auditor's, audit disclosed no instances in which the Department's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

The instance of noncompliance with FFMSR is summarized below:

- Persistent deficiencies in IRS's internal control over unpaid tax assessment systems and information security remain uncorrected. As a result of these deficiencies, IRS was 1) unable to rely upon its systems or compensating and mitigating controls to provide reasonable assurance that is financial statements are fairly presented, 2) unable to ensure the reliability of other financial management information produced by its systems, and 3) at increased risk of compromising confidential IRS and taxpayer information. (Repeat Condition)

The instance of noncompliance with Federal accounting standards is summarized below:

- IRS's automated systems for tax-related transactions did not support the net federal taxes receivable amount on IRS's balance sheet and other required supplementary information related to uncollected taxes – compliance assessments and write offs – as required by Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. (Repeat Condition)

The Secretary of the Treasury also stated in his Letter of Assurance, included in Part 1: *MD&A*, of the accompanying AFR, that the Department's financial management systems are not in substantial compliance with FFMIA. IRS established a remediation plan to address the conditions that led to its systems' substantial noncompliance with the FFMIA requirements. This plan outlines the actions to be taken to resolve these issues and defines related resources and responsible organizational units. Many of the actions detailed in the plan are long-term in nature and are tied to IRS's systems modernization efforts. In summary, the remaining remedial steps to be implemented include the development of a single system that provides for daily processing of taxpayer accounts in order to improve its internal control over unpaid tax assessments, and the development of application, network and system monitoring capabilities in order to improve computer security controls. The Department's remedial actions and related timeframes are presented in Part 3, Appendix D: *Material Weaknesses, Audit Follow-up, and Financial Systems*, of the AFR.

Recommendations

We recommend that the ASM/CFO ensure that 1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; and 2) IRS implements its plan of action to solve financial management problems so as to enable resolving the identified instances of financial management systems' noncompliance with the requirements of FFMIA. Detailed recommendations to address the noncompliance findings discussed above have been provided to IRS management by the auditor of the IRS's financial statements.

Other Matter

The Department informed us of an instance of a potential violation of the *Anti-Deficiency Act* related to voluntary services provided to the Departmental Offices. The Department is reviewing this matter.

Department's Response to Internal Control and Compliance Findings

The Department indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, the Department responded that it will take corrective action, as necessary, to ensure the respective component management within the Department address the matters presented. We did not audit the Department's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we will report to management of the Department in a separate letter.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2011 and 2010 consolidated financial statements of the Department based on our audits and the reports of the other auditor. We, and the other auditor, 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 OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the reports of the other auditor related to the amounts included for IRS and OFS, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2011 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to IRS and OFS, by obtaining an understanding of the design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Internal control over financial reporting related to IRS and OFS was considered by the other auditor whose reports thereon dated November 4, 2011, have been provided to us. We, and the other auditor, did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of the other auditor's audits was to express an opinion on the effectiveness of the IRS's and OFS's internal control over financial reporting. Because of the IRS material weakness in internal control over financial reporting, the other auditor's opinion on the IRS's internal control over financial reporting stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2011. The other auditor's opinion on OFS's internal control over financial reporting stated that OFS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

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

KPMG LLP

November 15, 2011

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2011

KPMG LLP
2001 M Street, N.W.
Washington, DC 20036

Ladies and Gentlemen:

On behalf of Secretary Geithner, I am responding to your draft audit report on the Department of the Treasury's fiscal year 2011 consolidated financial statements. Our bureaus and program offices all can be proud of the Department's success in achieving an unqualified opinion on the Department's financial statements for the twelfth consecutive year. We are also proud of the third unqualified opinion from the Government Accountability Office (GAO) on the Office of Financial Stability's (OFS) financial statements.

The high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2011 results. We appreciate your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of the Inspector General, GAO, and the firms that audited several of our bureaus.

KPMG recognized Treasury's strong efforts in fiscal year 2011 to address the significant deficiency in financial reporting practices at the Departmental level. While we have made substantial progress in some areas, we know we have work to do in other areas to eliminate this significant deficiency. As reported by GAO, the Internal Revenue Service and OFS continued to address their deficiencies in internal control in fiscal year 2011.

We acknowledge the Departmental level material weakness, significant deficiencies, and instances of noncompliance with laws and regulations described in your report. We agree with your recommendations, and will focus on necessary corrective actions to address each of the issues.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

Consolidated Balance Sheets
As of September 30, 2011 and 2010
(In Millions)

	2011	2010
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$ 381,784	$ 437,026
Loans and Interest Receivable (Note 3)	728,650	552,853
Advances to the Unemployment Trust Fund (Note 4)	42,773	34,111
Due From the General Fund (Note 4)	14,902,717	13,655,637
Other Intra-governmental Assets	1,148	1,179
Total Intra-governmental Assets	16,057,072	14,680,806
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	117,121	372,434
Gold and Silver Reserves (Note 6)	11,062	11,062
Troubled Asset Relief Program (TARP) - Credit Program Receivables, Net (Note 7)	80,104	144,692
Investments in Government Sponsored Enterprises (Note 4 and 8)	133,043	109,216
Investments in International Financial Institutions (Note 9)	5,707	5,580
Non-TARP Investments in American International Group, Inc. (Note 26)	10,862	20,805
Other Investments and Related Interest (Note 10)	15,798	15,487
Credit Program Receivables, Net (Note 11)	92,820	186,396
Loans and Interest Receivables (Note 12)	6,248	124
Reserve Position in the International Monetary Fund (Note 12)	20,682	12,938
Taxes, Interest and Other Receivables, Net (Note 13)	36,690	36,976
Property, Plant, and Equipment, Net (Note 14)	2,266	2,031
Other Assets	751	710
Total Assets	$ 16,590,226	$ 15,599,257

Heritage Assets (Note 14)

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

Consolidated Balance Sheets
As of September 30, 2011 and 2010
(In Millions)

	2011	2010
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 16)	**$ 4,720,165**	$ 4,587,802
Other Debt and Interest Payable (Note 17)	**8,539**	10,358
Due to the General Fund (Note 4)	**1,226,475**	1,414,252
Other Intra-governmental Liabilities (Note 19)	**453**	366
Total Intra-governmental Liabilities	**5,955,632**	6,012,778
Federal Debt and Interest Payable (Notes 4 and 16)	**10,148,963**	9,035,929
Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**55,150**	54,958
Gold Certificates Issued to the Federal Reserve (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 23)	**3,983**	4,146
D.C. Pensions and Judicial Retirement Actuarial Liability (Note 18)	**9,671**	9,743
Liabilities to Government Sponsored Enterprises (Note 8)	**316,230**	359,900
Other Liabilities (Note 19)	**4,222**	4,470
Total Liabilities (Note 19)	**16,510,088**	15,498,161
Commitments and Contingencies (Note 28)		
NET POSITION		
Unexpended Appropriations:		
Earmarked Funds (Note 24)	**200**	200
Other Funds	**342,778**	400,357
Subtotal	**342,978**	400,557
Cumulative Results of Operations:		
Earmarked Funds (Note 24)	**43,611**	41,426
Other Funds	**(306,451)**	(340,887)
Subtotal	**(262,840)**	(299,461)
Total Net Position (Note 20)	**80,138**	101,096
Total Liabilities and Net Position	**$ 16,590,226**	$ 15,599,257

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2011 and 2010
(In Millions)

Cost of Treasury Operations: (Note 21)	**2011**	2010
Financial Program		
Gross Cost	**$ 15,671**	$ 15,854
Less Earned Revenue	**(2,633)**	(2,611)
Net Program Cost	**13,038**	13,243
Economic Program		
Gross Cost (Note 8)	**4,704**	314,138
Less Earned Revenue	**(14,641)**	(16,904)
Net Program Cost (Revenue)	**(9,937)**	297,234
Security Program		
Gross Cost	**360**	344
Less Earned Revenue	**(5)**	(4)
Net Program Cost	**355**	340
Management Program		
Gross Cost	**573**	582
Less Earned Revenue	**(57)**	(56)
Net Program Cost	**516**	526
Total Program Gross Costs	**21,308**	330,918
Total Program Gross Earned Revenues	**(17,336)**	(19,575)
Total Program Cost before Changes in Actuarial Assumptions	**3,972**	311,343
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	**195**	820
Total Net Cost of Treasury Operations (Note 21)	**4,167**	312,163
Non-Entity Costs		
Federal Debt Interest	**452,616**	412,855
Restitution of Foregone Federal Debt Interest (Note 16)	**875**	-
Less Interest Revenue from Loans	**(26,815)**	(22,258)
Net Federal Debt Interest Costs	**426,676**	390,597
Other Federal Interest	**3**	6
Other Federal Costs (Note 21)	**13,743**	12,753
Net GSEs Non-Entity Revenue (Note 8)	**(39,415)**	(56,678)
Administrative Services Income	**(1,019)**	-
Total Net Non-Entity Costs	**399,988**	346,678
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 404,155**	$ 658,841

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

Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2011
(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Elimi- nation	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	$ 41,426	$ (340,887)	$ -	$ (299,461)
Budgetary Financing Sources				
Appropriations Used	536	547,593	-	548,129
Non-Exchange Revenue	230	154	(5)	379
Donations and Forfeitures of Cash/Equivalent	586	-	-	586
Transfers In/Out Without Reimbursement	(51)	51	-	-
Other (Note 11)	-	4,550	-	4,550
Other Financing Sources (Non-Exchange)				
Donation/Forfeiture of Property	163	-	-	163
Accrued Interest and Discount on Debt	-	14,042	-	14,042
Transfers In/Out Without Reimbursement	(97)	37	-	(60)
Imputed Financing Sources	75	1,265	(415)	925
Transfers to the General Fund and Other (Note 20)	249	(128,187)	-	(127,938)
Total Financing Sources	1,691	439,505	(420)	440,776
Net Cost of Operations	494	(405,069)	420	(404,155)
Net Change	2,185	34,436	-	36,621
Cumulative Results of Operations	43,611	(306,451)	-	(262,840)
UNEXPENDED APPROPRIATIONS				
Beginning Balance	200	400,357	-	400,557
Budgetary Financing Sources				
Appropriations Received (Note 20)	536	498,187	-	498,723
Appropriations Transferred In/Out	-	129	-	129
Other Adjustments	-	(8,302)	-	(8,302)
Appropriations Used	(536)	(547,593)	-	(548,129)
Total Budgetary Financing Sources	-	(57,579)	-	(57,579)
Total Unexpended Appropriations	200	342,778	-	342,978
Net Position	$ 43,811	$ 36,327	$ -	$ 80,138

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

Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2010
(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Elimi-nation	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balance	$ 41,653	$ (68,741)	$ -	$ (27,088)
Budgetary Financing Sources				
Appropriations Used	527	501,912	-	502,439
Non-Exchange Revenue	56	229	(4)	281
Donations and Forfeitures of Cash/Equivalent	324	-	-	324
Transfers In/Out Without Reimbursement	(27)	13	-	(14)
Other	-	12	-	12
Other Financing Sources (Non-Exchange)				
Donation/Forfeiture of Property	319	-	-	319
Accrued Interest and Discount on Debt	-	11,086	-	11,086
Transfers In/Out Without Reimbursement	(79)	37	-	(42)
Imputed Financing Sources	74	1,486	(552)	1,008
Transfers to the General Fund and Other (Note 20)	(65)	(128,880)	-	(128,945)
Total Financing Sources	1,129	385,895	(556)	386,468
Net Cost of Operations	(1,356)	(658,041)	556	(658,841)
Net Change	(227)	(272,146)	-	(272,373)
Cumulative Results of Operations	41,426	(340,887)	-	(299,461)
UNEXPENDED APPROPRIATIONS				
Beginning Balances	200	454,944	-	455,144
Budgetary Financing Sources				
Appropriations Received (Note 20)	527	456,443	-	456,970
Appropriations Transferred In/Out	-	92	-	92
Other Adjustments	-	(9,210)	-	(9,210)
Appropriations Used	(527)	(501,912)	-	(502,439)
Total Budgetary Financing Sources	-	(54,587)	-	(54,587)
Total Unexpended Appropriations	200	400,357	-	400,557
Net Position	$ 41,626	$ 59,470	$ -	$ 101,096

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

Combined Statements of Budgetary Resources
For the Fiscal Year Ended September 30, 2011
(In Millions)

Budgetary Resources	Budgetary	Non-Budgetary Financing	2011 Total
Unobligated balance, brought forward, Oct. 1	$ 348,424	$ 23,819	$ 372,243
Recoveries of prior year unpaid obligations	11,058	5,671	16,729
Budget authority:			
Appropriations (Note 20)	552,971	4,613	557,584
Borrowing authority (Note 22)	1	201,862	201,863
Spending authority from offsetting collections:			
Earned:			
Collected	11,059	219,002	230,061
Change in receivables from Federal sources	27	-	27
Change in unfilled customer orders:			
Advance received	(11)	-	(11)
Without advance from Federal sources	(18)	(22,847)	(22,865)
Subtotal	564,029	402,630	966,659
Non-expenditure transfers, net	125	-	125
Temporarily not available pursuant to Public Law	(426)	-	(426)
Permanently not available	(44,417)	(221,912)	(266,329)
Total Budgetary Resources	$ 878,793	$ 210,208	$ 1,089,001
Status of Budgetary Resources			
Obligations incurred (Note 22)			
Direct	$ 531,283	$ 181,638	$ 712,921
Reimbursable	7,126	-	7,126
Subtotal	538,409	181,638	720,047
Unobligated Balance:			
Apportioned	246,296	510	246,806
Exempt from apportionment	23,980	-	23,980
Subtotal	270,276	510	270,786
Unobligated balance not available	70,108	28,060	98,168
Total Status of Budgetary Resources	$ 878,793	$ 210,208	$ 1,089,001
Changes in Obligated Balance			
Obligated balance, net:			
Unpaid obligations, brought forward, Oct. 1	$ 182,707	$ 49,491	$ 232,198
Uncollected customer payments from Federal sources, brought forward, Oct. 1	(192)	(23,817)	(24,009)
Total unpaid obligated balance, net	182,515	25,674	208,189
Obligations incurred, net	538,409	181,638	720,047
Gross outlays	(561,707)	(101,655)	(663,362)
Recoveries of prior year unpaid obligations, actual	(11,058)	(5,671)	(16,729)
Change in uncollected customer payments from Federal sources	(9)	22,847	22,838
Obligated balance, net, end of period:			
Unpaid obligations	148,351	123,802	272,153
Uncollected customer payments from Federal sources	(201)	(969)	(1,170)
Total unpaid obligated balance-net, end of period (Notes 1 & 22)	$ 148,150	$ 122,833	$ 270,983
Net Outlays			
Gross outlays	$ 561,707	$ 101,655	$ 663,362
Offsetting collections	(11,048)	(219,002)	(230,050)
Distributed offsetting receipts	(119,958)	-	(119,958)
Net Outlays	$ 430,701	$ (117,347)	$ 313,354

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

Combined Statements of Budgetary Resources
For the Fiscal Year Ended September 30, 2010
(In Millions)

	Budgetary	Non-Budgetary Financing	2010 Total
Budgetary Resources			
Unobligated balance, brought forward, Oct. 1	$ 401,626	$ 41,827	$ 443,453
Adjustment for change in accounting policy (Note 22)	14,135	-	14,135
Unobligated balance, brought forward, Oct. 1, as adjusted	415,761	41,827	457,588
Recoveries of prior year unpaid obligations	2,979	39,370	42,349
Budget authority:			
Appropriations (Note 20)	569,010	-	569,010
Borrowing authority (Note 22)	1	151,472	151,473
Spending authority from offsetting collections:			
Earned:			
Collected	9,401	204,946	214,347
Change in receivables from Federal sources	22	-	22
Change in unfilled customer orders:			
Advance received	(56)	-	(56)
Without advance from Federal sources	2	(5,111)	(5,109)
Subtotal	578,380	351,307	929,687
Non-expenditure transfers, net	361	-	361
Temporarily not available pursuant to Public Law	(142)	-	(142)
Permanently not available	(47,341)	(189,421)	(236,762)
Total Budgetary Resources	$ 949,998	$ 243,083	$ 1,193,081
Status of Budgetary Resources			
Obligations incurred (Note 22)			
Direct	$ 581,303	$ 219,264	$ 800,567
Adjustment for change in accounting policy (Note 22)	14,135	-	14,135
Direct, Adjusted	595,438	219,264	814,702
Reimbursable	6,136	-	6,136
Subtotal	601,574	219,264	820,838
Unobligated Balance:			
Apportioned	267,581	20,961	288,542
Exempt from apportionment	13,269	-	13,269
Subtotal	280,850	20,961	301,811
Unobligated balance not available	67,574	2,858	70,432
Total Status of Budgetary Resources	$ 949,998	$ 243,083	$ 1,193,081
Changes in Obligated Balance			
Obligated balance, net:			
Unpaid obligations, brought forward, Oct. 1	$ 108,210	$ 79,209	$ 187,419
Uncollected customer payments from Federal sources, brought forward, Oct. 1	(168)	(28,928)	(29,096)
Total unpaid obligated balance, net	108,042	50,281	158,323
Obligations incurred, net	601,574	219,264	820,838
Gross outlays	(524,098)	(209,612)	(733,710)
Recoveries of prior year unpaid obligations, actual	(2,979)	(39,370)	(42,349)
Change in uncollected customer payments from Federal sources	(24)	5,111	5,087
Obligated balance, net, end of period:			
Unpaid obligations	182,707	49,491	232,198
Uncollected customer payments from Federal sources	(192)	(23,817)	(24,009)
Total unpaid obligated balance-net, end of period (Notes 1 & 22)	$ 182,515	$ 25,674	$ 208,189
Net Outlays			
Gross outlays	$ 524,098	$ 209,612	$ 733,710
Offsetting collections	(9,345)	(204,946)	(214,291)
Distributed offsetting receipts	(169,303)	(9,606)	(178,909)
Net Outlays	$ 345,450	$ (4,940)	$ 340,510

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2011 and 2010
(In Millions)

	2011	2010
Sources of Custodial Revenue (Note 23)		
Individual Income and FICA Taxes	**$ 2,102,030**	$ 1,988,760
Corporate Income Taxes	**242,848**	277,937
Estate and Gift Taxes	**9,079**	19,751
Excise Taxes	**72,794**	70,946
Railroad Retirement Taxes	**4,692**	4,648
Unemployment Taxes	**6,893**	6,543
Deposit of Earnings, Federal Reserve System	**82,546**	75,845
Fines, Penalties, Interest, and Other Revenue	**591**	1,880
Total Revenue Received	**2,521,473**	2,446,310
Less Refunds	**(416,221)**	(469,937)
Net Revenue Received	**2,105,252**	1,976,373
Non-Cash Accrual Adjustment	**(150)**	6,539
Non-TARP Investments in American International Group, Inc. (Note 26):		
Cash Proceeds from Sale of Stock	**1,973**	-
Non-Cash Market Adjustments	**(9,944)**	(2,666)
Total Custodial Revenue	**2,097,131**	1,980,246
Disposition of Custodial Revenue (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**462**	387
Amounts Provided to Fund the Federal Government	**2,104,790**	1,975,986
Non-Cash Accrual Adjustment	**(150)**	6,539
Non-TARP Investments in American International Group, Inc. (Note 26):		
Cash Proceeds from Sales of Stock	**1,973**	-
Non-Cash Market Adjustment	**(9,944)**	(2,666)
Total Disposition of Custodial Revenue	**2,097,131**	1,980,246
Net Custodial Revenue	**$ -**	$ -

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

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the United States (U.S.) Department of the Treasury (Department), one of 24 CFO Act agencies of the Executive Branch of the United States Government, and certain custodial activities managed on behalf of the entire U.S. Government. The following paragraphs describe the activities of the reporting entity.

The Department was created by an Act (1 Stat.65) on September 2, 1789. Many subsequent acts affected the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary of the Treasury (Secretary) has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and fiscal policy; governing the fiscal operations of the government; maintaining foreign assets control; managing the federal debt; collecting income and excise taxes; representing the United States on international monetary, trade, and investment issues; overseeing Departmental overseas operations; and directing the manufacture of coins, currency, and other products for customer agencies and the public.

The Department's reporting entities include the Departmental Offices (DO) and eight operating bureaus. For financial reporting purposes, DO is composed of: International Assistance Programs (IAP), Office of Inspector General (OIG), Special Office of Inspector General for the Troubled Asset Relief Program (SIGTARP), Treasury Forfeiture Fund (TFF), Exchange Stabilization Fund (ESF), Community Development Financial Institutions (CDFI) Fund, Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), Federal Financing Bank (FFB), Office of Financial Stability (OFS), Government Sponsored Enterprise (GSE) Program, Small Business Lending Fund (SBLF), Office of Financial Research (OFR), and the DO policy offices.

The eight operating bureaus are: Bureau of Engraving and Printing (BEP); Bureau of the Public Debt (BPD); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); United States Mint (Mint); Office of the Comptroller of the Currency (OCC); and the Alcohol and Tobacco Tax and Trade Bureau (TTB). On July 21, 2010, the President signed into law the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the "Dodd-Frank Act"), which includes the *Enhancing Financial Institution Safety and Soundness Act of 2010*. In accordance with the Dodd-Frank Act, on July 21, 2011 (the "transfer" date"), substantially all of the operations of the Office of Thrift Supervision (OTS) were transferred to the OCC; and certain other duties were transferred to the Federal Reserve Board and Federal Deposit Insurance Corporation (FDIC). During fiscal year 2011, OTS operated as a separate entity through July 20, 2011, and thus its operating results through July 20, 2011, are presented separately in the disaggregate disclosures contained in Note 21 and the Required Supplemental Information (unaudited). On July 21, 2011, all of OTS's net assets, except for a reserve of $2 million for OTS wind-down activities, were transferred to OCC.

The Department's financial statements reflect the reporting of its own entity activities comprising both the Department's operating bureaus and DO that are consolidated with the Department, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. Government and others. Non-entity activities include collecting federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. Government, as well as for other federal entities. The Department's reporting entity does not include the

General Fund of the U.S. Government (General Fund), which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position.

Following Generally Accepted Accounting Principles (GAAP) for federal entities, the Department has not consolidated into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which it holds either a direct, indirect, or beneficial majority equity investment. Even though some of the equity investments are significant, these entities meet the criteria of "bailed out" entities under paragraph 50 of the Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display* (SFFAC No. 2) which directs that such "bailout" investments should not be consolidated into the Financial Reports of the U.S. Government, either in part or as a whole.

In addition, the Department has made loans and investments in certain Special Purpose Vehicles (SPV) under the Consumer and Business Lending Initiative, Automotive Industry Financing Program, and the Public-Private Investment Program. In fiscal year 2011, a portion of the Department's investment in American International Group, Inc. was exchanged for preferred interests in SPVs. SFFAC No. 2, paragraphs 43 and 44, reference indicative criteria such as ownership and control over an SPV to carry out government powers and missions as criteria in the determination about whether the SPV should be classified as a federal entity. The Department has concluded that the lack of control over the SPVs is the primary basis for determining that none of the SPVs meet the criteria to be classified as a federal entity. As a result, the assets, liabilities, and results of operations of the SPVs are not included in the Department's financial statements. The Department has recorded the loans and investments in private entities and investments in SPVs in accordance with Credit Reform Accounting, as discussed below. Additional disclosures regarding these SPV investments are included in Note 7.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Department in conformity with accounting principles generally accepted in the United States for federal entities, and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. Government.

These financial statements are provided to meet the requirements of the *Government Management Reform Act of 1994*. They consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year 2011 and fiscal year 2010 information.

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

Intra-governmental assets and liabilities are those due from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditures to other federal entities.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since the Department is a component of the U.S. Government, a sovereign entity, the Department's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. The U.S. Government, acting in its sovereign capacity, can abrogate liabilities of the Department arising from non-contractual activities.

Certain fiscal year 2010 balances on the Consolidated Balance Sheets and notes to the financial statements have been reclassified to conform to the presentation in the current fiscal year. In fiscal year 2011, certain Balance Sheet line items were aggregated with other line items. Corresponding balances for the prior fiscal year were reclassified to conform to the current year presentation.

There are numerous acronyms used throughout the notes herein as well as other sections of this Agency Financial Report (AFR). Refer to the *"Glossary of Acronyms"* located in Appendix E of this report for a complete listing of these acronyms and their related definitions.

C. Fund Balance

The Fund Balance is the aggregate amount of the Department's accounts with the U.S. Government's central accounts from which the Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Department's claim to the U.S. Government's resources. Fund balance with Treasury is not equivalent to unexpended appropriations because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

D. Investments

Investments in GSEs

The Department holds preferred stock of two stockholder-owned GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The senior preferred stock liquidity preference (preferred stock) and associated common stock warrant (warrant(s)) in the GSEs are presented at their fair value as permitted by OMB Circular No. A-136. This Circular includes language that generally requires agencies to value non-federal investments at acquisition cost, but permits the use of other measurement basis, such as fair value, in certain situations. Changes in the valuation of these investments are recorded as non-entity exchange transactions on the Consolidated Statements of Net Cost. Dividends are also recorded as non-entity exchange transactions and are accrued when declared; therefore, no accrual is made for future dividends.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs) provide that the Department will increase its investment in the GSEs' senior preferred stock if, at the end of any quarter, the Federal Housing Finance Agency (FHFA), acting as the conservator, determines that the liabilities of either GSE, individually, exceed its respective assets. As the funds used to pay these excess liabilities are appropriated directly to the Department such payments are treated as entity expenses and reflected as such on the Consolidated Statements of Net Cost and Cumulative Results of Operations. These payments also result in an increase to the non-entity investment in the GSEs' preferred stock, with a corresponding increase in Due to the General Fund, as the Department holds the investment on behalf of the General Fund.

Investments in International Financial Institutions

The Department, on behalf of the United States, invests in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transitions to market economies and sustainable economic growth and development, thereby advancing the United States' economic, political, and commercial interests abroad. As a participating member country, the Department, on behalf of the United States, provides a portion of the capital base of the MDBs, through subscriptions to capital, which allows the MDBs to issue loans at market-based rates to middle income developing countries. These paid-in capital investments are considered non-marketable equity investments valued at cost on the Department's Consolidated Balance Sheets.

In addition, the Department, on behalf of the United States, contributes funding to MDBs to finance grants and extend credit to poor countries at below market-based interest rates. These U.S. contributions are reported as an expense on the Department's Consolidated Statements of Net Cost.

Other Investments and Related Interest

ESF holds most of the Department's foreign currency investments. "Other Foreign Currency Denominated Assets" and "Investment Securities" are considered "available-for-sale" securities and recorded at fair value. These holdings are normally invested in interest-bearing securities issued or held through foreign governments or monetary authorities.

Non-TARP Investment in American International Group, Inc.

The Department holds American International Group, Inc. (AIG) common stock on behalf of the General Fund which are considered "available-for-sale" securities and recorded at fair value. Changes in the valuation of these investments held are non-entity, non-exchange transactions reported on the Statements of Custodial Activity. The revenue or loss associated with sales of these investments are non-entity, exchange transactions reported on the Statements of Custodial Activity.

E. Taxes, Interest, and Other Receivables, Net

Federal taxes receivable, net, and the corresponding liability due to the Department, are not accrued until related tax returns are filed or assessments are made by the IRS and agreed to by either the taxpayer or the court. Additionally, the prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on taxes receivable through the balance sheet date.

Taxes receivable consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. The allowance reflects an estimate of the portion of total taxes receivable deemed to be uncollectible.

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed the taxpayer owes to the U.S. Government. Examples include assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessment and write-offs are not reported on the balance sheet. Statutory provisions require the accounts to be maintained until the statute for collection expires.

F. Loans and Interest Receivable, Intra-Governmental - Entity and Non-Entity

Intra-Governmental entity Loans and Interest Receivable from other federal agencies represent loans and interest receivable held by the Department. No credit reform subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers because of outstanding balances guaranteed (interest and principal) by those agencies.

Intra-Governmental non-entity Loans and Interest Receivable from other federal agencies represent loans issued by the Department to federal agencies on behalf of the U.S. Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the U.S. Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance related to these intra-governmental loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans to the public.

G. Advances to the Unemployment Trust Fund

Advances have been issued to the Department of Labor's (DOL) Unemployment Trust Fund from the General Fund for states to pay unemployment benefits. BPD accounts for the advances on behalf of the General Fund. As outlined in the United States Code (USC) 42 USC §1323, these repayable advances bear an interest rate that is computed as the average interest rate as of the end of the calendar month preceding the issuance date of the advance for all interest bearing obligations of the United States that form the public debt, to the nearest lower one-eighth of one percent. Interest on the repayable advances is due on September 30th of each year. Advances will be repaid by transfers from the Unemployment Trust Fund to the General Fund when the Secretary, in consultation with the Secretary of Labor, has determined that the balance in the Unemployment Trust Fund is adequate to allow repayment.

H. Interest Receivable on Deposits of Earnings, Federal Reserve System

Federal Reserve Banks (FRBs) are required by the Board of Governors of the Federal Reserve System to transfer to the U.S. Treasury excess earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid in. In the event of losses, or a substantial increase in capital, an FRB will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. Weekly payments to the U.S. Treasury may vary significantly. The Interest Receivable on FRB Deposits of Earnings, Federal Reserve System, is included within "Taxes, Interest and Other Receivables, Net" line item of the Consolidated Balance Sheets (refer to Note 13), and represents the earnings due to the U.S. Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month.

I. Property, Plant, and Equipment, Net

General

Property, plant, and equipment (PP&E) is composed of capital assets used in providing goods or services. It also includes assets acquired through capital leases, which are initially recorded at the amount recognized as a liability for the capital lease at its inception. PP&E is stated at full cost, including costs related to acquisition, delivery, and installation, less accumulated depreciation. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expenses as incurred.

Internal use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. Costs for developing internal use software are accumulated in work in development until a project is placed into service, and testing and final acceptance are successfully completed. Once completed, the costs are transferred to depreciable property.

Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) cost, plus applied overhead and other indirect costs.

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level user fee which approximates commercial rental rates for similar properties. Therefore, GSA-owned properties are not included in the Department's PP&E.

The Department's bureaus are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy provides minimum capitalization thresholds which range from $25,000 to $50,000 for all property categories except for internal use software thresholds which range from $125,000 to $250,000. The Department also uses a capitalization threshold range for bulk purchases: $250,000 to $500,000 for non-manufacturing bureaus and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprise bulk purchases based on Departmental guidance. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements and capital leases. Leasehold improvements are depreciated over the term of the lease or the useful life of the improvement, whichever is shorter. Capital leases are depreciated over the estimated life of the asset or term of the lease, depending on the conditions met for capitalization. Service life ranges (2 to 50 years) are high due to the Department's diversity of PP&E. Land, construction in progress, and internal use software in development are not depreciated.

Heritage Assets

The Department owns the Treasury Complex (Main Treasury and Treasury Annex) – a multi-use heritage asset. The buildings housing the Mint facilities in Denver, San Francisco, Fort Knox, and West Point, are also considered multi-use heritage assets. Multi-use heritage assets are assets of historical significance for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury buildings are capitalized as general PP&E and depreciated over their service life.

J. Cash, Foreign Currency, and Other Monetary Assets

Substantially all of the Department's operating cash is non-entity government-wide cash held in depositary institutions and FRB accounts. Agencies can deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depositary. The balances in these TGA accounts are transferred to the Federal Reserve Bank of New York (FRBNY)'s TGA at the end of each day.

Operating cash of the U.S. Government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments held in the FRBs, foreign and domestic financial institutions, and in Treasury Tax and Loan (TT&L) accounts. Outstanding checks are netted against operating cash until they are cleared by the Federal Reserve System.

The TGA is maintained at the FRBNY and functions as the government's checking account for deposits and disbursements of public funds. The TT&L program includes about 9,000 depositories that accept tax payments and remit them the day after receipt to FRBNY's TGA. Certain TT&L depositories also hold non-entity government-wide cash in interest bearing accounts. Cash in the TGA and the TT&L program is restricted for government-wide operations.

The Supplementary Financing Program (SFP) Account is maintained at FRBNY. The SFP provides emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. This program consists of a series of Treasury bills, apart from the Department's current borrowing program.

The Department's foreign currency investments having original maturities of three months or less are classified as cash equivalents. Other foreign currency holdings having terms greater than three months but less than or equal to one year are classified as "available-for-sale" investments. Special Drawing Rights (SDRs) holdings comprise most of the other monetary assets (refer below to "Special Drawing Rights" accounting policy).

K. Federal Debt and Interest Payable

Debt and associated interest are reported on the accrual basis of accounting. Interest costs are recorded as expenses when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities and the straight-line method for short-term securities. The Department also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers.

L. Loan Commitments

The Department, through FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend credit for their own use (refer to the accounting policy above entitled "*Loans and Interest Receivable, Intra-Governmental – Entity and Non-Entity.")* The Department establishes loan commitments when the Department and other parties fully execute promissory notes in which the Department becomes obligated to issue such loans immediately or at some future date. The Department reduces loan commitments when the Department issues the loans or when the commitments expire. Most obligations of the Department give a borrower the contractual right to a loan or loans immediately or at some point in the future within an agreed upon timeframe.

M. Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

The Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7 percent of pay. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law (P.L.) 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit, the Department contributes 11.2 percent for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Department reports the full cost of providing other retirement benefits (ORB). The Department also recognizes an expense and a liability for other post-employment benefits (OPEB), which includes all types of benefits, provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, one of the Department's bureaus, OCC, separately sponsors a defined life insurance benefit plan for current and retired employees. In connection with the July 21, 2011, merger of OTS into OCC's operations (refer to Note 1A), OCC became the administrator for OTS's private defined benefit retirement plan (the Pentegra Defined Benefit Plan (PDBP)), and assumed the liability associated with this plan. The PDBP covers certain former OTS employees, and provides certain health and life insurance benefits for all retired OTS employees who meet eligibility requirements.

N. Special Drawing Rights

The SDR is an international reserve asset created by the International Monetary Fund (IMF) to supplement its member countries' official reserves. Under its Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas. Pursuant to the *Special Drawing Rights Act of 1968*, as amended, the ESF holds all SDRs allocated to or otherwise acquired by the United States.

Allocations and Holdings

When the IMF allocates SDRs to its members, SDR holdings are recorded as assets of the members and SDR allocations are recorded as liabilities. SDR holdings increase primarily as a result of IMF SDR allocations. Other transactions reported in this account are recorded as incurred. They include acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. Government receives remuneration in SDRs from the IMF and is based on claims on the IMF, represented by the U.S. Reserve Position. The SDR amount is credited to the ESF, which transfers to the Treasury General Account an equivalent amount of dollars plus nominal interest. The allocations and holdings are revalued monthly based on the SDR valuation rate as calculated by the IMF. The liabilities represent the amount that is payable in the event of liquidation of, or U.S. withdrawal from, the SDR Department of the IMF or cancellation of the SDRs.

Certificates Issued to the Federal Reserve

The *Special Drawing Rights Act of 1968* authorizes the Secretary to issue certificates, not to exceed the value of SDR holdings, to the FRB in return for dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide U.S. dollar resources financing other ESF operations. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary may determine, and do not bear interest. Certificates issued to FRB are reported at their face value. It is not practical to estimate the fair value of certificates issued to FRB, since these certificates contain no specific terms of repayment.

O. Federal Employee Benefits Payable – FECA Actuarial Liability

The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The FECA program is administered by DOL which pays valid claims and subsequently seeks reimbursements from the Department for these paid claims. Generally, the Department reimburses DOL within two to three years once funds are appropriated. These future workers' compensation estimates are generated by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

P. Annual, Sick, and Other Leave

Annual and compensatory leave earned by the Department's employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to reflect current pay rates. Any portion of the accrued leave for which funding is not available is recorded as an unfunded liability. Sick and other leave are expensed as taken.

Q. Revenue and Financing Sources

The Department's activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include collections from the public for the IRS costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e., goods have been delivered or services have been rendered. Revenue from reimbursable agreements is recognized when the services are provided. Non-exchange revenues are recognized when received by the respective collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. The Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs, the FEHBP, and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements are also recognized for the period in which they occurred on the Consolidated Statements of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statements of Changes in Net Position. The costs related to the Forfeiture Fund program are reported on the Consolidated Statements of Net Cost. The Treasury Forfeiture Fund is the special fund account for depositing non-tax forfeiture proceeds received pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. Forfeited property balances are reported in "Other Assets" on the Consolidated Balance Sheets.

R. Custodial Revenues and Collections

Non-entity revenue reported on the Department's Statements of Custodial Activity includes cash collected by the Department, primarily from taxes. It does not include revenue collected by other federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. Government or are earmarked for certain trust funds. The Statements of Custodial Activity are presented on the "modified accrual basis." Revenues are recognized as cash is collected, as well as for non-cash market valuation changes related to the U.S. Government's holdings in American International Group, Inc. The "accrual adjustment" is the net increase or decrease during the reporting period in net revenue related–assets and liabilities, mainly taxes receivable. The Consolidated Balance Sheets include estimated amounts for taxes receivable and payable to the General Fund at September 30, 2011 and 2010.

S. Refunds Payable

Refunds payable arise in the normal course of tax administration when it is determined that taxpayers have paid more than the actual taxes that they owe. Amounts that the Department has concluded to be valid refunds owed to taxpayers are recorded as a liability entitled "Refunds Payable" on the Consolidated Balance Sheets, with a corresponding receivable from the General Fund. This receivable is included on the Consolidated Balance Sheets within the line entitled "Due from the General Fund."

T. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations and do not have refunds. Debt activity appropriations are related to the Department's liability and are reported on the Department's Balance Sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

The Department receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process required by the FCRA. The Department's renewable energy and low income housing projects are also covered by permanent indefinite appropriations.

Additionally, the Department receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. Government. These appropriations are provided to make payments to the FRB for fiscal services provided and to the financial institutions for services provided as financial agents of the U.S. Government. They also include appropriations provided to make other disbursements on behalf of the U.S. Government, including payments made to various parties as the result of certain claims and judgments rendered against the United States.

U. Income Taxes

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

V. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare its financial statements. Actual results could differ from these estimates. It is possible that the results of operations, cash flows or the financial position of the Department could be materially affected in future periods by adverse changes in the outlook for the key assumptions underlying management's estimates. Significant transactions subject to estimates include loan and credit program receivables; investments in GSEs and other non-federal securities and related impairment; tax receivables; loan guarantees; depreciation; liability for liquidity commitment to GSEs; imputed costs; actuarial liabilities; cost and earned revenue allocations; contingent legal liabilities; and credit reform subsidy costs.

The Department accounts for all of its TARP and non-TARP credit program receivables in accordance with credit reform accounting (refer to the accounting policy below entitled "Credit Program Receivables," and Notes 7 and 11). These receivables are derived using credit reform modeling which is subject to the use of estimates. The Department recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual reestimates to reflect the most accurate cost of the credit programs to the U.S. Government. The purpose of reestimates is to update original program subsidy cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on actual program performance to date, additional information about the portfolio, additional publicly available relevant historical market data on securities performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods.

The forecasted cash flows used to determine these credit program amounts are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the Department has an equity interest, estimates of expected default, and prepayment rates. Forecasts of financial results have inherent uncertainty. The TARP Credit Program Receivables, Net, line items is reflective of relatively illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions. Additional discussion related to sensitivity analysis can be found in the Management's Discussion and Analysis section of this Agency Financial Report.

The liabilities to the GSEs related to the SPSPA is a contingent liquidity commitment, predicated on the future occurrence of excess liabilities over the assets of either GSE at the end of any reporting quarter, and are potential liabilities of the Department. The Department performs annual valuations, as of September 30th, on the preferred stock and warrants in an attempt to provide a "sufficiently reliable" estimate of the outstanding commitments in order for the Department to record the remaining liability in accordance with SFFAS No. 5, *Accounting for Liabilities of the U.S. Government*.

The valuations incorporated various forecasts, projections and cash flow analyses to develop an estimate of potential liability. Any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the change in valuation of the preferred stock and warrants are deemed usual and recurring. The GSEs contingent liability is assessed annually and recorded at the gross estimated amount, without considering the increase in preferred stock liquidity preference, future dividend payments, or future commitment fees, due to the uncertainties involved. Note 8 includes a detailed discussion of the results of the valuation and the liability recorded as of September 30, 2011.

Estimation of such complex and long duration contingencies is subject to uncertainty, and it is possible that new developments will adversely impact ultimate amounts required to be funded by the Department under agreements between the Department and each GSE (Note 8). Specifically, the occurrence of future shareholder deficits, which ultimately determines the Department's liabilities to the GSEs, is most sensitive to future changes in the housing price index.

W. CREDIT RISK

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries (Note 10). Given the history of the Department with respect to such exposure and the financial policies in place in the U.S. Government and other institutions in which the United States participates, the Department's expectation of credit losses is nominal.

The Department also takes on credit risk related to the following: committed but undisbursed direct loans; its liquidity commitment to the GSEs; its MBS portfolio; its GSE obligations obtained under the HFA Initiative (the NIBP and TCLP); investments, loans, and other credit programs of the TARP; its programs including the CDFI fund, SBLF, and certain portions of the Department's participation in the IMF; and its Terrorism Risk Insurance Program. Except for the Terrorism Risk Insurance Program, these activities focus on the underlying problems in the credit markets, and the ongoing instability in those markets exposes the Department to potential costs and losses. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements, and, where applicable, is factored into credit reform models and reflected in fair value measurements (Notes 7, 8, and 11).

In addition, for EESA programs, the statute requires that the budgetary costs of the troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. Within the TARP programs, the Department has invested in many assets that would traditionally be held by private investors and their valuation would inherently include market risk. Accordingly, for all TARP direct loans, equity investments, and other credit programs, the Department calculates a Market Risk Adjusted Discount Rate (MRADR). Therefore, the Department's cost estimates for the TARP programs are adjusted for unexpected loss and the estimated risk of expected cash flows. Under SFFAS No. 2, including market risk in the cash flow estimates is consistent with the type of assets being valued. The inclusion of the MRADR is the mechanism for deriving a fair value of the assets. As directed by Congress, a MRADR is also used in the credit reform model for certain portions of the Department's participation in the IMF.

X. Earmarked Funds

The Department has accounted for revenues and other financing sources for earmarked funds separately from other 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 or purposes. SFFAS No. 27, *Identifying and Reporting Earmarked Funds (SFFAS No. 27)*, defines the following three criteria for determining an earmarked fund: (1) a statute committing the U.S. Government to use specifically identified revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguished the earmarked fund from the U.S. Government's general revenues.

Y. Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency.

The Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Department has reported certain funds for which the Department is the child in the allocation transfer, but in compliance with OMB guidance (Circular No. A-136, II.4.2, question 5, for three exceptions), will report all activities relative to these allocation transfers in the Department's financial statements. Also, the Department receives allocation transfers, as the child, from the Agency for International Development, General Services Administration, and Department of Transportation.

Z. Credit Program Receivables

The Department accounts for all of its TARP credit program receivables, including investments in common and preferred stock and warrants of public companies, loans, and loan guarantees or guaranty-like insurance activities, under the provisions of credit reform accounting (Note 7). In addition to its TARP programs, the Department accounts for all other of its credit program receivables under the provisions of credit reform accounting, including the loans or equity securities associated with the Department's: GSE mortgage-backed securities (MBS) purchase program, state and local Housing Finance Agency (HFA) Initiative program, SBLF program, CDFI program, and certain portions of the Department's participation in the IMF (Note 11).

To account for the Department's TARP and other credit program receivables, the Department applies the accounting provisions of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees,* as amended by SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees,* and SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*. SFFAS No. 2, as amended, requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash flow estimates for each credit program transaction reflect the actual structure of the instruments. For each of these instruments, the Department estimates cash inflows and outflows related to the program over the estimated term of the instrument.

Further, each cash-flow estimate reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The measurement of assets within these programs is primarily derived from inputs which generally represent market data and, when such data is not available, management's best estimate of how a market participant would assess the risk inherent in the asset.

SFFAS No. 2, as amended, was promulgated as a result of the FCRA. The primary purpose of the FCRA is to more accurately measure the cost of federal credit programs and to place the cost of such credit programs on a basis equivalent with other federal spending. The FCRA requires that the ultimate costs of a credit program be calculated and the budgetary resources obtained before the direct loan obligations are incurred. To accomplish this, the Department first predicts or estimates the future performance of direct and guaranteed loans when preparing its annual budget. The data used for these budgetary estimates are reestimated after the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The reestimated data reflect adjustments for market risks, asset performance, and other key variables and economic factors. The reestimated data are then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a "Program Cost" in the Department's Consolidated Statements of Net Cost.

Cash flows associated with the Department's credit programs generally include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from sales of instruments, borrowings from Treasury, negative subsidy, and the subsidy cost received from the program accounts. Security-level data and assumptions used as the basis for cash flow model forecasts and program performance are drawn from widely available market sources, as well as information published by investees. Key inputs to the cash flow forecasts include:

- Security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, principal and interest payment schedules, priority of payments, and performance of underlying collateral
- Department actions as well as changes in legislation
- Forecast prepayment rates and default rates
- Forecast dividend payments
- Expected escrow conversion and return rates
- Default and recovery reports published by Moody's and Standard and Poor's
- Other third-party market sources

The recorded subsidy cost associated with each of the Department's credit programs is based on the calculated net present value of expected future cash flows. The Department's actions, as well as changes in legislation, may impact estimated future cash flows and related subsidy costs. The cost or cost savings of a modification is recognized in subsidy costs when the terms of a program are modified. Subsidy costs are also impacted by reestimates which may occur as a result of updates to the original program subsidy cost estimates to reflect actual cash flows experience, as well as changes in forecasts of estimated future cash flows associated with the credit program.

AA. Fiduciary Activities

In accordance with SFFAS No. 31, *Accounting for Fiduciary Activities,* fiduciary type activities and related transactions will no longer be reported by the Department in its proprietary financial statements. Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the U.S. Government must uphold. Fiduciary cash and other assets are not assets of the U.S. Government. While these activities are not reported in the Department's consolidated financial statements, they are required to be reported on schedules in the notes to the financial statements (Note 27).

AB. Related Parties

The primary "related parties" with whom the Department conducts business are other federal agencies, mainly through the normal lending activities of the BPD and the FFB. These activities are disclosed in these financial statements. The Department utilizes the services of the FRB to execute a variety of transactions on behalf of the BPD and the ESF. The FRB is serving as the Department's fiscal agent in executing these transactions and receives fees for its services. The Department also consults with the FRB on matters affecting the economy, such as the structuring of bailout financing for the GSEs, AIG, and other companies affected by the current economic situation. Transactions and balances arising from these transactions are accounted for and disclosed in the consolidated financial statements (Notes 7, 8, 11, and 26).

Finally, the Secretary serves on the FHFA Oversight Board, and consults with the Director of FHFA on matters involving Fannie Mae and Freddie Mac. This provides the Department a voice in the FHFA's actions as the conservator for Fannie Mae and Freddie Mac. The Department has no transactions with FHFA.

AC. Immaterial Correction of Error in Previously Issued Financial Statements

The Department's previously issued fiscal year 2010 consolidated financial statements have been revised to correct immaterial errors reflected in the note to the consolidated financial statements entitled "Collection and Disposition of Custodial Revenue" (Note 23 and Note 26 in the Department's fiscal year 2011 and 2010 annual report, respectively). Specifically, the amounts of custodial revenue collected by tax year associated with "*Corporate Income Taxes*" were incorrectly reported in the prior year notes. Additionally, the amounts of federal tax refunds paid by tax year associated with "*Individual Income and FICA Taxes"* were incorrectly reported in the prior year note. However, the total amount of custodial revenue collected and the total of Federal tax refunds paid for fiscal year 2010 were properly reported in the prior year note. Accordingly, these errors had no impact on the Department's consolidated financial results or financial position, nor did they impact the Statements of Custodial Activity. Management of the Department believes these errors were immaterial to the fiscal year 2010 amounts disclosed in the notes and to the Department's consolidated financial statements taken as a whole.

2. Fund Balance

As of September 30, 2011 and 2010, fund balance consisted of the following (in millions):

	2011	2010
Appropriated Funds	**$ 344,913**	$ 402,036
Revolving Funds	**35,464**	34,096
Clearing Funds	**392**	21
Deposit Funds	**170**	132
Trust Funds	**16**	84
Special Funds	**721**	656
Other Funds (Receipt Fund and Suspense Funds)	**108**	1
Total Fund Balance	**$ 381,784**	$ 437,026

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department.

Clearing funds represent reconciling differences with the Department's balances as reported in the U.S. Government's central accounts. These fund accounts temporarily hold unidentifiable general, special, or trust fund collections that belong to the Federal Government until they are classified to the proper receipt or expenditure account by the federal entity.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public and those monies are used to finance operations. The Working Capital Fund is a fee-for-service fund established to support operations of Department components. Also included are the financing funds for credit reform.

Deposit funds represent amounts received as an advance that are not accompanied by an order and seized cash. Trust funds include both receipt accounts and expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes. Special funds include funds designated for specific purposes including the disbursement of non-entity monies received in connection with the Presidential Election Campaign.

Status of Fund Balance

As of September 30, 2011 and 2010, the status of the fund balance consisted of the following (in millions):

	2011	2010
Unobligated Balance - Available	**$ 270,786**	$ 301,811
Unobligated Balance - Not Available	**98,168**	70,432
Unpaid Obligations	**270,983**	208,189
Subtotal	**639,937**	580,432
Adjustment for Non-Budgetary Funds	**674**	161
Adjustment for ESF	**(105,026)**	(103,788)
Adjustment for Borrowing Authority	**(123,844)**	(23,477)
Adjustment for IMF	**(27,065)**	(13,081)
Adjustment for Intra-Treasury Investments	**(7,024)**	(7,026)
Authority Unavailable for Obligation	**3,721**	3,727
Adjustment for Imprest Funds	**(4)**	(4)
Adjustment for Temporary Reduction	**423**	90
Adjustment for Indian Trust Funds	**(8)**	(8)
Total Status of Fund Balance	**$ 381,784**	$ 437,026

Portions of the Unobligated Balance Not Available as shown on the Combined Statement of Budgetary Resources include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, such amounts may be used for upward and downward adjustments for existing obligations in future years. The Unpaid Obligations represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

Since the following line items do not post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to non-budgetary Fund Balance as reported in the accompanying Consolidated Balance Sheets:

- Adjustments for Non-Budgetary Funds are receipt, clearing, and deposit funds that represent amounts on deposit with Treasury that have no budgetary status.
- Adjustments for ESF – ESF investments and related balances that meet the criteria for reporting as part of budgetary resources are reported on the Statement of Budgetary Resources; however, they are not a component of the Fund Balance as they represent invested funds and thus have to be excluded from Total Status of Fund Balance reported in this note.
- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status but not in the Fund Balance.
- Adjustments for IMF – Monies moved from Fund Balance to Other Monetary Assets related to IMF accounts that have no budgetary resources and are with the FRBNY.

- Adjustments for Intra-Treasury Investments – Budgetary resources have investments included; however, the money has been moved from the Fund Balance asset account to Investments.
- Adjustment for Unavailable for Obligations reduced the budgetary resources; however, it did not impact the Fund Balance.
- Adjustments for Imprest Funds – Imprest funds represent monies moved from the Fund Balance to Cash and Other Monetary Assets with no change in the budgetary status.

As of September 30, 2011 and 2010, the Department did not have any budgetary authority in the Fund Balance that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as certain deposit funds (e.g., seized cash), are being held by the Department for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to fund balance. See Note 12 regarding restrictions related to the line of credit held on the U.S. quota in the IMF.

Unused funds in expired appropriations returned to the General Fund were $127 million and $166 million for the fiscal years ending September 30, 2011 and 2010, respectively.

3. Loans and Interest Receivable – Intra-Governmental

Entity Intra-governmental

The Department, through FFB, issues loans to federal agencies for their own use or to private sector borrowers whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the FFB. All principal and interest on loans to federal agencies and private sector borrowers are, or have a commitment to be, backed by the full faith and credit of the U.S. Government. The Department has not recognized any credit-related losses on its loans, nor has the Department recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2011 and 2010, entity intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

	Loans Receivable	**Interest Receivable**	**2011 Total**	Loans Receivable	Interest Receivable	2010 Total
Department of Agriculture	**$ 34,178**	**$ 48**	**$ 34,226**	$ 31,264	$ 53	$ 31,317
National Credit Union Administration	**-**	**-**	**-**	10,101	15	10,116
United States Postal Service	**13,000**	**47**	**13,047**	12,000	41	12,041
Department of Energy	**6,929**	**15**	**6,944**	2,931	4	2,935
General Services Administration	**1,898**	**33**	**1,931**	1,973	35	2,008
Other Agencies	**1,083**	**8**	**1,091**	1,039	8	1,047
Total Entity Intra-governmental	**$ 57,088**	**$ 151**	**$ 57,239**	$ 59,308	$ 156	$ 59,464

Non-Entity Intra-governmental

The Department, through BPD, accounts for and reports on the principal borrowings from and repayments to the General Fund for approximately 91 funds managed by other federal agencies, as well as the related interest due to the General Fund. These agencies are statutorily authorized to borrow from the General Fund, through BPD, to make loans for a broad range of purposes, such as education, housing, farming, and small business support.

As of September 30, 2011 and 2010, non-entity intra-governmental loans (issued by BPD) and interest receivable due to the General Fund consisted of the following (in millions):

	Loans Receivable	**Interest Receivable**	**2011 Total**	Loans Receivable	Interest Receivable	2010 Total
Department of Education	**$ 546,321**	**$ -**	**$ 546,321**	$ 373,717	$ -	$ 373,717
Department of Agriculture	**55,356**	**-**	**55,356**	56,598	-	56,598
Department of Homeland Security	**17,754**	**-**	**17,754**	18,504	-	18,504
Small Business Administration	**11,190**	**-**	**11,190**	11,752	-	11,752
Export-Import Bank of the U.S.	**8,279**	**-**	**8,279**	7,254	-	7,254
Department of Labor	**6,163**	**-**	**6,163**	6,290	-	6,290
Department of Housing and Urban Development	**6,090**	**-**	**6,090**	4,775	-	4,775
Department of Transportation	**4,342**	**1**	**4,343**	3,076	-	3,076
National Credit Union Administration	**3,500**	**2**	**3,502**	-	-	-
Railroad Retirement Board	**3,484**	**52**	**3,536**	3,481	54	3,535
Department of Energy	**3,104**	**20**	**3,124**	2,601	21	2,622
Overseas Private Investment Corporation	**1,828**	**-**	**1,828**	1,403	-	1,403
Department of Veterans Affairs	**1,675**	**-**	**1,675**	1,650	-	1,650
Other Agencies	**2,250**	**-**	**2,250**	2,030	183	2,213
Total Non-Entity Intra-governmental	**$ 671,336**	**$ 75**	**$ 671,411**	$ 493,131	$ 258	$ 493,389
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 728,424**	**$ 226**	**$ 728,650**	$ 552,439	$ 414	$ 552,853

4. Due from the General Fund and Due to the General Fund

The Department is responsible for managing various assets and liabilities on behalf of the U.S. Government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by the Department on behalf of the U.S. Government. Liabilities managed by the Department are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund.

As of September 30, 2011 and 2010, Due from and Due to the General Fund included the following non-entity assets and liabilities (in millions):

Liabilities Requiring Funding from the General Fund	**2011**	2010
Federal Debt and Interest Payable (Note 16)	**$ 10,148,963**	$ 9,035,929
Federal Debt and Interest Payable - Intra-governmental (Note 16)	**4,719,668**	4,587,802
Refunds Payable (Note 23)	**3,983**	4,146
Adjustment for Eliminated Liabilities	**30,103**	27,760
Total Due from the General Fund	**$ 14,902,717**	$ 13,655,637

Assets to be Distributed to the General Fund	**2011**	2010
Fund Balance	**$ 358**	$ 249
Advances to the Unemployment Trust Fund	**42,773**	34,111
Cash Due to the General Fund (Held by the Department) (Note 5)	**49,949**	303,797
Foreign Currency	**73**	3
Custodial Gold without certificates and Silver held by the U.S. Mint	**25**	25
Loans and Interest Receivable - Intra-governmental (Note 3)	**671,411**	493,389
Loans and Interest Receivable	**99**	124
Investments in Government Sponsored Enterprises (Note 8)	**133,043**	109,216
Credit Reform Downward Subsidy Reestimate	**13,022**	25,579
Accounts Receivable - Intra-governmental	**388**	350
Taxes and Other Non-Entity Receivables Due to General Fund	**36,615**	36,927
Non-TARP Investments in American International Group, Inc. (Note 26)	**10,862**	20,805
Miscellaneous Assets	**2**	5
Adjustment for Eliminated Assets	**267,855**	389,672
Total Due to the General Fund	**$ 1,226,475**	$ 1,414,252

The assets to be distributed to the General Fund do not represent all of the non-entity assets managed by the Department. See Note 15 for all non-entity assets held by the Department.

The Fund Balance reported above represents the non-entity funds held by the Department on behalf of the General Fund. It is used to administer programs such as the Presidential Election Campaign and payments for Legal Services Corporation and thus not available for general use by the Department.

Advances have been issued to the DOL's Unemployment Trust Fund from the General Fund to states for unemployment benefits.

The non-entity Credit Reform Downward Subsidy Reestimate represents amounts for the downward subsidy reestimates for the Department's credit programs including TARP Equity Investments and Direct Loans (See Note 1V and 1Z).

The Adjustment for Eliminated Liabilities principally represents investments in U.S. Government securities held by the Department's reporting entities that were eliminated against Federal Debt and Interest Payable Intra-governmental. The Adjustment for Eliminated Assets principally represents loans and interest payable owed by the Treasury reporting entities, which were eliminated against Loans and Interest Receivable Intra-governmental held by the BPD.

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, foreign currency, and other monetary assets held as of September 30, 2011 and 2010 were as follows (in millions):

	2011	2010
Entity:		
Cash	**$ 74**	$ 16
Foreign Currency and Foreign Currency Denominated Assets	**10,767**	10,591
Other Monetary Assets:		
Special Drawing Right Holdings	**55,911**	57,439
Other	**153**	144
Total Entity	**66,905**	68,190
Non-Entity:		
Operating Cash of the U.S. Government	**49,812**	303,576
Foreign Currency	**73**	3
Miscellaneous Cash Held by All Treasury Reporting Entities	**331**	665
Total Non-Entity	**50,216**	304,244
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 117,121**	$ 372,434

Non-Entity Operating Cash and Other Cash of the U.S. Government held by the Department disclosed above consisted of the following (in millions):

	2011	2010
Operating Cash - FRB Account	**$ 56,284**	$ 307,850
Operating Cash - Other	**1,805**	2,032
Subtotal	**58,089**	309,882
Outstanding Checks	**(8,277)**	(6,306)
Total Operating Cash of the U.S. Government	**49,812**	303,576
Other Cash	**230**	297
Subtotal	**50,042**	303,873
Amounts Due to the Public	**(93)**	(76)
Total Cash Due to the General Fund (Note 4)	**$ 49,949**	$ 303,797

ENTITY

Cash, Foreign Currency, and Other Monetary Assets

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), SDRs, Securities Purchased Under Agreement to Resell, and forfeited cash. SDRs and FCDAs are valued as of September 30, 2011 and 2010 using current exchange rates plus accrued interest. The "Other" amount reported within the entity category above includes U.S. dollars restricted for use by the IMF, which are maintained in two accounts at the FRBNY.

The foreign currency holdings are normally invested in interest-bearing securities issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, in addition to securities purchased under agreement to resell, were valued at $10.8 billion and $10.6 billion as of September 30, 2011 and 2010, respectively.

Special Drawing Rights

The SDR is an international reserve asset created by the IMF to supplement existing reserve assets. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR Department. The SDR derives its value as a reserve asset essentially from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. Pursuant to the *Special Drawing Rights Act of 1968*, as amended, the Department issued certificates to the Federal Reserve, valued at $5.2 billion as of September 30, 2011 and 2010, to finance its acquisition of SDRs from other countries or to provide U.S. dollar resources for financing other ESF operations.

On a daily basis, the IMF calculates the value of the SDR using the market value in terms of the U.S. dollar from weighted amounts of each of four freely usable currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. The Department's SDR holdings (assets resulting from various SDR-related activities including remuneration received on interest earned on the U.S. reserve position – see Note 12) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from, the SDR Department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF, resulting in the recognition of unrealized gains or losses on revaluation.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are permanent resources unless:

- cancelled by the Board of Governors pursuant to an 85.0 percent majority decision of the total voting power of IMF members;

- the SDR Department of the IMF is liquidated;
- the IMF is liquidated; or
- the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's commitment related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made in 1970, 1971, 1972, 1979, 1980, 1981, and 2009.

As of September 30, 2011 and 2010, the total amount of SDR holdings of the United States was the equivalent of $55.9 billion and $57.4 billion, respectively. As of September 30, 2011 and 2010, the total amount of cumulative SDR allocations to the United States was the equivalent of $55.1 billion and $54.9 billion, respectively. The United States has received no SDR allocations since 2009.

During fiscal years 2011 and 2010, the United States received remuneration on its reserve position in the IMF at the prevailing rates in the amount of $63.1 million and $23.4 million equivalent of SDRs, respectively.

Securities Purchased Under Agreement to Resell

The FRBNY, on behalf of ESF, enters into transactions to purchase foreign-currency-denominated government-debt securities under agreements to resell for which the accepted collateral is the debt instruments, denominated in Euros, and issued or guaranteed in full by European governments. These agreements are subject to daily margining requirements.

NON-ENTITY

Cash, Foreign Currency, and Other Monetary Assets

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the U.S. Government, managed by the Department. Also included is foreign currency maintained by various U.S. disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Department's tax collecting responsibilities.

The Operating Cash of the U.S. Government represents balances from tax collections, other revenues, federal debt receipts, and other various receipts net of checks outstanding, which are held in the FRBs, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts at commercial banks.

Operating Cash of the U.S. Government is either insured by the FDIC (for balances up to $250,000 as of September 30, 2011 and 2010), collateralized by securities pledged by the depository institutions and held by FRB, or through securities held under reverse repurchase agreements.

Supplementary Financing Program

The SFP is a temporary program announced on September 17, 2008, by the Department and the Federal Reserve, to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2011, there were no outstanding cash management bills earmarked for SFP, as compared to eight outstanding cash management bills totaling $200.0 billion as of September 30, 2010.

6. Gold and Silver Reserves, and Gold Certificates Issued to the Federal Reserve Banks

The Department, through the Mint, is responsible for safeguarding most of the U.S. Government's gold and silver reserves in accordance with 31 USC §5117. Most of the gold and all of the silver reserves are in the custody of the Mint, and a smaller portion of the gold is in the custody of the FRBs.

The gold reserves being held by the Department are partially offset by a liability for gold certificates issued by the Secretary to the FRBNY at the statutory rate, as provided in 31 USC §5117. Since 1934, Gold Certificates have been issued in non-definitive or book-entry form to the FRBNY. The Department's liability incurred by issuing the Gold Certificates, as reported on the Consolidated Balance Sheets, is limited to the gold being held by the Department at the statutory value. Upon issuance of Gold Certificates to the FRBNY, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department's certificates issued are payable to the FRBNY. The Mint also holds 100,000 fine troy ounces (FTO) ($4 million) of gold reserves without certificates.

The gold and silver bullion reserve (deep storage and working stock) are reported at the values stated in 31 USC § 5116 – 5117 (statutory rates) which are $42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. As of September 30, 2011 and 2010, the value of gold and silver reserves consisted of the following (in millions):

	FTOs		**Statutory Rate**		**2011 Statutory Value**		**Market Rate Per FTO**		**2011 Market Value**
Gold	**248,046,116**	**$**	**42.2222**	**$**	**10,473**	**$**	**1,620.00**	**$**	**401,835**
Gold Held by Federal Reserve Banks	**13,452,784**	**$**	**42.2222**		**568**	**$**	**1,620.00**		**21,794**
Total Gold	**261,498,900**				**11,041**				**423,629**
Silver	**16,000,000**	**$**	**1.2929**		**21**	**$**	**30.45**		**487**
Total Gold and Silver Reserves				**$**	**11,062**			**$**	**424,116**

	FTOs		Statutory Rate		2010 Statutory Value		Market Rate Per FTO		2010 Market Value
Gold	248,046,116	$	42.2222	$	10,473	$	1,307.00	$	324,196
Gold Held by Federal Reserve Banks	13,452,784	$	42.2222		568	$	1,307.00		17,583
Total Gold	261,498,900				11,041				341,779
Silver	16,000,000	$	1.2929		21	$	22.07		353
Total Gold and Silver Reserves				$	11,062			$	342,132

7. Troubled Asset Relief Program – Credit Program Receivables, Net

The Department administers a number of programs designed to stabilize the financial system and restore the flow of credit to consumers and businesses. Through TARP, the Department made direct loans, equity investments, and entered into other credit programs, which consist of an asset guarantee program and a loss-sharing program. On October 3, 2010, TARP's authority to make new commitments to purchase or guarantee troubled assets expired. The table below is a list of TARP programs and types.

Program	Program Type
Direct Loans and Equity Investments	
Capital Purchase Program	Equity Investment/Subordinated Debentures
American International Group, Inc. Investment Program	Equity Investment
Targeted Investment Program	Equity Investment
Automotive Industry Financing Program	Equity Investment and Direct Loan
Consumer and Business Lending Initiative:	
• Term Asset-Backed Securities Loan Facility	Subordinated Debentures
• SBA 7 (a) Security Purchase Program	Direct Loan
• Community Development Capital Initiative	Equity Investment/Subordinated Debentures
Public-Private Investment Program	Equity Investment and Direct Loan
Other Credit Programs	
Asset Guarantee Program	Asset Guarantee
FHA - Refinance Program	Loss-Sharing Program with FHA

Valuation Methodology

The Department applies the provisions of SFFAS No. 2 as amended, to account for direct loans, equity investments, and other credit programs. This standard requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash-flow estimates for each transaction reflect the actual structure of the instruments. For each of these instruments, analytical cash-flow models generate estimated cash flows to and from the Department over the estimated term of the instrument. Further, each cash-flow model reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The models also incorporate an adjustment for market risk to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows (the "unexpected loss").

The adjustment for market risk requires the Department to determine the return that would be required by market participants to enter into similar transactions or to purchase the assets held by the Department. Accordingly, the measurement of the assets attempts to represent the proceeds expected to be received if the assets were sold to a market participant in an orderly transaction. The methodology employed for determining market risk for equity investments generally involves a calibration to market prices of similar securities that results in measuring equity investments at fair value. The adjustment for market risk for loans is intended to capture the risk of unexpected losses, but not intended to represent fair value, i.e. the proceeds that would be expected to be received if the loans were sold to a market participant. The Department uses market observable inputs, when available, in developing cash flows and incorporating the adjustment required for market risk. For purposes of this disclosure, the Department has classified the various investments as follows, based on the observability of inputs that are significant to the measurement of the asset:

***Quoted Prices for Identical Assets*: ** The measurement of assets in this classification is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.

***Significant Observable Inputs*: ** The measurement of assets in this classification is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.

***Significant Unobservable Inputs*: ** The measurement of assets in this classification is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

The table below displays the assets held as of September 30, 2011 and 2010, by the observability of inputs significant to the measurement of each value (in millions):

Program		**Quoted Prices for Identical Assets**		**Significant Observable Inputs**		**Significant Unobservable Inputs**		**2011 Total**
Capital Purchase Program	**$**	**202**	**$**	**-**	**$**	**12,240**	**$**	**12,442**
American International Group, Inc. Investment Program		**21,076**		**9,294**		**-**		**30,370**
Automotive Industry Financing Program		**10,091**		**-**		**7,747**		**17,838**
Consumer and Business Lending Initiative, which includes TALF, SBA 7 (a) securities and CDCI		**-**		**126**		**951**		**1,077**
Public-Private Investment Program		**-**		**-**		**18,377**		**18,377**
Asset Guarantee Program		**-**		**739**		**-**		**739**
Total TARP Programs	**$**	**31,369**	**$**	**10,159**	**$**	**39,315**	**$**	**80,843**

Note: Of the combined TARP Program totaling $80.8 billion at September 30, 2011, $739 million represented other intra-governmental assets and $80.1 billion represented assets with the public as reported on the Consolidated Balance Sheets.

Program		Quoted Prices for Identical Assets		Significant Observable Inputs		Significant Unobservable Inputs		2010 Total
Capital Purchase Program	$	14,899	$	-	$	33,334	$	48,233
American International Group, Inc. Investment Program		-		-		26,138		26,138
Targeted Investment Program		-		-		1		1
Automotive Industry Financing Program		-		-		52,709		52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7 (a) securities and CDCI		-		-		966		966
Public-Private Investment Program		-		-		14,405		14,405
Asset Guarantee Program		2,240		815		-		3,055
Total TARP Programs	$	17,139	$	815	$	127,553	$	145,507

Note: Of the combined TARP Program totaling $145.5 billion at September 30, 2010, $815 million represented other intra-governmentalassets and $144.7 billion represented assets with the public as reported on the Consolidated Balance Sheets.

The following provides a description of the methodology used to develop the cash flows and incorporate the market risk into the measurement of the Department's assets.

Financial Institution Equity Investments

Financial Institution Equity Investments consist of investments made under the Capital Purchase Program, Targeted Investment Program and the Community Development Capital Initiative. The estimated values of preferred equity investments are the net present values of the expected dividend payments and repurchases. The model assumes that the key decisions affecting whether or not institutions pay their preferred dividends are made by each institution based on the strength of their balance sheet. The model assumes a probabilistic evolution of each institution's asset-to-liability ratio (the asset-to-liability ratio is based on the estimated fair value of the institution's assets against its liabilities). Each institution's assets are subject to uncertain returns and institutions are assumed to manage their asset to liability ratio in such a way that it reverts over time to a target level. Historical volatility is used to scale the likely evolution of each institution's asset-to-liability ratio.

In the model, when equity decreases, i.e. the asset-to-liability ratio falls, institutions are increasingly likely to default, either because they enter bankruptcy or are closed by regulators. The probability of default is estimated based on the performance of a large sample of U.S. banks over the period of 1990-2010. At the other end of the spectrum, institutions call their preferred shares when the present value of expected future dividends exceeds the call price; this occurs when equity is high and interest rates are low. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment is obtained through a calibration process to the market value of certain trading securities of financial institutions within the TARP programs. The Department estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price as of fiscal year end.

American International Group, Inc. Investment Program

As of September 30, 2011, the Department held 960 million shares of AIG common stock. Investments in AIG common stock were valued at the quoted market price as of September 30, 2011. The Department also held interests in certain AIG SPVs. To estimate the value of the assets underlying the preferred interests in the SPVs, the Department sums the value of the common equity shares held by the SPVs, any cash held in escrow from previous asset sales, and the weighted average value of the remaining assets under different scenarios. Because the resulting value greatly exceeds the liquidation preference of the investments in SPVs, the SPVs were valued at the liquidation preference.

In fiscal year 2010, the method used to measure AIG preferred shares was broadly analogous to the approach used to measure financial institution preferred shares. However, the size of the Departments' holding of preferred shares relative to AIG's total balance sheet made the valuation extremely sensitive to assumptions about the recovery ratio for preferred shares should AIG default. Also, no market prices for comparable preferred shares existed. Therefore, the Department based the AIG investment valuation on the observed market values of publicly traded junior subordinated debt, adjusted for the Department's position in the capital structure. Additionally, an external asset manager provided estimated fair value amounts, premised on public information, which were considered by the Department in its measurements.

Auto Industry Financing Program Investments and Loans

As of September 30, 2011, the Department held 500 million shares of common stock in General Motors Company (New GM) that were valued by multiplying the publicly traded share price by the number of shares held.

As of September 30, 2010, the Department held a 60.8 percent stake in the common stock of New GM. As New GM common stock was not publicly traded as of September 30, 2010, and because the unsecured bond holders in General Motors Corporation (Old GM) received 10.0 percent of the common equity ownership and warrants in New GM, the expected recovery rate implied by the trading prices of the Old GM bonds provided the implied value of the New GM equity. The Department used this implied equity value to account for its common stock ownership in New GM as of September 30, 2010. As of September 30, 2010, investments in GM preferred shares were valued in a manner broadly analogous to the methodology used for financial institution equity investments.

As of September 30, 2010, the Department held a 9.9 percent stake in the common stock of Chrysler. As Chrysler common stock was not publicly traded as of September 30, 2010, the Department created a pro forma balance sheet for post-bankruptcy Chrysler and used the estimated book value to account for its common stock ownership in Chrysler.

As of September 30, 2010, the Department valued direct loans to GM and Chrysler using an analytical model that estimates the net present value of the expected principal, interest, and other scheduled payments taking into account potential defaults. In the event of an institution's default, these models include estimates of recoveries, incorporating the effects of any collateral provided by the contract. The probability of default and losses given default are estimated by using historical data when available, or publicly available proxy data, including credit rating agencies historical performance data. The models also incorporate an adjustment for market risk to reflect the additional return on capital that would be required by a market participant.

As of September 30, 2011 and 2010, for investments in Ally Financial's (Ally, formerly known as GMAC, Inc.) common equity and mandatorily convertible preferred stock, which is valued on an "if-converted" basis, the Department used certain valuation multiples such as price-to-earnings, price-to-tangible book value, and asset manager valuations to estimate the value of the shares. The multiples were based on those of comparable publicly-traded entities. As of September 30, 2010, the Department estimated the value of Ally's trust preferred equity instruments based on comparable publicly traded securities adjusted for factors specific to Ally, such as credit rating. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for Ally as all points rely on market data.

Investments in Special Purpose Vehicles

In addition to the preferred interests in AIG SPVs discussed previously, the Department made certain investments in other financial instruments issued by SPVs. Generally, the Department estimates the cash flows of these SPVs and then applies those cash flows to the waterfall governing the priority of payments out of the SPV.

For the loan associated with the Term Asset-Backed Securities Loan Facility (TALF), the Department model derives the cash flows to the SPV, and ultimately the Department, by simulating the performance of underlying collateral. Loss probabilities on the underlying collateral are calculated based on analysis of historical loan loss and charge-off experience by credit sector and subsector. Historical mean loss rates and volatilities are significantly stressed to reflect recent and projected performance. Simulated losses are run through cash flow models to project impairment to the TALF-eligible securities. Impaired securities are projected to be purchased by the SPV, which would require additional the Department funding. Simulation outcomes consisting of a range of loss scenarios are probability-weighted to generate the expected net present value of future cash flows.

For the Public-Private Investment Program (PPIP) investments and loans made in the Public Private Investment Funds (PPIF), the Department model derives estimated cash flows to the SPV by simulating the performance of the collateral supporting the residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) held by the PPIF (i.e. performance of the residential and commercial mortgages). Inputs used to simulate the cash flows, which consider market risks, include unemployment forecasts, home price appreciation/depreciation forecasts, the current term structure of interest rates, historical pool performance, and estimates of the net income and value of commercial real estate supporting the CMBS.

The simulated cash flows are then run through the waterfall of the RMBS/CMBS to determine the estimated cash flows to the SPV. Once determined, these cash flows are run through the waterfall of the PPIF to determine the expected cash flows to the Department through both the equity investments and loans.

SBA 7(a) Securities

The valuation of SBA 7(a) securities is based on the discounted estimated cash-flows of the securities.

Asset Guarantee Program

During fiscal year 2010, an agreement was entered into to terminate the guarantee of the Department to pay for any defaults on certain loans and securities held by Citibank. After the termination, the Department still held some of the trust preferred securities (initially received as the guarantee fee) and warrants issued by Citigroup and the potential to receive $800 million (liquidation preference) of additional Citigroup trust preferred securities from the FDIC (see later discussion of the Asset Guarantee Program (AGP)). As of September 30, 2011 and 2010, the instruments within the AGP were valued in a manner broadly analogous to the methodology used for financial institution equity investments.

DIRECT LOAN AND EQUITY INVESTMENT PROGRAMS

Capital Purchase Program

In October 2008, the Department began implementation of the TARP with the Capital Purchase Program (CPP), designed to help stabilize the financial system by assisting in building the capital base of certain viable U.S. financial institutions to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the Department purchased senior perpetual preferred stock from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate of 5.0 percent through year five, increasing to 9.0 percent in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies, and non-cumulative for others, and payable when and if declared by the institution's board of directors. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7 percent for the first five years, and 13.8 percent for the remaining years. QFIs, subject to regulatory approval, may repay the Department's investment at any time. For fiscal years 2011 and 2010, repayments and sales of CPP investments totaled $30.2 billion and $81.5 billion, respectively.

In addition to the senior preferred stock, the Department received warrants, as required by section 113(d) of the *Emergency Economic Stabilization Act* (EESA), from public QFIs to purchase a number of shares of common stock. The warrants have an aggregate exercise price equal to 15.0 percent of the total senior preferred stock investment. Prior to December 31, 2009, in the event a public QFI completed one or more qualified equity offerings with aggregate gross proceeds of not less than 100.0 percent of the senior perpetual preferred stock investment, the number of shares subject to the warrants was reduced by 50.0 percent. As of December 31, 2009, a total of 38 QFIs reduced the number of shares available under the warrants as a result of this provision. The warrants have a ten-year term. Subsequent to December 31, 2009, the Department may exercise any warrants held in whole or in part at any time.

The Department received warrants from non-public QFIs for the purchase of additional senior preferred stock (or subordinated debentures if appropriate) with a stated dividend rate of 9.0 percent (13.8 percent interest rate for subordinate debentures) and a liquidation preference equal to 5.0 percent of the total senior preferred stock (additional subordinate debenture) investment. These warrants were immediately exercised and resulted in the Department holding additional senior preferred stock (subordinated debentures) (collectively referred to as "warrant preferred stock") of non-public QFIs. The Department did not receive warrants from financial institutions considered Community Development Financial Institutions (CDFIs). A total of seven and 35 institutions considered CDFIs were in the CPP portfolio as of September 30, 2011 and 2010, respectively.

The Secretary may liquidate the warrants associated with repurchased senior preferred stock at the market price. A QFI, upon the repurchase of its senior preferred stock, also has the contractual right to repurchase the common stock warrants at the market price.

The task of managing the investments in CPP banks may require that the Department enter into certain agreements to exchange and/or convert existing investments in order to achieve the best possible return for taxpayers.

In fiscal year 2009, the Department entered into an exchange agreement with Citigroup under which the Department exchanged $25.0 billion of its investment in senior preferred stock for 7.7 billion common shares of Citigroup stock, at $3.25 per share. In April 2010, the Department began a process of selling the Citigroup common stock. As of September 30, 2010, the Department had sold approximately 4.0 billion for total proceeds of $16.1 billion, resulting in proceeds from sales in excess of cost of $3.0 billion; the Department continued to hold approximately 3.7 billion shares of

Citigroup common stock with an estimated fair value of $14.3 billion, based on the September 30, 2010, closing price of $3.91 per share.

During fiscal year 2011, the Department sold all of its remaining Citigroup common stock by December 2010, generating cash proceeds of $15.8 billion, which were in excess of cost of $3.9 billion. Total gross proceeds from Citigroup stock sales between April and December 2010, were $31.9 billion. Also, in January 2011, the Department sold its Citigroup warrants held under CPP, for a total of $55 million.

The Department has entered into other transactions with various financial institutions including exchanging existing preferred shares for a like amount of non-tax deductible Trust Preferred Securities, exchanging preferred shares for shares of mandatorily convertible preferred securities and selling preferred shares to financial institutions that were acquiring the QFIs that had issued the preferred shares. Generally, the transactions are entered into with financial institutions in poor financial condition with a high likelihood of failure. As such, in accordance with SFFAS No. 2, these transactions are considered workouts and not modifications. The changes in cost associated with these transactions are captured in the year-end reestimates.

During fiscal year 2011, certain financial institutions participating in CPP became eligible to exchange their TARP-held stock investments to preferred stock in the SBLF, a separate Department program not a part of the TARP. Because this refinance was not considered in the formulation estimate for the CPP program, a modification was recorded in May 2011, resulting in a subsidy cost reduction of $1.0 billion.

During fiscal year 2010, certain financial institutions participating in CPP which were in good standing became eligible to refinance their Department-held stock investments to preferred stock under the Community Development Capital Initiative (CDCI) of the Consumer and Business Lending Initiative Program (CBLI). This was not considered in the formulation estimate for the CPP program. As a result, the Department recorded a modification subsidy cost reduction of $32 million in the CPP program for this option during fiscal year 2010.

In fiscal year 2011, the Department made no write offs of CPP investments. In fiscal year 2010, as a result of the culmination of Chapter 11 bankruptcy proceedings, the Department wrote off its $2.3 billion investment in CIT Group Inc., and will not recover any amounts associated with it. In addition, during fiscal year 2011, eight institutions in which the Department had invested $190 million were closed by their regulators. During fiscal year 2010, four financial institutions in which the Department invested $396 million, either filed for bankruptcy or were closed by their regulators. The Department does not anticipate recovery of these investments and therefore the value of these shares is reflected at zero as of September 30, 2011 and 2010. The ultimate amount received, if any, from the investments in institutions that filed for bankruptcy and institutions closed by regulators will depend primarily on the outcome of the bankruptcy proceedings and of each institution's receivership.

American International Group, Inc. Investment Program

The Department has provided assistance to systemically significant financial institutions on a case by case basis in order to help provide stability to those institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to help prevent broader disruption to financial markets. In November 2008, the Department invested $40.0 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0 percent, compounded quarterly. The Department also received a warrant for the purchase of approximately 54 million shares (adjusted to 3 million shares after a 20:1 reverse stock split) of AIG common stock. On April 17, 2009, AIG and the Department restructured their November 2008 agreement. Under the restructuring, the Department exchanged $40.0 billion of cumulative Series D preferred stock for $41.6 billion of non-cumulative 10.0 percent Series E preferred stock.

Additionally, the Department agreed to make available an additional $29.8 billion capital facility to allow AIG to draw additional funds if needed to assist in its restructuring.

The Department's investment related to the capital facility consisted of Series F non-cumulative perpetual preferred stock with no initial liquidation preference, and a warrant for the purchase of 3,000 shares (adjusted to 150 shares after a 20:1 reverse stock split of AIG common stock). This liquidation preference increased with any draw down by AIG on the facility. The dividend rate applicable to these shares was 10.0 percent, payable quarterly, if declared, on the outstanding liquidation preference. As of September 30, 2011 and 2010, AIG had drawn $20.3 billion and $7.5 billion from the capital facility, respectively, for an aggregate total of $27.8 billion drawn. According to the terms of the preferred stock, if AIG missed four dividend payments, the Department could appoint to the AIG board of directors, the greater of two members or 20.0 percent of the total number of directors of the Company. On April 1, 2010, the Department appointed two directors to the Company's board as a result of non-payments of dividends. The additional two directors increased the total number of AIG directors to twelve. The two additional Department-appointed directors remained on the board as of September 30, 2011.

On September 30, 2010, the Department, FRBNY and AIG announced plans for a restructuring of the U.S. Government's investments in AIG. The restructuring, which occurred on January 14, 2011, converted the Department's $27.8 billion investment in Series F preferred stock into $20.3 billion of interest in AIG SPVs, and 168 million shares of AIG common stock. The remaining $2.0 billion of undrawn Series F capital facility shares were exchanged for 20,000 shares of Series G Cumulative Mandatory Convertible Preferred Stock equity capital facility under which AIG had the right to draw up to $2.0 billion. On May 27, 2011, pursuant to the terms of the agreements governing the Series G Preferred Stock, the available amount of the Series G Preferred Stock was reduced to zero as a result of AIG's primary offering of its common stock, and the Series G Preferred Stock was cancelled. The $40 billion investment in Series E preferred converted into 925 million shares of AIG common stock. Additionally, the credit facility between FRBNY and AIG was terminated, and the Department separately (not TARP) received 563 million shares of AIG common stock from it as part of the restructuring transaction on behalf of the General Fund (see Note 26 for further discussion of AIG Investments held by the Department on behalf of the General Fund).

At the completion of the January 14, 2011 restructuring, the Department, including TARP, held a combined total of 1.7 billion shares of AIG common stock, or 92.1 percent. In May 2011, the Department, including TARP, sold 200 million shares of its AIG common stock for $5.8 billion, of which the General Fund and TARP received $2.0 billion and $3.8 billion, respectively. In fiscal year 2011, the Department received $11.5 billion in distributions from the AIG SPVs, reduced its outstanding balance relating to the AIG SPVs by $11.2 billion, and received dividends of $246 million. The Department also capitalized dividend income of $204 million. Additionally, the Department received fees of $165 million from AIG. The department received no payments from AIG in fiscal year 2010.

At September 30, 2011, the Department owned 1.5 billion shares of AIG common stock with a market value totaling approximately $31.9 billion, or 76.9 percent of AIG's outstanding common stock on a fully diluted basis, of which TARP owned 50.8 percent. The Department also owned preferred units in an AIG SPV with an outstanding balance of $9.3 billion.

Targeted Investment Program

The Targeted Investment Program (TIP) was designed to prevent a loss of confidence in financial institutions that could result in significant market disruptions, threatening the financial strength of similarly situated financial institutions, impairing broader financial markets, and undermining the overall economy. The Department considered institutions as candidates for the TIP on a case-by-case basis, based on a number of factors including the threats posed by destabilization of the institution, the risks caused by a loss of confidence in the institution, and the institution's importance to the nation's economy.

Under TIP, the Department invested $20 billion in Citigroup in December 2008 and $20 billion in Bank of America in January 2009. In December 2009, both institutions repaid the amounts invested along with dividends through the date of repayment. In fiscal year 2010, the Department received a total of $1.1 billion in dividends on the Bank of America and Citigroup investments and proceeds of $1.2 billion from the sale of Bank of America warrants. In fiscal year 2011, the Department sold its warrants from Citigroup under TIP for $190 million, and closed the program.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was designed to help prevent a significant disruption of the American automotive industry, which could have had a negative effect on the economy of the United States.

General Motors Company and General Motors Corporation

In fiscal year 2009, the Department provided $49.5 billion to Old GM through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while Old GM was in bankruptcy. The Department assigned its rights in these various loans (with the exception of $986 million which remained in Old GM for wind-down purposes and $7.1 billion that would be assumed) and previously received common stock warrants in a newly created entity, New GM. New GM used the assigned loans and warrants to credit bid for substantially all of the assets of Old GM in a sale pursuant to Section 363 of the Bankruptcy Code. During fiscal year 2009, upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the Department received $2.1 billion in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity interest in New GM. In addition, New GM assumed $7.1 billion of the DIP loan, simultaneously paying $361 million (return of warranty program funds), resulting in a balance of $6.7 billion. The assets received by the Department as a result of the assignment and Section 363 sale are considered recoveries of the original loans for subsidy cost estimation purposes.

During fiscal year 2010, the Department received the remaining $6.7 billion as full repayment of the DIP loan assumed. As of September 30, 2010, the Department also received $189 million in dividends and $343 million in interest on New GM preferred stock and the loan prior to repayment, respectively. At September 30, 2010, the Department held 60.8 percent of the common stock of New GM and $2.1 billion in preferred stock.

During fiscal year 2011, pursuant to a letter agreement, New GM repurchased its preferred stock for 102.0 percent of its liquidation amount, or $2.1 billion. As part of an initial public offering by New GM at fiscal year 2011, the Department sold approximately 412 million shares of its common stock for $13.5 billion, at an average price of $32.75 per share (net of fees). The sale resulted in net proceeds less than cost of $4.4 billion. At September 30, 2011, the Department held 500 million shares of the common stock of New GM, which represents approximately 32.0 percent of the common stock of the New GM outstanding. The common stock price of New GM has declined $7.0 billion since its IPO. Market value of the shares as of September 30, 2011, was $10.1 billion.

On March 31, 2011, the Plan of Liquidation for Old GM became effective and the Department's $986 million loan was converted to an administrative claim. The Department retains the right to recover additional proceeds but recoveries are dependent on actual liquidation proceeds and pending litigation. The Department recovered $111 million in fiscal year 2011 on the administrative claim. The Department does not expect to recover any significant additional proceeds from this claim.

GMAC LLC Rights Offering

In December 2008, the Department agreed, in principal, to lend up to $1.0 billion to Old GM for participation in a rights offering by GMAC LLC (now known as Ally Financial, Inc.) in support of GMAC LLC's reorganization as a bank holding company. The loan was secured by the GMAC LLC common interest acquired in the rights offering. The loan was funded for $884 million. In May 2009, the Department exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36 percent of the voting interest at that time, in GMAC LLC in full satisfaction of the loan. As of September 30, 2011 and 2010, the Department continued to hold the ownership interests obtained in this transaction (see further discussion of GMAC holdings under Ally Financial Inc. in this note).

Chrysler Group LLC and Chrysler Holding LLC

In fiscal year 2009, the Department invested $5.9 billion in Chrysler Holding LLC (Old Chrysler) consisting of $4.0 billion for general and working capital purposes (the general purpose loan) and $1.9 billion in DIP financing while Old Chrysler was in bankruptcy. Upon entering bankruptcy, a portion of Old Chrysler was sold to a newly created entity, Chrysler Group LLC (New Chrysler). Under the terms of the bankruptcy agreement, $500 million of the general purpose loan was assumed by New Chrysler. In fiscal year 2010, the Department received $1.9 billion on the general purpose loan and wrote off remaining $1.6 billion. Recovery of the $1.9 billion DIP loan was subject to the liquidation of collateral remaining with Old Chrysler. In fiscal year 2010, as part of a liquidation plan, the Departments' DIP loan to Old Chrysler was extinguished, and the Department retained a right to receive proceeds from a liquidation trust. The Department received $8 million and $40 million from liquidation trust during fiscal year 2011 and 2010, respectively.

Under the terms of the bankruptcy agreement, the Department committed to make a $7.1 billion loan to New Chrysler, consisting of up to $6.6 billion of new funding and $500 million of assumed debt from the general purpose loan with Old Chrysler. The loan was secured by a first priority lien on the assets of New Chrysler. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. Tranche B provided an additional $2.0 billion loan funded at closing. Tranche C included the $500 million assumed from the general purpose loan and provided $2.6 billion which was funded at closing. Interest on both Tranches was payable in-kind through December 2009 and added to the principal balance of the respective Tranche. Interest was paid quarterly beginning March 31, 2010. Additional in-kind interest was accrued at $17 million a quarter and added to the Tranche C loan balance subject to interest at the appropriate rate. In fiscal year 2010, the Department recognized $344 million of paid in-kind interest capitalized to these loans and received $382 million of interest.

The Department also obtained other consideration including a 9.9 percent equity interest in New Chrysler and additional notes with principal balances of $284 million and $100 million. Fiat SpA (the Italian automaker), the Canadian government and the United Auto Workers (UAW) retiree healthcare trust were the other shareholders in New Chrysler.

In May 2011, New Chrysler repaid both Tranche B and C principal balances of $5.1 billion, the additional notes totaling $384 million and all interest due. New Chrysler's ability to draw the remaining $2.1 billion loan commitment was terminated. In July 2011, Fiat SpA paid the Department $560 million for its remaining interest in New Chrysler and the Departments' rights under an agreement the UAW retiree healthcare trust pertaining to the trust's shares in new Chrysler.

As a result of the fiscal year 2011 transactions, the Department has no remaining interest in New Chrysler as of September 30, 2011. Total net proceeds received relating to these fiscal year 2011 transactions were $896 million less than the Departments' cost. The Department continues to hold a right to receive proceeds from a bankruptcy liquidation trust but no significant cash flows are expected.

Ally Financial Inc. (formerly known as GMAC Inc.)

The Department invested a total of $16.3 billion in GMAC Inc. between December 2008 and December 2009 to help support its ability to originate new loans to GM and Chrysler dealers and consumers, and to help address GMAC's capital needs. In May 2010, GMAC changed its corporate name to Ally Financial, Inc. (Ally). As a result of original investments, exchanges, conversions and warrant exercises, at September 30, 2010, the Department held 450,121 shares of Ally common stock (representing 56.3 percent of the company's outstanding common stock including ownership interest from the GMAC LLC Rights Offering previously discussed), 3 million shares of 8.0 percent cumulative Trust Preferred Securities (TRuPS) with a $1,000 per share liquidation preference and 229 million shares of Ally Series F-2 Mandatorily Convertible Preferred Securities. The Series F-2, with a $50 per share liquidation preference and a stated dividend rate of 9.0 percent, is convertible into Ally common stock at Ally's option subject to the approval of the FRB and consent by the Department or pursuant to an order by the FRB compelling such conversion. The Series F-2 security is also convertible at the option of the Department upon certain specified corporate events. Absent an optional conversion, any Series F-2 remaining will automatically convert to common stock after seven years from the issuance date. The applicable conversion rate is the greater of the *(i)* initial conversion rate (0.00432) or *(ii)* adjusted conversion rate (i.e. the liquidation amount per share of the Series F-2 divided by the weighted average price at which the shares of common equity securities were sold or the price implied by the conversion of securities into common equity securities, subject to anti-dilution provisions).

In December 2010, 110 million shares of the Series F-2 preferred stock were converted into 531,850 shares of Ally common stock, resulting in the Department holdings of Series F-2 preferred decreasing to 119 million shares, and the Department holdings in common stock of Ally increasing to 981,971 shares, representing 73.8 percent of Ally's outstanding common stock.

During fiscal year 2011, the agreement between Ally and the Department regarding its TRuPS was amended to facilitate the Department's sale of its TRuPS on the open market. Because this amendment to agreement terms was not considered in the formulation subsidy cost estimate for the AIFP program, the Department recorded a modification resulting in a subsidy cost reduction of $174 million.

In March 2011, the Department sold its TRuPS for its cost of $2.7 billion, resulting in proceeds in excess of cost of $127 million. On March 31, 2011, the Department announced that it had agreed to be named as a selling shareholder of common stock in Ally's registration statement filed with the Securities and Exchange Commission (SEC) for a proposed initial public offering. Since March 31, 2011, Ally has filed four amendments in response to SEC comments; there has been no public offering.

At September 30, 2011, the Department held 981,971 shares of common stock (73.84 percent of Ally's outstanding common stock) and 119 million shares of the Series F-2 preferred securities. The Series F-2 are convertible into at least 513,000 shares of common stock, which if combined with the common stock currently owned, would represent 81.0 percent ownership of Ally common stock by the Department. In fiscal year 2011 and 2010, the Department received $839 million and $1.2 billion in dividends from Ally.

Consumer and Business Lending Initiative

The Consumer and Business Lending Initiative (CBLI) was intended to help unlock the flow of credit to consumers and small businesses. Three programs were established to help accomplish this: the Term Asset-Backed Securities Loan Facility (TALF); the Small Business Administration (SBA) 7(a) Securities Purchase Program and the Community Development Capital Initiative (CDCI). Each program is discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The TALF was created to help jump start the market for securitized consumer and small business loans. The program was established by the Federal Reserve Board to provide low-cost funding to investors in certain classes of Asset Backed Securities (ABS). The Department agreed to participate in the program by providing liquidity and credit protection to the FRB.

Under the TALF, the FRBNY, as implementer of the TALF program, originated loans on a non-recourse basis to purchasers of certain AAA rated ABS secured by consumer and commercial loans and commercial mortgage backed securities (CMBS). Interest rates charged on the TALF loans depend on the weighted-average maturity of the pledged collateral, the collateral type and whether the collateral pays fixed or variable interest. The program ceased issuing new loans on June 30, 2010. As of September 30, 2011 and 2010 approximately $11.3 billion and $29.7 billion of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY has created the TALF, LLC, a SPV that agreed to purchase from the FRBNY any collateral it has seized due to borrower default. The TALF, LLC would fund purchases from the accumulation of monthly fees paid by the FRBNY as compensation for the agreement. Only if the TALF, LLC had insufficient funds to purchase the collateral, did the Department commit to invest up to $20.0 billion in non-recourse subordinated notes issued by the TALF, LLC. In July 2010, the Department's commitment was reduced to $4.3 billion. The Department disbursed $100 million upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the spread is not sufficient to cover purchases. The subordinated notes bear interest at 1-Month LIBOR plus 3.0 percent, and mature ten years from the closing date, subject to extension. Any amounts needed in excess of the Department commitment and the fees would be provided through a loan from the FRBNY. Upon wind-down of the TALF, LLC (collateral defaults, reaches final maturity or is sold), the available cash will be disbursed according to a payment priority.

The TALF, LLC is owned, controlled and consolidated by the FRBNY. The credit agreement between the Department and the TALF, LLC provides the Department with certain rights consistent with a creditor but does not constitute control. As such, TALF, LLC is not a federal entity and the assets, liabilities, revenue and cost of TALF, LLC are not included in the Department financial statements. As of September 30, 2011 and 2010, no TALF loans were in default and consequently no collateral was purchased by the TALF, LLC.

SBA 7(a) Security Purchase Program

In March 2010, the Department began purchasing securities backed by SBA 7(a) loans (7(a) Securities as part of the Unlocking Credit for Small Business Initiative. The program was created to provide additional liquidity to the market so that banks are able to make more small business loans. As of September 30, 2010, the Department had entered into trades to purchase $356 million of these securities (excluding purchased accrued interest), of which $241 million had been disbursed. Investments totaled $367 million (excluding purchased accrued interest) by December 2010, when the Department's disbursements under the program were completed. In May 2011, the Department began selling its securities to bond market investors. During fiscal year 2011, the Department received $11 million in interest and $236 million in principal payments on the securities including returns from sales to other investors. During fiscal year 2010, the Department received $1 million in interest and $3 million in principal payments on these securities. As of September 30, 2011, the Department held $128 million of SBA 7(a) securities.

Community Development Capital Initiative

In February 2010, the CDCI was created to provide additional low cost capital in Community Development Financial Institutions (CDFIs) to encourage more lending to small businesses. Under the terms of the program, the Department purchased senior preferred stock (or subordinated debt) from eligible CDFIs with an initial dividend rate of 2.0 percent that will increase to 9.0 percent after eight years.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their CPP preferred shares (subordinated debt) then held by the Department for CDCI preferred shares (subordinated debt). These exchanges were treated as disbursements from CDCI and repayments to CPP. As of September 30, 2010, the Department had invested a cumulative $570 million ($363 million as a result of exchanges from CPP) in 84 institutions under the CDCI. No additional disbursements were made in fiscal year 2011. No repayments were received in fiscal years 2011 or 2010. During fiscal year 2011, the Department received $11 million in dividends and interest from its CDCI investments.

Public-Private Investment Program

PPIP is part of the Department's efforts to help restart the financial securities market and provide liquidity for legacy assets. Under this program, the Department (as a limited partner) made equity investments in and loans to nine investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers between September and December 2009. The equity investment was used to match private capital and equaled approximately 50.0 percent of the total equity invested. Each loan equaled 100.0 percent of total partnership equity. The loans bear interest at 1-Month LIBOR, plus 1.0 percent, payable monthly. The maturity date of each loan is the earlier of ten years or the termination of the PPIF. The loan can be prepaid without penalty. Each PPIF terminates in eight years from its commencement. The governing documents of the funds allow for two one-year extensions, subject to approval of the Department. The loan agreements also require cash flows from purchased securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help protect the interests of secured parties.

The loans are subject to certain financial covenants. As a condition of investment, the Department also received a warrant from the PPIFs entitling the Department to 2.5 percent of investment proceeds (excluding those from temporary investments) otherwise allocable to the non-Department partners after the PPIFs return of 100.0 percent of the non-Department partner's capital contributions. Distributions relating to the warrants would occur generally upon the final distribution of each partnership. Additionally, the PPIFs pay a management fee to the fund manager from the Department's share of investment proceeds.

The PPIFs invest primarily in commercial MBS and non-agency residential MBS (CMBS and RMBS, respectively) issued prior to January 1, 2009. The PPIFs may invest in the aforementioned securities for a period of three years using proceeds from capital contribution, loans and amounts generated by previously purchased investments (subject to the requirements of the waterfall). The PPIFs are also permitted to invest in certain temporary securities, including bank deposits, U.S. Treasury securities, and certain money market mutual funds. At least 90.0 percent of the assets underlying any eligible asset must be situated in the United States.

During fiscal year 2011, the Department disbursed $1.1 billion as equity investment and $2.3 billion as loans to PPIFs, as compared to $4.9 billion of equity investments and $9.2 billion as loans in fiscal year 2010. During fiscal years 2011 and 2010, the Department received $123 million and $56 million in interest on loans, respectively. In addition, the Department received $868 million and $72 million in loan principal repayments in fiscal years 2011 and 2010, respectively. Also, during fiscal year 2011, the Department received $735 million in equity distributions, comprised of $306 million of dividend income, $91 million of proceeds in excess of cost, and a $338 million reduction of the gross investment outstanding. At September 30, 2011, the Department had equity investment in PPIFs outstanding of $5.5

billion and loans outstanding of $10.4 billion for a total of $15.9 billion. At September 30, 2010, the Department had equity investment in PPIFs outstanding of $4.8 billion and loans outstanding of $8.9 billion for a total of $13.7 billion.

On January 4, 2010, the Department entered into a Winding-up and Liquidation Agreement with one of the PPIFs. Prior to the signing of the agreement, the Department had invested $356 million ($156 million equity investment and $200 million loan) in the fund. Upon final liquidation, the Department received $377 million representing return of the original investment, interest on the loan and return on the equity investment and warrant. As of September 30, 2011, the Department had legal commitments to disburse up to $4.3 billion for additional investments and loans to the eight remaining PPIFs.

OTHER CREDIT PROGRAMS

Asset Guarantee Program

The AGP provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. Section 102 of the EESA required the Secretary to establish the AGP to guarantee troubled assets originated or issued prior to March 14, 2008, including mortgage-backed securities, and established the Troubled Assets Insurance Financing Fund (TAIFF). In accordance with Section 102(c) and (d) of the EESA, premiums from financial institutions are collected and all fees are recorded by the Department in the TAIFF. In addition, Section 102(c) (3) of the EESA requires that the original premiums assessed are "set" at a minimum level necessary to create reserves sufficient to meet anticipated claims.

In January 2009, the Department finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the Department, the Federal Deposit Insurance Corporation (FDIC), and the FRBNY (collectively the USG Parties) provided protection against the possibility of large losses on an asset pool of approximately $301.0 billion of loans and securities backed by residential and commercial real estate and other such assets, which remained on Citigroup's balance sheet. The Department's guarantee was limited to $5.0 billion.

As a premium for the guarantee, Citigroup issued $7.0 billion of cumulative perpetual preferred stock (subsequently converted to Trust Preferred Securities with similar terms) with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; $4.0 billion and the warrant were issued to the Department, and $3.0 billion was issued to the FDIC. The Department received $15 million and $265 million during the fiscal years ended September 30, 2011 and 2010, respectively, in dividends on the preferred stock received as compensation for this arrangement. These dividends have been deposited into the TAIFF. The Department had also invested in Citigroup through CPP and the TIP.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement, the Department cancelled $1.8 billion of the preferred stock previously issued to the Department. In addition, the FDIC agreed to transfer to the Department $800 million of its trust preferred stock holding plus dividends. The amount the Department will receive would be reduced by any losses FDIC incurs on its Citigroup guaranteed debt. The additional preferred shares from the FDIC are included in the subsidy calculation for AGP, based on the net present value of expected future cash inflows. Termination of the agreement was not considered in the formulation estimates of the guarantee and therefore a modification that resulted in a subsidy cost reduction of $1.4 billion was recorded in fiscal year 2010. On September 29, 2010, the Department exchanged its existing Trust Preferred Securities for securities containing market terms to facilitate a sale. On September 30, 2010, the Department agreed to sell its Trust Preferred Securities for $2.2 billion. The Trust Preferred Securities are valued at the sales price as reflected in the 2010 consolidated financial statements. The sale settled on October 5, 2010, and additional warrants were sold in January 2011 for $67 million, leaving only the $800 million of trust preferred stock related receivable from the FDIC valued at $739 million on the Department's Balance Sheet at September 30, 2011. This receivable was valued at $815 million as of September 30, 2010.

FHA-Refinance Program

At the end of fiscal year 2010, the Department entered into a loss-sharing agreement with the FHA to support a program in which FHA guarantees refinancing of borrowers whose homes are worth less than the remaining amounts owed under their mortgage loans. No loans were re-financed in fiscal year 2010. In fiscal year 2011, the Department established a $50 million account, held by a commercial bank as its agent, from which any required reimbursements for losses will be paid. At September 30, 2011, 334 loans that had guaranteed, with a total value of $73 million, had been refinanced under the program. The Department's maximum exposure related to FHA's guarantee totaled $6 million. After considering FHA's estimated default rates, this resulted in the Department incurring a $1 million liability. The liability has been calculated, using credit reform accounting, as the present value of the future cash outflows for the Departments' share of losses incurred on any defaults of the disbursed loans. However, losses to the Department cannot exceed 1.26 percent of the total loans guaranteed by FHA at September 30, 2011.

Subsidy Cost

During fiscal year 2011, modifications occurred in the AIFP (see Ally Financial Inc.) and CPP. During fiscal year 2010, modifications occurred within AIFP, CPP, and the AGP. See detailed discussion related to each program and related modifications above. Modification cost reductions for the fiscal years ended September 30, 2011 and 2010, totaled $1.2 billion and $48 million, respectively.

Changes in subsidy cost due to reestimates from year to year are mainly due to changes in market conditions and actual portfolio data. Net downward reestimates for the fiscal years ended September 30, 2011 and 2010, totaled $11.6 billion and $30.2 billion, respectively.

During fiscal year 2011 there were significant AIG disbursements which impacted the subsidy cost. The AIG Investment Program had a net increase in subsidy cost from disbursements and reestimates of $1.6 billion from an $18.5 billion downward reestimate primarily due to subsidy cost estimates recorded for $20.3 billion for new disbursements during the fiscal year. Under budget rules, the subsidy cost estimate for these new disbursements was determined based upon subsidy rates formulated in April 2009, the period in which the Department originally agreed to make the funding available to AIG. At that time, the Department calculated a subsidy rate of 98.98 percent, which resulted in an estimated subsidy cost of $20.1 billion associated with the $ 20.3 billion disbursed in fical year 2011. The Department calculated an $18.5 billion downward reestimate relating to these fiscal year disbursements that reflects improvements in AIG's financial condition since the original subsidy rate was formulated and the restructuring of the AIG investment to common stock offset by AIG's financial condition at September 30, 2011.

SUMMARY TABLES

The following tables provide the net composition, subsidy cost, modifications and reestimates, a reconciliation of subsidy cost allowances, budget subsidy rates, and subsidy by component for each TARP direct loan, equity investment or other credit programs for the fiscal years ended September 30, 2011 and 2010. There were no budget subsidy rates for fiscal year 2011, except for the FHA- Refinance Program, and all disbursements were from loans or investments obligated in prior years.

Troubled Asset Relief Program Direct Loans and Equity Investments

As of September 30, 2011 (in millions)	CPP	AIG	TIP	AIFP	CBLI	PPIP	2011 TOTAL
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investment Outstanding, Gross	$ 17,299	$ 51,087	$ -	$ 37,278	$ 798	$ 15,943	**$ 122,405**
Subsidy Cost Allowance	(4,857)	(20,717)	-	(19,440)	279	2,434	**(42,301)**
Direct Loans and Equity Investments Outstanding, Net	$ 12,442	$ 30,370	$ -	$ 17,838	$ 1,077	$ 18,377	**$ 80,104**
New Loans or Investments Disbursed	$ -	$ 20,292	$ -	$ -	$ 126	$ 3,421	**$ 23,839**
Obligations for Loans and Investments Not Yet Disbursed	$ -	$ -	$ -	$ -	$ 4,200	$ 4,279	**$ 8,479**
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 1,546	$ 21,405	$ (1)	$ 14,529	$ (58)	$ (676)	**$ 36,745**
Subsidy Cost for Disbursements and Modifications	(1,010)	20,085	-	(174)	1	(15)	**18,887**
Interest and Dividend Revenue	1,283	450	-	1,280	20	428	**3,461**
Fee Income	-	165	-	-	-	-	**165**
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost	4,540	(1,918)	190	(5,165)	-	91	**(2,262)**
Net Interest Income (Expense) on Borrowings from BPD and Financing Account Balance	(686)	(938)	3	(945)	(32)	(418)	**(3,016)**
Balance, End of Period, Before Reestimates	5,673	39,249	192	9,525	(69)	(590)	**53,980**
Subsidy Reestimates	(816)	(18,532)	(192)	9,915	(210)	(1,844)	**(11,679)**
Balance, End of Period	$ 4,857	$ 20,717	$ -	$ 19,440	$ (279)	$ (2,434)	**$ 42,301**
Reconciliation of Subsidy Cost:							
Subsidy Cost for Disbursements	$ -	$ 20,085	$ -	$ -	$ 1	$ (15)	**$ 20,071**
Subsidy Cost for Modifications	(1,010)	-	-	(174)	-	-	**(1,184)**
Subsidy Reestimates	(816)	(18,532)	(192)	9,915	(210)	(1,844)	**(11,679)**
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	$ (1,826)	$ 1,553	$ (192)	$ 9,741	$ (209)	$ (1,859)	**$ 7,208**

Note: There are no budget execution rates for fiscal year 2011; since the TARP authority expired October 3, 2010, with no additional commitments made after September 30, 2010.

Troubled Asset Relief Program Direct Loans and Equity Investments

As of September 30, 2010 (in millions)	CPP	AIG	TIP	AIFP	CBLI	PPIP	2010 TOTAL
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investment Outstanding, Gross	$ 49,779	$ 47,543	$ -	$ 67,238	$ 908	$ 13,729	$ 179,197
Subsidy Cost Allowance	(1,546)	(21,405)	1	(14,529)	58	676	(36,745)
Direct Loans and Equity Investments Outstanding, Net	$ 48,233	$ 26,138	$ 1	$ 52,709	$ 966	$ 14,405	$ 142,452
New Loans or Investments Disbursed	$ 277	$ 4,338	$ -	$ 3,790	$ 811	$ 14,157	$ 23,373
Obligations for Loans and Investments Not Yet Disbursed	$ -	$ 22,292	$ -	$ 2,066	$ 4,339	$ 8,250	$ 36,947
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ (7,770)	$ 30,054	$ (341)	$ 31,478	$ (344)	$ -	$ 53,077
Subsidy Cost for Disbursements and Modifications	(16)	4,293	-	2,644	275	337	7,533
Interest and Dividend Revenue	3,131	-	1,143	2,475	-	228	6,977
Net Proceeds from Sales and Repurchases of Assets in Excess of cost	6,676	-	1,237	99	-	1	8,013
Net Interest Income (Expense) on Borrowings from BPD	(2,018)	(981)	(161)	(1,309)	(20)	(201)	(4,690)
Write-offs	(2,334)	-	-	(1,600)	-	-	(3,934)
Balance, End of Period, Before Reestimates	- (2,331)	- 33,366	- 1,878	- 33,787	- (89)	- 365	66,976
Subsidy Reestimates	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)	(30,231)
Balance, End of Period	$ 1,546	$ 21,405	$ (1)	$ 14,529	$ (58)	$ (676)	$ 36,745
Reconciliation of Subsidy Cost:							
Subsidy Cost for Disbursements	$ 16	$ 4,293	$ -	$ 1,146	$ 275	$ 337	$ 6,067
Subsidy Cost for Modifications	(32)	-	-	1,498	-	-	1,466
Subsidy Reestimates	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)	(30,231)
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	$ 3,861	$ (7,668)	$ (1,879)	$ (16,614)	$ 306	$ (704)	$ (22,698)

Troubled Asset Relief Program Loans, Equity Investments, and Asset Guarantee Program Budget Subsidy Rates

As of September 30, 2010	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates [a]:							
Interest Differential		(25.62%)			37.70%	30.39%	11.72%
Defaults		16.36%			13.78%	3.93%	-%
Fees and Other Collections		(3.00%)			(0.38%)	-	(0.41%)
Other		18.03%			(20.85%)	(0.41%)	(10.34%)
Total Budget Subsidy Rate	N/A	5.77%	N/A	N/A	30.25%	33.91%	0.97%
Subsidy Cost (Income) by Component (in millions):							
Interest Differential		$ (71)	$ 1,415		1,429	$ 246	$ 1,880
Defaults		45	2,907		522	32	-
Fees and Other Collections		(8)	-		(15)	-	(55)
Other		50	(29)		(790)	(3)	(1,488)
Total Subsidy Cost, Excluding Modifications and Reestimates	N/A	$ 16	$ 4,293	N/A	1,146	$ 275	$ 337

[a] *The rates reflected in the table above are fiscal year 2010 budget execution rates by program. The subsidy rates disclosed pertain only to the cohorts for fiscal year 2010. These rates cannot be applied to the direct loans disbursed during fiscal year 2010 to yield the subsidy cost (income). The subsidy cost (income) for new loans reported during fiscal year 2010 could result from disbursements of loans from both 2010 cohorts and prior year cohorts. The subsidy cost (income) reported in fiscal year 2010 also includes modifications and reestimates. Therefore, the Total Subsidy Cost, Excluding Modifications and Reestimates will not equal the New Loans or Investments Disbursed multiplied by the Budget Subsidy Rate.*

Troubled Asset Relief Program Asset Guarantee Program
As of September 30, 2011 and 2010
(In Millions)

	2011	2010
Asset Guarantee Program:		
Intra-governmental Portion [a]	**$ 739**	$ 815
Portion held by the Department, net	**-**	2,240
Total Asset Guarantee Program	**$ 739**	$ 3,055
Reconciliation of Asset Guarantee Program:		
Balance, Beginning of Period	**$ (3,055)**	$ (1,765)
Subsidy Income for Disbursements and Modifications	**-**	(1,418)
Dividend Revenue	**15**	265
Net Proceeds from Sale of Assets in Excess of cost	**2,301**	-
Net Interest Income on Borrowings	**(30)**	(50)
Balance, End of Period, Before Reestimate	**(769)**	(2,968)
Subsidy Reestimate	**30**	(87)
Balance, End of Period	**$ (739)**	$ (3,055)
Reconciliation of Subsidy Cost (Income):		
Subsidy Income for Modifications	**$ -**	$ (1,418)
Subsidy Reestimates	**30**	(87)
Total Asset Guarantee Program Subsidy Cost (Income)	**$ 30**	$ (1,505)

[a] *At September 30, 2010, the net present value of the future cash flows for the Asset Guarantee Program consisted of (i) $800 million of Citigroup trust preferred securities, plus dividends thereon, that the FDIC agreed to transfer to OFS contingent on Citigroup repaying previously issued FDIC guaranteed debt and (ii) additional Citigroup trust preferred securities valued at $2,240, for a total of $3,055. At September 30, 2011, only the contingent payment from the FDIC remained outstanding. The other securities were sold during fiscal year 2011.*

Housing Programs Under TARP

The following housing programs under TARP provide stability for both housing markets and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or relocated to a more sustainable living situation. These programs fall within three initiatives:

1. Making Home Affordable Program (MHA);
2. HFA Hardest-Hit Fund, and
3. Federal Housing Administration (FHA)-Refinance Program.

The MHA includes various programs, one of which is the Home Affordable Modification Program (HAMP) first lien modification program that provides for one-time, monthly and annual incentives to servicers, borrowers, and investors who participate in the program, whereby the investor and Department share the costs of modifying qualified first liens. Another program, the FHA-HAMP, provides the same incentives as HAMP for FHA guaranteed loans. The Second Lien Program (2MP) provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The Department/FHA Second Lien Program (FHA 2LP) provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their first lien mortgages under the FHA-Refinance Program. The Rural Development (RD-HAMP) Program provides HAMP incentives for USDA guaranteed mortgages. The Home Price Decline Protection Program (HPDP) provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs were introduced under HAMP to complement the first lien modification program and HPDP. The Principal Reduction Alternative Waterfall Program (PRA) offers mortgage relief to eligible homeowners whose homes are worth significantly less than the remaining amounts outstanding under their first-lien mortgage. The Unemployment Program (UP) offers assistance to unemployed homeowners through temporary forbearance of a portion of their mortgage payments. The UP will not have a financial impact on the Department because no incentives are paid by the Department. Finally, the Home Affordable Foreclosure Alternatives Program (HAFA) is designed to assist eligible borrowers unable to retain their homes through a HAMP modification by simplifying and streamlining the short sale and deeds in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

All MHA disbursements are made to servicers either for themselves or for the benefit of borrowers and investors. Furthermore, all payments are contingent on borrowers remaining current on their mortgage payments. Servicers have until December 31, 2012 to enter into mortgage modifications with borrowers. Included in administrative costs are fees paid to Fannie Mae and Freddie Mac. Fannie Mae provides direct programmatic support as a third party agent on behalf of the Department. Freddie Mac provides compliance oversight of services as a third party agent on behalf of the Department, and the servicers work directly with the borrowers to modify and service the borrowers' loans.

Implemented in fiscal year 2010, the HFA Hardest-Hit Fund provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. Approved states meeting the criteria for this program develop and roll out their own programs with timing and types of programs offered targeted to address the specific needs and economic conditions of their state. States have until December 31, 2017 to enter into agreements with borrowers.

The FHA-Refinance Program is a joint initiative with the HUD which is intended to encourage refinancing of existing underwater (i.e. the borrower owes more than the home is worth) mortgage loans not currently insured by FHA into FHA-insured mortgages. HUD will pay a portion of the amount refinanced to the investor and the Department will pay incentives to encourage the extinguishment of second liens associated with the refinanced mortgages The Department established a letter of credit that obligated the Department portion of any claims associated with the FHA-guaranteed mortgages. The OMB determined that for budgetary purposes, the FHA-Refinance Program cost is calculated under the

FCRA; therefore the liability is calculated at the net present value of estimated future cash flows. Homeowners can refinance into FHA-guaranteed mortgages through December 31, 2012 and the Department will honor its share of claims against the letter of credit through 2020. The Department was required to deposit $50 million with a commercial bank as its agent to administer payment of claims under the program. As of September 30, 2011, 334 loans had been refinanced and no claim payments have been made to date under this program. As of September 30, 2010, no loans had been refinanced under this program as the joint initiative was entered into late in the fiscal year. The FHA-Refinance Program is accounted for under the FCRA as discussed above.

As of September 30, 2011, and 2010, the Department had committed up to $45.6 billion, respectively, for these programs. For fiscal year 2011 and 2010, payments made from the Housing Programs Under TARP totaled $1.9 billion and $543 million, respectively.

8. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

Fannie Mae and Freddie Mac are stockholder-owned GSEs. Congress established these GSEs to support the supply of mortgage loans. A key function is to package purchased mortgages into securities, which are subsequently sold to investors.

In the lead up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act (HERA) (P.L. 110-289). This Act created the new FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary with certain authorities intended to ensure the financial stability of the GSEs, if necessary. On September 7, 2008, FHFA placed the GSEs under conservatorship and the Department entered into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to current market instability.

The actions taken by the Department thus far are temporary, as defined by section 1117 of HERA, and are intended to provide financial stability. The purpose of the Department's actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress determine what structural changes should be made. The FHFA director may terminate the conservatorship if safe and solvent conditions can be established. Draws under the SPSPAs are designed to ensure that the GSEs maintain positive net worth as a result of any net losses from operations, and also meet taxpayer dividend requirements under the SPSPAs. While this arrangement is somewhat circular in the event that dividends exceed net income and draws are made to fund dividends, the SPSPAs were structured to ensure any draws result in an increased nominal investment as further discussed below.

Under the SPSPAs, the Department initially received from each GSE: *(i)* 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share, and *(ii)* a non-transferrable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. The senior preferred stock accrues dividends at 10.0 percent per year, payable quarterly. This rate will increase to 12.0 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. Dividends of $15.6 billion and $12.1 billion were received during fiscal years ended September 30, 2011 and 2010, respectively. In addition, beginning March 31, 2011, the GSEs were scheduled to begin paying the Department a "Periodic Commitment Fee" (PCF) on a quarterly basis, payable in cash or via an increase to the liquidation preference. The PCF was to be initially established by the Department on December 31, 2010, based on mutual agreement between the Department and each GSE, in consultation with the Chairman of the Federal Reserve Board, and then subsequently re-established every five years thereafter. This fee may be waived by the Department for up to one year at a time, if warranted by adverse mortgage market conditions. The Department waived the PCF payments for the calendar year 2011 given that the imposition of the PCF at that time would not fulfill its intended purpose of generating increased compensation to the American taxpayer.

The SPSPAs, which have no expiration date, provide for the Department to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement was originally $100.0 billion and, in May 2009, the maximum amount was raised to $200.0 billion. In December 2009, the Department amended the SPSPAs to replace the $200.0 billion per GSE funding commitment cap with a formulaic cap that will allow continued draws for three years at amounts that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below $200.0 billion, and will become fixed at the end of the three years. At the conclusion of the three-year period ending December 2012, the remaining commitment will then be fully available to be drawn per the terms of the agreements (referred to hereafter as the "Adjusted Caps"). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw.

Actual payments to the GSEs for fiscal years ended September 30, 2011 and 2010 were $20.8 billion and $52.6 billion, respectively. Additionally, $316.2 billion and $359.9 billion were accrued as a contingent liability as of September 30, 2011 and 2010, respectively. This accrued contingent liability is based on the projected draws under the SPSPAs. It is undiscounted and does not take into account any of the offsetting dividends which may be received as a result of those draws.

ACCOUNTING TREATMENT

Entity Transactions – The estimated contingent liability to the GSEs accrued pursuant to the SPSPAs is funded through the Department's direct appropriations. Therefore, they are reflected at their gross amount as "entity" costs on the Department's Consolidated Statements of Net Cost and in the line item, "Cumulative Results of Operations" on the Department's Consolidated Balance Sheets, without considering the increase in senior preferred stock liquidation preference/fair value adjustments, future dividend receipts from the GSEs, or any future PCFs.

Non-Entity Transactions – As actual payments are made to the GSEs, they result in increases to the U.S. Government's liquidation preference in the GSEs' preferred stock, and thus represent General Fund exchange revenue reported on the Department's Consolidated Statements of Net Cost as "Net GSEs Non-Entity Revenue." The associated valuation losses and dividends are General Fund-related costs and revenues that are likewise reported as "Net GSEs Non-Entity Revenue."

From a government-wide perspective, the Department's entity expense for the accrued contingent liability under the SPSPAs may, over time, be somewhat mitigated by the General Fund's exchange revenues recognized when actual draw payments are made to the GSEs.

INVESTMENTS IN GSES

As of September 30, 2011 and 2010, the Department's investments in the GSEs consisted of the following (in millions):

GSEs Investments		Gross Investments As of 9/30/11		Cumulative Valuation Loss		9/30/11 Fair Value
Fannie Mae Senior Preferred Stock	$	**104,627**	$	**(26,718)**	$	**77,909**
Freddie Mac Senior Preferred Stock		**66,004**		**(12,380)**		**53,624**
Fannie Mae Warrants Common Stock		**3,104**		**(2,137)**		**967**
Freddie Mac Warrants Common Stock		**2,264**		**(1,721)**		**543**
Total GSEs Investments	$	**175,999**	$	**(42,956)**	$	**133,043**

GSEs Investments		Gross Investments As of 9/30/10		Cumulative Valuation Loss		9/30/10 Fair Value
Fannie Mae Senior Preferred Stock	$	85,941	$	(29,450)	$	56,491
Freddie Mac Senior Preferred Stock		63,924		(12,759)		51,165
Fannie Mae Warrants Common Stock		3,104		(2,097)		1,007
Freddie Mac Warrants Common Stock		2,264		(1,711)		553
Total GSEs Investments	$	155,233	$	(46,017)	$	109,216

SENIOR PREFERRED STOCK AND WARRANTS FOR COMMON STOCK

In performing the calculations for the valuations of the senior preferred stock and warrants for common stock, the Department relied on the GSEs' public filings and press releases concerning its financial statements, projection forecasts, monthly summaries, quarterly credit supplements, independent research regarding high-yield bond and preferred stock trading, independent research regarding the GSEs' common stock trading, interviews with the GSE's management, and other information pertinent to the valuations. Because of the nature of the instruments, which are not publicly traded and for which there is no comparable trading information available, the valuation relies on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

A complicating issue for the valuation of the senior preferred stock is the interaction between liquidity payments and the ongoing liquidation preference of the stock, and the amount of dividends associated with that liquidation preference. The projections assume that a hypothetical buyer would acquire the dividend stream related to the existing balance of the liquidation preference on the transaction date, as well as no PCF payments by the GSEs. This stream of dividend payments was then discounted to address certain issues unique to the senior preferred stock.

The valuation of the warrants are impacted by the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants, the principal market, and the market participants. Other discounting factors are the holding period risk related directly to the amount of time that it will take to sell the exercised shares without depressing the market and the other activity under the SPSPA.

CONTINGENT LIABILITY

As part of the valuation exercise, the Department prepared a series of long-range projections through 2039 to determine what the implied amount of the total contingent liability to the GSEs under the SPSPAs would be as of that year. Since future payments under the SPSPAs are deemed to be probable, the Department had estimated the contingent liability to be $316.2 billion as of September 30, 2011. This estimate reflects the projected equity deficits of the GSEs stemming from credit losses and contractual dividend requirements. The valuation analysis as of September 30, 2011 included several case scenarios which resulted in total SPSPA estimates ranging from $309.6 billion (based on an "optimistic" case scenario) to $376.1 billion (based on an “extreme” case scenario). The $316.2 billion contingent liability reported as of September 30, 2011 reflects the Department’s most likely liability estimate. This compares to the $359.9 billion contingent liability reported as of September 30, 2010 which was based on a range of $359.9 billion to $461.8 billion. The recorded contingent liability is the total estimated payments for the life of the agreements under the Adjusted Caps, minus actual payments made through the end of the fiscal year. Such accruals are adjusted as new information develops or circumstances change.

In performing the calculations for the valuation and contingent liability estimates, the Department relied on the GSEs’ public filings and press releases concerning its audited and unaudited financial statements, monthly summaries, quarterly credit supplements, September 2011 forecast for the years 2011 through 2014 (as provided by FHFA), and interviews with the GSEs’ management and FHFA. The GSE managers were not able to provide the Department with a forecast of needed draws under the SPSPAs after December 31, 2015; however, they did provide the Department with general guidance as to the key assumptions that were used for subsequent periods. The forecasts after 2015 generally assume similar operating assumptions on the guarantee business and assume a gradual wind-down of the retained portfolios (and corresponding net interest income) through 2026, as directed under the provisions of the SPSPAs for the GSEs to reduce their investment portfolios by 10.0 percent per annum. The Department also relied upon economic and demographic data from the 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds and the FHFA’s House Price Index.

Based on the annual valuation of the Department’s estimated future contingent liability, the Department increased its liability by accruing an expense of $320.6 billion at the end of fiscal year 2010. The Department reduced its estimated liability by $22.9 billion at the end of the fiscal year 2011 via a reduction in expense. Both the increase in expense in fiscal year 2010 and reduction in expense in fiscal year 2011 were recorded as entity costs within the Economic Program section of the Department’s Consolidated Statements of Net Cost.

As of September 30, 2011 and 2010, the summarized aggregated financial condition of the GSEs was as follows (in millions):

	2011	2010
Combined Assets		
Investment Securities	**$ 422,741**	$ 474,437
Mortgage Loans	**4,715,057**	4,782,405
Other	**248,415**	261,510
Total Combined Assets	**5,386,213**	5,518,352
Combined Liabilities		
Long Term Debt	**4,974,759**	5,033,151
Other	**425,236**	487,706
Total Combined Liabilities	**5,399,995**	5,520,857
Combined net deficit	**$ (13,782)**	$ (2,505)
For the nine months ended September 30,		
Combined net interest income	**$ 28,832**	$ 24,312
Combined provisions for loan losses	**(28,672)**	(35,082)
Net interest income (loss) after provision for loan losses	**$ 160**	$ (10,770)
Regulatory Capital - minimum capital deficit as of September 30,	**$ (231,531)**	$ (198,999)

Excludes financial guarantees not consolidated on GSE balance sheets.

The above information was taken directly from the quarterly reports filed with the SEC, which are publicly available on the SEC’s website (www.SEC.gov) and also the GSE investor relations websites.

Both GSEs reported very low early delinquencies on additions to their credit books in 2009 through 2011. This favorable early delinquency experience is an improvement compared with the loans originated in 2005 through 2008. However, both GSEs expect to make additional draws under the SPSPA in future periods despite improving levels of net income as the required dividend payment amounts under the SPSPAs are estimated to exceed the net income of the GSEs. Thus, incremental draws under the SPSPAs are projected to be needed to meet dividend payment requirements. The GSEs expect their net worth will also be impacted negatively by dividend payments on the SPSPAs, coupled with continued expected credit losses associated with the exposures that originated in the period 2005 through 2008.

Under the existing SPSPAs, as amended, the Department's projections show that each GSE will fully utilize the amount of funding available under the Adjusted Cap. This is in addition to any draws during calendar years 2010 through 2012, as this period is not subject to the Adjusted Cap. The Department's projections of future liquidity payments may differ from actual experience. Future actual liquidity payment levels will depend on numerous factors that are difficult to predict, including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

GSEs Non-Entity Revenue

For the fiscal years ended, September 30, 2011 and 2010, GSEs Non-Entity Revenue consisted of the following (in millions):

Summary of GSEs Non-Entity Revenue	**2011**	2010
General Fund Revenue from Increase in Liquidity Preference of GSEs Preferred Stock	**$ (20,766)**	$ (52,600)
Current Valuation (Gain)/Loss on GSEs Warrants/Preferred Stock	**(3,061)**	8,064
GSEs Preferred Stock Dividends	**(15,588)**	(12,142)
Total GSEs Non-Entity Revenue	**$ (39,415)**	$ (56,678)

Changing Regulatory Environment

On July 9, 2010, FHFA published in the Federal Register a proposed rule to clarify certain terms of the conservatorship and receivership operations for the GSEs. The key issues addressed in the proposed rule are the status and priority of claims and the relationships among various classes of creditors and equity-holders under conservatorships or receiverships.

On July 21, 2010, the President signed the Dodd-Frank Act into law which significantly changed the regulation of the financial services industry, including the creation of new standards related to regulatory oversight of financial institutions deemed systemically important; an orderly liquidation mechanism for these institutions; and oversight of derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. Also, it contains a provision requiring the Secretary to conduct a study and develop recommendations regarding the options for ending the conservatorship. On February 11, 2011, the President delivered to Congress a report from the Secretary that provided recommendations regarding the options for ending the conservatorship and plans to wind down the GSEs. To date, Congress has not approved a plan to address what will be done with the GSEs.

9. Investments in International Financial Institutions

Investments in the Multilateral Development Banks (MDB) consist of investments in the World Bank Group (International Bank for Reconstruction and Development, International Finance Corporation, and Multilateral Investment Guarantee Agency), and five regional development banks (the African, Asian, European, Inter-American, and North American institutions), as enumerated in the table below.

As of September 30, 2011 and 2010, investments in international financial institutions consisted of the following (in millions):

	2011	2010
African Development Bank	**$ 174**	$ 175
Asian Development Bank	**565**	458
European Bank for Reconstruction and Development	**636**	636
Inter-American Development Bank [(1)]	**1,508**	1,487
International Bank for Reconstruction and Development	**1,985**	1,985
International Finance Corporation	**569**	569
Multilateral Investment Guarantee Agency	**45**	45
North American Development Bank	**225**	225
Total	**$ 5,707**	$ 5,580

Refer to Note 28 for a description of the additional commitments related to these institutions.
(1) Includes International Investment Corporation.

10. Other Investments and Related Interest

Investments in U.S. Government securities held by the Department's entities have been eliminated against the federal debt liability for financial reporting purposes (See Note 4). Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (See Note 5).

As of September 30, 2011 and 2010, entity investments in foreign investment holdings and other investments consisted of the following (in millions):

Type of Investment	**Cost/ Acquisition Value**	**Unamortized (Premium)/ Discount**	**Interest Receivable**	**9/30/11 Net Investment**	**Unrealized Gain/(Loss)**	**9/30/11 Fair Value**
Foreign Investments:						
Euro Bonds & Notes	**$ 4,498**	**$ 85**	**$ 98**	**$ 4,681**	**$ 149**	**$ 4,830**
Japanese Government Bonds	**8,037**	**28**	**7**	**8,072**	**20**	**8,092**
Other FCDAs	**2,851**	**-**	**-**	**2,851**	**4**	**2,855**
Other Investments	**30**	**(2)**	**-**	**28**	**(7)**	**21**
Total Non-Federal	**$ 15,416**	**$ 111**	**$ 105**	**$ 15,632**	**$ 166**	**$ 15,798**

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/10 Net Investment	Unrealized Gain/(Loss)	9/30/10 Fair Value
Foreign Investments:						
Euro Bonds & Notes	$ 4,478	$ 76	$ 102	$ 4,656	$ 178	$ 4,834
Japanese Government Bonds	7,729	10	9	7,748	35	7,783
Other FCDAs	2,680	168	-	2,848	-	2,848
Other Investments	32	(2)	-	30	(8)	22
Total Non-Federal	$ 14,919	$ 252	$ 111	$ 15,282	$ 205	$ 15,487

11. Credit Program Receivables, Net

The Department administers a number of programs designed to stabilize the financial system and restore the flow of credit to consumers, businesses, and homeowners. For fiscal years ended September 30, 2011 and 2010, credit program receivables, net consisted of the following (in millions):

	2011	2010
Government Sponsored Enterprise Programs:		
GSEs Mortgage-Backed Securities Purchase Program	**$ 72,417**	$ 172,234
State and Local Housing Finance Agency Program	**14,328**	14,121
Small Business Lending Fund Program	**4,108**	-
International Monetary Fund Direct Loans Program (FCRA portion)	**1,931**	-
Community Development Financial Institutions Direct Loans Program	**36**	41
Total	**$ 92,820**	$ 186,396

The Department applies the provisions of SFFAS No. 2 and FCRA to account for its credit programs. These standards require measurement of assets or liabilities at the net present value of their estimated future cash flows. For each asset, the Department estimates cash inflows and outflows that project asset performance and reflect the actual structure of the asset over its estimated term. Asset performance is affected by such factors as prepayments and defaults. Cash flow forecasts are discounted at interest rates of Treasury securities with comparable maturities using the OMB's Credit Subsidy Calculator. Each of the programs are discussed in detail below.

GSEs Mortgage-Backed Securities Purchase Program

HERA authorized the Department to purchase GSE MBS consisting of mortgage pass-through securities issued by Fannie Mae and Freddie Mac. The Department, using private sector asset managers, purchased MBS on the open market. By purchasing these credit-guaranteed securities, the Department sought to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market. The authority granted by Congress to purchase MBS expired on December 31, 2009, at which point the purchase of new securities ended.

Prior to March 2011, the Department intended to hold MBS securities to maturity. On March 21, 2011, the Department announced that it would begin an orderly sale of its MBS portfolio. The Department plans to sell up to $10.0 billion in GSE MBS securities per month, subject to market conditions. This decision is more consistent with the Department's divestment strategy for financial assets acquired during 2008 and 2009 as part of its other economic stabilization programs.

As of September 30, 2011, the estimated net present value of the future cash flows of the MBS portfolio was $72.4 billion. This is comprised of gross cost in the amount of $70.6 billion and a subsidy allowance of $1.8 billion. The MBS subsidy is negative in that the Department expects to generate earnings on its portfolio. The subsidy allowance is the difference between the Department's cost of purchasing the MBS securities and the expected future value of the repayments to the Department. As of September 30, 2010, the net present value of future cash flows of the MBS portfolio was $172.2 billion. This is comprised of gross cost in the amount of $164.3 billion and a subsidy allowance of $7.9 billion. The reduction in the gross cost from September 30, 2010 to September 30, 2011 is due to sales of MBS during fiscal year 2011, as well as the reduction in principal arising from monthly payments. The change in the subsidy allowance from September 30, 2010 to September 30, 2011 stems from: *(i)* a subsidy modification, which occurred as a result of the Department's decision to sell its MBS holdings, *(ii)* a financial statement reestimate, which occurred at year end, and *(iii)* subsidy allowance amortization. As described below, the different assumptions underlying the calculation of the subsidy modification and the subsidy reestimate drove the difference in the program's cost as reflected in the table below.

With the decision to sell the MBS portfolio, the Department performed a subsidy modification which resulted in an increased cost in the program. The modification is comprised of two components: the cost related to the changes in the anticipated future cash flows, or the modification cost, and the modification adjustment transfer (MAT). The MAT is an adjustment that is recognized to account for differences between the single effective discount rate (determined at the time the purchases were made) and the fiscal year 2011 President's Budget discount rates. The modification cost was $5.1 billion and the MAT resulted in an additional cost of $4.6 billion. The modification cost and the MAT were determined using forward pricing of MBS securities based on fiscal year 2011 economic assumptions within the President's Budget. These assumptions differed from market rates at a time which would have produced a lower modification cost and MAT. Together, the modification and MAT resulted in a cost to the program of $9.7 billion and this is reflected on the line "Subsidy Cost for Modifications" in the table below.

The Department performed a financial statement reestimate of the program's cost as of September 30, 2011. Assumptions about MBS and program performance are drawn from widely available market sources, as well as information published by the GSEs. For the fiscal year 2011 financial statement reestimate, the Department also incorporated assumptions related to future sales, using current market data. Key inputs to the cash flow forecast include, among other factors, forecast sales volume and forward pricing by month estimated using third-party current market prices and interest rate yields. (Refer to the credit program accounting policy described in Note 1 for additional inputs used in this cash flow model). The financial statement reestimate, which considers the effect of the modification, resulted in a total downward adjustment, or a decrease in cost to the program, of $7.9 billion in fiscal year 2011. This downward reestimate is primarily driven by the modification, which was developed using non-market based data, as discussed above. This was offset, to a lesser degree, by an increase in prepayment speeds. Unlike the modification process, projected sales for the financial statement reestimate as of September 30, 2011 utilize forward prices based on yields on current market interest rates as opposed to the fiscal year 2011 President's Budget rates. The increase in prepayment speeds is primarily due to a decrease in market mortgage rates and a related increase in refinancing activity.

The subsidy allowance amortization is comprised of the net difference between interest received on uninvested funds, interest expense on borrowings and interest received from security holdings. The amortization for fiscal years 2011 and 2010 resulted in increases to the subsidy cost of $2.9 billion and $3.8 billion, respectively.

State and Local Housing Finance Agency

Under HERA, the Department, together with the Federal Housing Finance Agency (FHFA), Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development (HUD), created an initiative in October 2009 to provide support to HFAs. This initiative was designed to support low mortgage rates and expand resources for low and middle income borrowers to purchase or rent homes, making them more affordable over the long term. In December 2009, several transactions were finalized as part of the HFA initiative's two separate programs: *(i)* the Temporary Credit and Liquidity Program (TCLP) and *(ii)* the New Issue Bond Program (NIBP).

Under the terms of the TCLP, the Department entered into participation interests with Fannie Mae and Freddie Mac, supporting credit and liquidity facilities that the GSEs are providing to ten states as part of the program. Fannie Mae and Freddie Mac provided replacement credit and liquidity facilities to HFAs that helped reduce the costs of maintaining existing financing and relieve financial strains experienced by HFAs. The Department agreed to support the GSE replacement credit and liquidity facilities by purchasing HFA bonds tendered to the GSEs. As of September 30, 2011 and 2010, the liquidity facilities covered $ 6.6 billion and $7.6 billion, respectively, of single-family and multi-family variable-rate demand obligations. As of September 30, 2011 and 2010, none of these bonds had been tendered to the GSEs and, accordingly, the Department had not disbursed any funds. As such, the Department did not perform a September 30, 2011 subsidy reestimate for TCLP.

Under the terms of the NIBP, the Department purchased securities of Fannie Mae and Freddie Mac collateralized by new state and local HFA bonds. The Department also escrowed funds for the purchase of HFA bonds not yet issued. This investment by the Department provides financing to the HFAs and permits them to issue additional new housing bonds despite challenges in the housing and financial markets. The Department's NIBP GSE obligations are backed by a combination of mortgage revenue bonds and escrowed funds from over 92 HFAs in 49 states plus the District of Columbia.

As of September 30, 2011, the estimated net present value of the future cash flows of the NIBP portfolio was $14.3 billion. The net present value of future cash flows is comprised of gross cost in the amount of $15.1 billion and a subsidy allowance of $815 million. The NIBP subsidy is positive in that the Department expects a cost associated with the program. The subsidy allowance is the difference between the Department's cost of purchasing the GSE collateralized securities and the expected value of the repayments to the Department. As of September 30, 2010, the net present value of future cash flows of the NIBP portfolio was $14.1 billion. This is comprised of gross cost in the amount of $15.3 billion and a subsidy allowance of $1.2 billion. The change in the subsidy allowance from the September 30, 2010 to September 30, 2011 is due to the financial statement reestimate and subsidy allowance amortization, as described below.

The Department performed a financial statement reestimate of the program's cost as of September 30, 2011. Assumptions about security and program performance are drawn from widely available market sources as well as management's assumption of future program usage. The financial statement reestimate resulted in a total upward reestimate of $9 million for fiscal year 2011. This upward reestimate is the net result of projected lower coupon rates on the expected release of escrowed NIBP funds between September 30, 2011, and the termination of the escrowed NIBP funds on December 31, 2011. Most of this increase in cost is offset by an increase in prepayment speeds. The projected lower coupon rates on the expected release of escrowed NIBP funds are due to lower market interest rates used as index to calculate the coupon rates. The increase in prepayment speeds is primarily due to a decrease in market mortgage rates and a related increase in refinancing activity.

The subsidy allowance amortization is comprised of the net difference between interest received on uninvested funds, interest expense on borrowings, fees, and interest received from the HFAs. The amortization for fiscal year 2011 and 2010 was $410 million and $537 million, respectively.

SMALL BUSINESS LENDING FUND

On September 27, 2010, the *Small Business Jobs Act of 2010* (P.L. 111-240) was enacted and, in part, created the SBLF program. Pursuant to the Act, the Department provided capital to qualified community banks with assets of less than $10.0 billion in order to encourage lending to small businesses. Through the SBLF, "Main Street" banks and small businesses work together to help create jobs and promote economic growth in local communities across the nation. As an incentive to participating banks to increase lending to small businesses, the dividend rate a bank pays to the Department for SBLF funding will be reduced as the bank's small business lending increases. The dividend rate is variable and is based on the amount of small business lending but it is, at most, 5.0 percent initially. If a bank's small business lending increases by 10.0 percent or more, then the rate will fall to as low as 1.0 percent. Banks that increase their lending by amounts less than 10.0 percent can benefit from rates set on a stepped scale between 2.0 and 4.0 percent. If lending does not increase by the end of the first two years, the rate will increase to 7.0 percent. After 4 ½ years, the rate will increase to 9.0 percent if the bank has not already repaid the SBLF funding. All funds under this program were disbursed by September 27, 2011, and were still outstanding at September 30, 2011. The Department treats these purchases of capital as direct loans in accordance with the requirements of FCRA.

As of September 30, 2011, the estimated net present value of the future cash flows of the SBLF portfolio was $4.1 billion. The net present value of future cash flows is comprised of a gross cost in the amount of $4.0 billion and a subsidy allowance of $80 million. Specifically, the original subsidy cost of $292 million decreased by $372 million as a result of the financial statement reestimate. The SBLF subsidy is negative in that the Department expects to generate earnings on its portfolio. The subsidy allowance is the difference between the Department's cost of purchasing the SBLF securities and the expected value of the repayments to the Department. It is comprised of subsidy cost for disbursements, the financial statement reestimate, and subsidy allowance amortization.

The Department provided a total of $4.0 billion in capital to SBLF participants during fiscal year 2011. Based on the initial budget subsidy rate of 7.24%, the total subsidy cost for these disbursements was $292 million.

The Department performed a year-end reestimate of the program's cost as of September 30, 2011. Assumptions about program performance are drawn from widely available market sources. This reestimate resulted in a total downward reestimate (reduction in cost) of $372 million, which is the net result of performance to date, updated performance assumptions, and actual program funding cost. The September 30, 2011 performance assumptions anticipate an improved level of performance relative to the assumptions in the original cost estimate. The performance assumptions in the original cost estimate assumed a portfolio with a larger percentage of higher risk banks relative to the actual portfolio as of September 30, 2011.

INTERNATIONAL MONETARY FUND

In 2009, Congress passed the *Supplemental Appropriations Act of 2009* (P.L. 111-32), which authorized an increase in the U.S. quota (refer to Note 12 within these financial statements for more information) in the IMF, as well as an increase in U.S. participation in the New Arrangements to Borrow (NAB), one of the IMF's supplemental borrowing arrangements. For the first time, Congress subjected both program increases to FCRA. Under FCRA, both program increases are treated as direct loans to the IMF. However, the application of FCRA does not apply to appropriations for the quota and NAB prior to 2009. For U.S. budget and accounting purposes, there are effectively two portions of the IMF quota and NAB. The IMF quota program comprises a FCRA portion of $7.8 billion and a non-FCRA portion of $58.0 billion. The IMF NAB program comprises a FCRA portion of $97.5 billion and a non-FCRA portion of $10.4 billion. These are approximate dollar amounts as U.S. commitments to the IMF are denominated in SDRs and, thus, the dollar amounts fluctuate with the SDR/dollar exchange rate. These new designations only affect the manner in which the Department accounts for the use and repayment of these funds as the new and old portions will be fungible to the IMF.

On March 25, 2011, the United States paid the reserve asset portion of the U.S. quota increase that Congress approved in 2009. As of September 30, 2011, the reserve asset payment of $2 billion in connection with the U.S. quota increase was the only amount transferred to the IMF that is subject to FCRA. The estimated net present value of the future cash flows on the reserve asset portion of the quota increase was $1.9 billion. As of September 30, 2011, the U.S. NAB funds that are subject to FCRA have not been drawn.

The difference between IMF draws on the quota and the expected value of the repayments to the Department is the subsidy allowance. The subsidy allowance as of September 30, 2011 is $64 million. The subsidy allowance is comprised of subsidy cost for disbursements, the financial statement reestimate, and the subsidy allowance amortization. Based on the budget subsidy rate of 2.34 percent, the total subsidy cost of the reserve asset portion of the quota increase was $47 million.

The Department performed a reestimate of the program's cost as of September 30, 2011. Assumptions about program performance are drawn from historical data. This reestimate resulted in a total upward reestimate of $15 million, which includes actual disbursements to date, and excludes estimated future disbursements. The upward reestimate is the result of the exclusion of estimate future program disbursements.

The subsidy allowance amortization is comprised of the net difference between interest received on uninvested funds, interest expense on borrowings, and remuneration received from the IMF. The amortization for fiscal year 2011 was $2 million.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS

The CDFI Fund was created as a bipartisan initiative in the *Riegle Community Development and Regulatory Improvement Act of 1994* (P.L. 103-325). The CDFI Fund was placed in the Department and began operations in July 1995. The fund operates various programs aimed at expanding the availability of credit, investment capital, and financial and other services in distressed urban, rural, and Native American communities. The CDFI Fund is intended to help create a national network of financial institutions dedicated to community development that leverages private resources (financial and human) to address community development needs. The CDFI Fund provides financial and technical assistance awards to certified CDFIs, which in turn provide services to create community development impact in underserved markets. Certain of the financial assistance awards take the form of direct loans accounted for under FCRA. As of September 30, 2011, the CDFI Fund had $53 million in loans outstanding.

SUMMARY TABLES

The following tables provide the net composition of the Department's portfolio, subsidy cost, modifications and reestimates, a reconciliation of subsidy cost allowances, budget subsidy rates, and the components of the subsidy for each credit program for the fiscal years ended September 30, 2011 and 2010.

			2011			
(in millions)	GSE MBS	HFA	SBLF	IMF	CDFI	TOTAL
Credit Program Receivables, Net:						
Credit Program Receivables, Gross	$ 70,586	$ 15,143	$ 4,028	$ 1,995	$ 53	$ 91,805
Subsidy Cost Allowance	1,831	(815)	80	(64)	(17)	1,015
Net Credit Program Receivables	$ 72,417	$ 14,328	$ 4,108	$ 1,931	$ 36	$ 92,820
New Credit Program Loans Disbursed	$ -	$ -	$ 4,028	$ 1,995	$ -	$ 6,023
Obligations for Loans Not Yet Disbursed (1)	$ -	$ -	$ -	$ 6,026	$ -	$ 6,026

(1) *Excludes $97.5 billion of obligated but undisbursed NAB loans which are accounted for pursuant to FCRA. The obligation is based on the SDR exchange rate as of September 30, 2011 and has a 0.34 percent subsidy rate.*

	GSE MBS	HFA	SBLF	IMF	CDFI	TOTAL
Budget Subsidy Rate, Excluding Modifications and Reestimates:						
Interest Differential	-	-	(26.54%)	1.69%	-	
Defaults	-	-	19.88%	0.02%	-	
Other	-	-	13.90%	0.63%	-	
Total Budget Subsidy Rate	-	-	7.24%	2.34%	-	
Subsidy Cost by Component:						
Interest Differential	$ -	$ -	$ (1,069)	$ 34	$ -	$ (1,035)
Defaults	-	-	801	-	-	801
Other	-	-	560	13	-	573
Total Subsidy Cost, Excluding Modifications and Reestimates	$ -	$ -	$ 292	$ 47	$ -	$ 339
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning	$ (7,894)	$ 1,186	$ -	$ -	$ 15	$ (6,693)
Subsidy Cost for Disbursements	-	-	292	47	-	339
Subsidy Cost for Modifications	9,738	-	-	-	-	9,738
Fees Received	-	30	-	-	-	30
Subsidy Allowance Amortized	2,885	(410)	-	2	-	2,477
Other	1,364	-	-	-	-	1,364
Balance, Ending, Before Reestimates	6,093	806	292	49	15	7,255
Subsidy Reestimates	(7,924)	9	(372)	15	2	(8,270)
Balance, Ending	$ (1,831)	$ 815	$ (80)	$ 64	$ 17	$ (1,015)
Reestimates						
Interest Rate Reestimate	$ -	$ -	$ (58)	$ -	$ -	$ (58)
Technical/Default Reestimate	(7,924)	9	(314)	15	2	(8,212)
Total Reestimates – Increase (Decrease) in Subsidy Cost	$ (7,924)	$ 9	$ (372)	$ 15	$ 2	$ (8,270)
Reconciliation of Subsidy Costs:						
Subsidy Cost for Disbursements	$ -	$ -	$ 292	$ 47	$ -	$ 339
Subsidy Cost for Modifications	9,738	-	-	-	-	9,738
Subsidy Reestimates	(7,924)	9	(372)	15	2	(8,270)
Total Credit Program Receivables Subsidy Costs	$ 1,814	$ 9	$ (80)	$ 62	$ 2	$ 1,807
Administrative Expense	$ 21	$ -	$ -	$ -	$ -	$ 21

2010						
(in millions)	GSE MBS	HFA	SBLF	IMF	CDFI	TOTAL
Credit Program Receivables, Net:						
Credit Program Receivables, Gross	$ 164,340	$ 15,307	$ -	$ -	$ 56	$ 179,703
Subsidy Cost Allowance	7,894	(1,186)	-	-	(15)	6,693
Credit Program Receivables, Net	$ 172,234	$ 14,121	$ -	$ -	$ 41	$ 186,396
New Credit Program Loans Disbursed	$ 29,878	$ 15,308	$ -	$ -	$ -	$ 45,186
Obligations for Loans Not Yet Disbursed	$ -	$ -	$ -	$ -	$ -	$ -
Budget Subsidy Rate, Excluding Modifications and Reestimates:						
Interest Differential	(3.73%)	(0.52%)	-	-	-	
Defaults	-	-	-	-	-	
Other	-	-	-	-	-	
Total Budget Subsidy Rate	(3.73%)	(0.52%)	-	-	-	
Subsidy Cost by Component:						
Interest Differential	$ (1,115)	$ (79)	$ -	$ -	$ -	$ (1,194)
Defaults	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Subsidy Cost, Excluding Modifications and Reestimates	$ (1,115)	$ (79)	$ -	$ -	$ -	$ (1,194)
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning	$ (11,093)	$ -	$ -	$ -	$ 20	$ (11,073)
Subsidy Cost for Disbursements	(1,115)	(79)	-	-	-	(1,194)
Subsidy Cost for Modifications	-	(20)	-	-	-	(20)
Fees Received	-	-	-	-	-	-
Subsidy Allowance Amortized	3,831	(537)	-	-	(1)	3,293
Other	-	-	-	-	-	-
Balance, Ending, Before Reestimates	(8,377)	(636)	-	-	19	(8,994)
Subsidy Reestimates	483	1,822	-	-	(4)	2,301
Balance, Ending	$ (7,894)	$ 1,186	$ -	$ -	$ 15	$ (6,693)
Reestimates:						
Interest Rate Reestimate	$ (157)	$ 847	$ -	$ -	$ -	$ 690
Technical/Default Reestimate	640	975	-	-	(4)	1,611
Total Reestimates - Increase (Decrease) in Subsidy Cost	$ 483	$ 1,822	$ -	$ -	$ (4)	$ 2,301
Reconciliation of Subsidy Costs:						
Subsidy Cost for Disbursements	$ (1,115)	$ (79)	$ -	$ -	$ -	$ (1,194)
Subsidy Cost for Modifications	-	(20)	-	-	-	(20)
Subsidy Reestimates	483	1,822	-	-	(4)	2,301
Total Credit Program Receivables Subsidy Costs	$ (632)	$ 1,723	$ -	$ -	$ (4)	$ 1,087
Administrative Expense	$ 6	$ -	$ -	$ -	$ -	$ 6

12. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or Special Drawing Rights, which are international reserve assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by the Department and maintained by the FRBNY, represents the bulk of the IMF's holdings of dollars. In keeping with IMF rules, approximately 0.25 percent of the U.S. quota is held in cash in an IMF account at FRBNY.

The *Supplemental Appropriations Act of 2009* (P.L. 111-32) provided for an approximately $8.0 billion increase in the United States quota in the IMF which came into effect in March 2011. P.L. 111-32 also provided for an increase in the United States' participation in the NAB up to the dollar equivalent of SDR 75 billion, which was activated in April 2011. In May 2010, in connection with this Act, the United States agreed to increase its participation in the NAB from SDR 6.6 billion to SDR 69.1 billion, which was equivalent to $107.9 billion on September 30, 2011. Unlike all prior U.S. funding for the IMF, this Act subjects both the increases in the U.S. quota and the NAB to the requirements of FCRA. The existing portions of the U.S. quota and NAB, referred to as "the non-FCRA funds," will be accounted for in the same manner as they previously have been. The new portions of the quota and NAB, referred to as "the FCRA funds," will be accounted for in accordance with credit reform accounting guidelines.

While resources for transactions between the IMF and the United States are appropriated, with the exception of the FCRA funds, they do not result in net budgetary outlays. This is because U.S./IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest-bearing and available at any time to meet balance of payment needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.

As of September 30, 2011 and 2010, the U.S. quota in the IMF was 42.1 billion SDRs and 37.1 billion SDRs, respectively. The value of the U.S. quota consisted of the following (in millions):

	Non-FCRA	**FCRA**(3)	**Total 2011**	Non-FCRA	FCRA	Total 2010
Letter of Credit(1)	**$ 37,178**	**$ 5,772**	**$ 42,950**	$ 45,245	$ -	$ 45,245
U.S. Dollars Held in Cash by the IMF	**153**	**20**	**173**	144	-	144
Reserve Position(2)	**20,682**	**1,974**	**22,656**	12,938	-	12,938
Total U.S. Quota in the IMF	**$ 58,013**	**$ 7,766**	**$ 65,779**	$ 58,327	$ -	$ 58,327

(1) This amount is included as part of the Fund Balance as reported on the Consolidated Balance Sheets and "Appropriated Funds" disclosed in Note 2.

(2) The amounts shown in the non-FCRA columns are included in the Reserve Position in the IMF on the Consolidated Balance Sheets.

(3) Represents the FCRA portion of the U.S. quota in the IMF.

The U.S. reserve position is denominated in SDR, as is the U.S. quota. Consequently, fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the IMF as well as the IMF letter of credit. The Department periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. At April 30, 2011, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2010, called for a downward adjustment of the U.S. quota by $1.7 billion and a corresponding increase to Unexpended Appropriations on the Statement of Changes in Net Position. At April 30, 2010, the appreciation of the dollar against the SDR since April 30, 2009, called for an upward adjustment of the U.S. quota by $349 million and a corresponding decrease to Unexpended Appropriations. The dollar amounts shown above for the U.S. quota include accrued valuations adjustments. On September 30, 2011, the Department recorded a net deferred valuation loss in the amount of $78 million for deferred maintenance of value adjustments needed at year end, compared to a net deferred valuation loss of $168 million recorded at September 30, 2010.

The United States earns "remuneration" (interest) on its reserve position in the IMF except for a portion of the U.S. quota originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket. For fiscal years 2011 and 2010, the Department received $59 million and $23 million as remuneration, respectively.

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in order to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the NAB. There was $6.1 billion in U.S. loans outstanding under these arrangements in fiscal year 2011 and none in fiscal year 2010 (reported on the Consolidated Balance Sheets within the "Loans and Interest Receivable" line). Total U.S. participation in the GAB and NAB was SDR 69.1 billion ($107.9 billion) and SDR 6.6 billion ($10.4 billion), as of September 30, 2011 and 2010, respectively. Budgetary treatment of U.S. participation in the GAB and NAB, to the extent not subject to FCRA, does not result in net budgetary outlays.

13. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2011 and 2010, Taxes, Interest and Other Receivables, Net consisted of the following (in millions):

	2011	2010
Non-Entity		
Federal Taxes Receivable, Gross	**$ 147,025**	$ 138,097
Less: Allowance on Taxes Receivable	**(112,017)**	(103,091)
Interest Receivable on FRB Deposits of Earnings	**1,599**	1,910
Other Receivables	**23**	39
Less: Allowance on Other Receivables	**(10)**	(24)
Total Non-Entity (Note 15)	**36,620**	36,931
Entity		
Miscellaneous Entity Receivables and Related Interest	**70**	45
Total Taxes, Interest and Other Receivables, Net	**$ 36,690**	$ 36,976

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. Federal taxes receivable is reduced by an allowance for doubtful accounts which is established to represent an estimate for uncollectible amounts. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable.

In addition to amounts attributed to taxes, these receivables also include accrued interest income due on funds deposited in FRBs. The Department does not establish an allowance for the receivable on deposits of FRB earnings.

14. Property, Plant, and Equipment, Net

As of September 30, 2011 and 2010, property, plant and equipment consisted of the following (in millions):

	Depreciation Method	**Service Life**		**Cost**		**Accumulated Depreciation**		**2011 Book Net Value**
Buildings, structures, and facilities	**S/L**	**3-50 years**	**$**	**703**	**$**	**(360)**	**$**	**343**
Furniture, fixtures, and equipment	**S/L**	**2-20 years**		**3,097**		**(2,259)**		**838**
Construction in progress	**N/A**	**N/A**		**153**		**-**		**153**
Land and land improvements	**N/A**	**N/A**		**15**		**-**		**15**
Internal use software in use	**S/L**	**2-15 years**		**1,529**		**(1,151)**		**378**
Internal use software in development	**N/A**	**N/A**		**320**		**-**		**320**
Assets under capital lease	**S/L**	**2-25 years**		**7**		**(1)**		**6**
Leasehold improvements	**S/L**	**2-25 years**		**510**		**(297)**		**213**
Total			**$**	**6,334**	**$**	**(4,068)**	**$**	**2,266**

	Depreciation Method	Service Life		Cost		Accumulated Depreciation		2010 Book Net Value
Buildings, structures, and facilities	S/L	3-50 years	$	701	$	(336)	$	365
Furniture, fixtures, and equipment	S/L	2-20 years		3,100		(2,295)		805
Construction in progress	N/A	N/A		15		-		15
Land and land improvements	N/A	N/A		13		-		13
Internal use software in use	S/L	2-10 years		1,510		(1,003)		507
Internal use software in development	N/A	N/A		102		-		102
Assets under capital lease	S/L	2-25 years		4		(2)		2
Leasehold improvements	S/L	2-25 years		541		(319)		222
Total			$	5,986	$	(3,955)	$	2,031

The service life ranges vary significantly due to the diverse nature of PP&E held by the Department.

Heritage Assets

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also considered multi-use heritage assets for fiscal years 2011 and 2010 and included on the National Register of Historic Places. Multi-use heritage assets are recognized and presented with general property, plant and equipment on the Consolidated Balance Sheets.

15. Non-Entity vs. Entity Assets

Non-entity assets are those that are held by the Department but are not available for use by the Department. For example, the non-entity Fund Balance represents unused balances of appropriations received by various Treasury entities to conduct custodial operations such as the payment of interest on the federal debt and refunds of taxes and fees (Note 2). Non-entity intra-governmental loans and interest receivable represents loans managed by the Department on behalf of the General Fund. These loans are provided to federal agencies, and the Department is responsible for collecting these loans and transferring the proceeds to the General Fund (Note 3). Non-entity advances to the DOL's Unemployment Trust Fund are issued from the General Fund to states for unemployment benefits. Repayment of these advances will be transferred to the General Fund (Note 4).

Non-entity cash, foreign currency, and other monetary assets include the operating cash of the U.S. Government, managed by the Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments (Note 5). Non-entity investments in GSEs include the GSEs' senior preferred stock and warrants held by the Department on behalf of the General Fund. As the stock and warrants are liquidated, all proceeds are returned to the General Fund (Note 8). Non-entity investments in AIG include AIG common stock held by the Department on behalf of the General Fund as of September 30, 2011, compared to a beneficial interest held in a trust comprised of AIG preferred stock as of September 30, 2010. Proceeds from the sale of the AIG common stock are being returned to the General Fund (Note 26).

As of September 30, 2011 and 2010, the Department's total assets, segregated between non-entity and entity, are shown below (in millions):

	2011		
	Non-Entity	**Entity**	**Total**
Intra-governmental Assets:			
Fund balance [a]	**$ 1,465**	**$ 380,319**	**$ 381,784**
Loans and Interest Receivable (Note 3)	**671,411**	**57,239**	**728,650**
Advances to the Unemployment Trust Fund (Note 4)	**42,773**	**-**	**42,773**
Due from the General Fund (Note 4)	**14,902,717**	**-**	**14,902,717**
Other Intra-governmental Assets	**388**	**760**	**1,148**
Total Intra-governmental Assets	**15,618,754**	**438,318**	**16,057,072**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)[b]	**50,216**	**66,905**	**117,121**
Gold and Silver Reserves (Note 6)[c]	**11,062**	**-**	**11,062**
Investments in GSEs (Note 8)	**133,043**	**-**	**133,043**
Taxes, Interest and Other Receivables, Net (Note 13)	**36,620**	**70**	**36,690**
Non-TARP Investments in American International Group, Inc. (Note 26)	**10,862**	**-**	**10,862**
Other Assets [d]	**102**	**224,274**	**224,376**
Total Assets	**$ 15,860,659**	**$ 729,567**	**$ 16,590,226**

[a] $358 million of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[b] $50 billion of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[c] $25 million of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[d] Other Assets (Entity) include TARP and non-TARP credit program receivables, net totaling $80.1 billion and $92.8 billion, respectively, a reserve position in the IMF of $20.7 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.

	2010		
	Non-Entity	Entity	Total
Intra-governmental Assets:			
Fund Balance [e]	$ 542	$ 436,484	$ 437,026
Loans and Interest Receivable (Note 3)	493,389	59,464	552,853
Advances to the Unemployment Trust Fund (Note 4)	34,111	-	34,111
Due from the General Fund (Note 4)	13,655,637	-	13,655,637
Other Intra-governmental Assets	350	829	1,179
Total Intra-governmental Assets	14,184,029	496,777	14,680,806
Cash, Foreign Currency, and Other Monetary Assets (Note 5)[f]	304,244	68,190	372,434
Gold and Silver Reserves (Note 6)[g]	11,062	-	11,062
Investments in GSEs (Note 8)	109,216	-	109,216
Taxes, Interest and Other Receivables, Net (Note 13)	36,931	45	36,976
Non-TARP Investments in American International Group, Inc. (Note 26)	20,805	-	20,805
Other Assets [h]	129	367,829	367,958
Total Assets	$ 14,666,416	$ 932,841	$ 15,599,257

[e] $249 million of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[f] $303.8 billion of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[g] $25 million of the Non-entity balance represents assets held on behalf of the General Fund (Note 4).
[h] Other Assets (Entity) include TARP and non-TARP credit program receivables, net totaling $144.7 billion and $186.4 billion, respectively, a reserve position in the IMF of $12.9 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.

16. FEDERAL DEBT AND INTEREST PAYABLE

The Department is responsible for administering the federal debt on behalf of the U.S. Government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt does not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the HUD.

The federal debt as of September 30, 2011 and 2010 was as follows (in millions):

Intra-governmental	**2011**	2010
Beginning Balance	**$ 4,501,028**	$ 4,319,892
New Borrowings/Repayments	**124,010**	181,136
Subtotal at Par Value	**4,625,038**	4,501,028
Premium/(Discount)	**47,386**	38,228
Debt Principal Not Covered by Budgetary Resources (Note 19)	**4,672,424**	4,539,256
Interest Payable Covered by Budgetary Resources	**47,741**	48,546
Total	**$ 4,720,165**	$ 4,587,802

Held by the Public	**2011**	2010
Beginning Balance	**$ 9,022,808**	$ 7,551,862
New Borrowings/Repayments	**1,104,223**	1,470,946
Subtotal at Par Value	**10,127,031**	9,022,808
Premium/(Discount)	**(29,538)**	(33,870)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**10,097,493**	8,988,938
Interest Payable Covered by Budgetary Resources	**51,470**	46,991
Total	**$ 10,148,963**	$ 9,035,929

Debt held by the public approximates the U.S. Government's competition with other sectors in the credit markets. In contrast, debt held by federal agencies, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e., excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

FEDERAL DEBT HELD BY OTHER FEDERAL AGENCIES

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the U.S. Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. Government. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding TIPS, for fiscal years 2011 and 2010 was 4.1 percent and 4.3 percent, respectively. The average intra-governmental interest rate on TIPS for fiscal years 2011 and 2010 was 1.8 percent and 1.9 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt held by federal agencies at par value (not including premium/discount or interest payable) as of September 30, 2011 and 2010 was as follows (in millions):

	2011	2010
Social Security Administration	**$ 2,654,497**	$ 2,586,333
Office of Personnel Management	**897,951**	866,090
Department of Defense Agencies	**497,391**	433,203
Department of Health and Human Services	**321,615**	355,554
All Other Federal Agencies - Consolidated	**253,584**	259,848
Total Federal Debt Held by Other Federal Agencies	**$ 4,625,038**	$ 4,501,028

FEDERAL DEBT HELD BY THE PUBLIC

Federal Debt held by the Public at par value (not including premium/discount or interest payable) as of September 30, 2011 and 2010 consisted of the following (in millions):

(at par value)	**Term**	**Average Interest Rates**	**2011**
Marketable:			
Treasury Bills	**1 Year or Less**	**0.1%**	**$ 1,475,557**
Treasury Notes	**Over 1 Year - 10 Years**	**2.3%**	**6,406,983**
Treasury Bonds	**Over 10 Years**	**5.8%**	**1,016,407**
Treasury Inflation-Protected Security (TIPS)	**5 Years or More**	**1.9%**	**705,352**
Total Marketable			**9,604,299**
Non-Marketable	**On Demand to Over 10 Years**	**2.8%**	**522,732**
Total Federal Debt Held by the Public			**$ 10,127,031**

(at par value)	Term	Average Interest Rates	2010
Marketable:			
Treasury Bills	1 Year or Less	0.2%	$ 1,783,674
Treasury Notes	Over 1 Year - 10 Years	2.6%	5,252,585
Treasury Bonds	Over 10 Years	6.1%	846,054
Treasury Inflation-Protected Security (TIPS)	5 Years or More	2.2%	593,615
Total Marketable			8,475,928
Non-Marketable	On Demand to Over 10 Years	2.8%	546,880
Total Federal Debt Held by the Public			$ 9,022,808

The Department issues marketable bills at a discount or at par, and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year end. Treasury bills are issued with a term of one year or less.

The Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end. Treasury notes are issued with a term of two to ten years, and Treasury bonds are issued with a term of more than ten years. The Department also issues TIPS that have interest and redemption payments tied to the Consumer Price Index for all Urban Consumers, a widely used measurement of inflation. TIPS are issued with a term of five years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance included inflation of $76.1 billion and $57.5 billion as of September 30, 2011 and 2010, respectively.

Debt held by the public primarily represents the amount the U.S. Government has borrowed to finance cumulative cash deficits. During fiscal year 2011, the Department issued bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. Government. Treasury bills outstanding decreased by $308.1 billion; whereas, Treasury notes, bonds, and TIPS outstanding increased by $1.2 trillion, $170 billion, and $112 billion, respectively, in fiscal year 2011.

Federal Debt Held by the Public includes federal debt held outside of the U.S. Government by individuals, corporations, FRBs, state and local governments, foreign governments, and central banks. As of September 30, 2011 and 2010, the FRBs had total holdings of $1.7 trillion and $813.6 billion, respectively, which included a net of $759 million and $1.9 billion in Treasury securities held by the FRBs as collateral for securities lending activities, respectively. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

From May 16, 2011 to August 2, 2011, the Department was forced to depart from its normal debt management procedures and invoke legal authorities to avoid exceeding the statutory debt limit. During this period, actions taken by Treasury included: *(i)* suspending investment of receipts and reinvestments of maturities (including interest earnings) of the Government Securities Investment Fund (G-Fund) of the Federal Employees' Retirement System, the ESF, the Civil Service Retirement and Disability Fund (Civil Service Fund), and the Postal Service Retiree Health Benefit Fund (Postal Benefits Fund); *(ii)* redeeming a Civil Service fund security early to make benefit payments; and *(iii)* suspending the sales of state and local government series securities.

On August 2, 2011, *the Budget Control Act of 2011* was signed into law, becoming Public Law No. 112-25. Pursuant to Public Law 112-25, the statutory debt limit was raised by $400 billion to $14.7 trillion on August 2, 2011, and by $500 billion to $15.2 trillion on September 22, 2011. The Budget Control Act of 2011 also enacted caps on discretionary spending for fiscal years 2012 through 2021, and created the Joint Select Committee on Deficit Reduction which is tasked with proposing legislation for additional deficit reduction over the same period.

Subsequent to the August 2, 2011 increase to the statutory debt limit, the Department took steps to restore foregone principal and interest to the four funds . Principal for the four funds of nearly $240 billion was restored on August 2, 2011, and interest for the G-Fund of $378 million was restored on August 3, 2011. An additional $497 million of interest for the Civil Service Fund and the Postal Benefits Fund, which had been previously accrued as interest payable, will be restored on the next semi-annual interest payment due date of December 31, 2011. During fiscal year 2011, a total of $875 million of foregone interest was paid and/or accrued on the Department's Consolidated Statements of Net Cost.

17. OTHER DEBT AND INTEREST PAYABLE

The Department, through FFB, has outstanding borrowings and related accrued interest with the Civil Service Retirement and Disability Fund which is administered by the OPM. At September 30, 2011 and 2010, FFB had borrowings and related accrued interest of $8.5 billion and $10.4 billion, respectively. The outstanding borrowings at September 30, 2011 had a stated interest rate of 4.63 percent, an effective interest rate of 4.63 percent, and maturity dates ranging from June 30, 2012 to June 30, 2019. The outstanding borrowings at September 30, 2010 had a stated interest rate ranging from 4.63 percent to 5.25 percent, an effective interest rate of 4.13 percent, and maturity dates ranging from June 30, 2011 to June 30, 2019.

18. D.C. Pensions and Judicial Retirement Actuarial Liability

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended (the Act), on October 1, 1997, the Department became responsible for certain District of Columbia (D.C.) retirement plans. The Act was intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. Government in 1979. To fulfill its responsibility, the Department manages two funds – the D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund (the D.C. Federal Pension Fund) and the District of Columbia Judicial Retirement and Survivors' Annuity Fund (the Judicial Retirement Fund). The Department is required to make annual amortized payments from the General Fund to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The D.C. Federal Pension Fund benefit payments and administrative expenses are related to benefits earned based upon service on or before June 30, 1997. The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by the Department. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

A reconciliation of the pension actuarial liability as of September 30, 2011 and 2010 is as follows (in millions):

	2011	2010
Beginning Liability Balance	**$ 9,743**	$ 9,049
Pension Expense:		
Normal cost	**5**	4
Interest on Pension Liability During the Year	**266**	399
Actuarial (Gains) Losses During the Year:		
From Experience	**(123)**	(62)
From Discount Rate Assumption Change	**472**	1,879
From Other Assumption Changes	**(154)**	(999)
Total Pension Expense	**466**	1,221
Less Amounts Paid	**(538)**	(527)
Ending Liability Balance	**$ 9,671**	$ 9,743

ADDITIONAL INFORMATION

		D.C. Federal Pension Fund		Judicial Retirement Fund		2011 Total
Pension and Other Actuarial Liability	$	9,481	$	190	$	9,671
Unobligated Budgetary Resources		(3,591)		(131)		(3,722)
Unfunded Liability	$	5,890	$	59	$	5,949
Amount Received from the General Fund	$	492	$	9	$	501
Annual Rate of Investment Return Assumption		2.28% - 4.97%		2.28% - 4.97%		
Future Annual Rate of Inflation and Cost-of-Living Adjustment		2.39%		2.43%		
Future Annual Rate of Salary Increases:						
Police Officers & Firefighters		4.26%		N/A		
Teachers		4.26%		N/A		
Judicial		N/A		1.84%		

		D.C. Federal Pension Fund		Judicial Retirement Fund		2010 Total
Pensions and Other Actuarial Liability	$	9,558	$	185	$	9,743
Unobligated Budgetary Resources		(3,600)		(127)		(3,727)
Unfunded Liability	$	5,958	$	58	$	6,016
Amount Received from the General Fund	$	519	$	8	$	527
Annual Rate of Investment Return Assumption		2.79% - 5.13%		2.79% - 5.13%		
Future Annual Rate of Inflation and Cost-of-Living Adjustment		2.56%		2.78%		
Future Annual Rate of Salary Increases:						
Police Officers & Firefighters		4.20%		N/A		
Teachers		4.20%		N/A		
Judicial		N/A		2.11%		

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY AND OTHER RESOURCES

As of September 30, 2011 and 2010, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2011	2010
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 4,672,424**	$ 4,539,256
Other Intra-governmental Liabilities	**124**	123
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	**4,672,548**	4,539,379
Federal Debt Principal, Premium/Discount (Note 16)	**10,097,493**	8,988,938
Gold and Silver Reserves Held by the Mint	**10,494**	10,494
Pensions and Other Actuarial Liability (Note 18)	**5,949**	6,016
Liabilities to GSEs (Note 8)	**316,230**	359,900
Other Liabilities	**2,017**	1,990
Total Liabilities Not Covered by Budgetary and Other Resources	**15,104,731**	13,906,717
Total Liabilities Covered by Budgetary and Other Resources	**1,405,357**	1,591,444
Total Liabilities	**$ 16,510,088**	$ 15,498,161

OTHER LIABILITIES

Total "Other Liabilities" displayed on the Consolidated Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources. Other liabilities at September 30, 2011 and 2010 consisted of the following (in millions):

	Current	Non-Current	2011 Total	Current	Non-Current	2010 Total
Intra-governmental						
Unfunded Federal Workers Compensation Program Liability (FECA)	**$ 45**	**$ 58**	**$ 103**	$ 46	$ 57	$ 103
Accounts Payable	**124**	**-**	**124**	59	-	59
Accrued Interest Payable	**1**	**-**	**1**	-	-	-
Other Accrued Liabilities	**225**	**-**	**225**	203	1	204
Total Intra-governmental	**$ 395**	**$ 58**	**$ 453**	$ 308	$ 58	$ 366
With the Public						
Actuarial Federal Workers Compensation Program Liability (FECA)	**$ -**	**$ 553**	**$ 553**	$ -	$ 553	$ 553
Liability for Deposit Funds (Held by the U.S. Government for Others) and Suspense Accounts	**861**	**-**	**861**	724	-	724
Accrued Funded Payroll and Benefits	**557**	**-**	**557**	533	-	533
Capital Lease Liabilities	**-**	**1**	**1**	-	-	-
Accounts Payable and Other Accrued Liabilities	**2,186**	**64**	**2,250**	2,607	53	2,660
Total with the Public	**$ 3,604**	**$ 618**	**$ 4,222**	$ 3,864	$ 606	$ 4,470

20. NET POSITION

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others: (a) accumulated annual leave earned but not taken, (b) accrued FECA, (c) credit reform cost reestimates, and (d) expenses for contingent liabilities.

The amount reported as "appropriations received" is appropriated by Congress from the General Fund receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the "appropriation received" amount reported on the Combined Statements of Budgetary Resources because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recorded as "appropriations received" on the Combined Statements of Budgetary Resources, but are recognized as exchange or non-exchange revenue (i.e., typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*.

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statement of Changes in Net Position under "Other Financing Sources" includes the following as of September 30, 2011 and 2010 (in millions):

	2011	2010
Categories of Transfers to the General Fund and Other		
Downward Reestimates of Credit Reform Subsidies	**$ 49,744**	$ 35,906
Increase in Liquidity Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 8)	**39,415**	56,678
Interest Revenue/Distribution of Income	**37,761**	35,993
Other	**1,018**	368
TOTAL	**$ 127,938**	$ 128,945

The credit reform downward reestimate subsidies that are transferred to the General Fund result from a change in forecasts of future cash flows (See Notes 7 and 11). Also included in "Transfers to the General Fund and Other" are the GSE Senior Preferred Stock investments and related dividends as well as the annual valuation adjustment to those investments (See Note 8). In addition, these transfers also include distribution of interest revenue to the General Fund. The interest revenue is accrued on inter-agency loans held by the Department on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statements of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statements of Net Cost is reduced by eliminations with Treasury bureaus.

The "*Other*" line mainly represents collections from other federal agencies as reimbursement of costs incurred by the Department for its administration of trust funds established within the Social Security Act. The Department is directed by statute to execute these administrative services. Seigniorage and numismatic profits also are included in the "Other" line. Seigniorage is the face value of newly minted circulating coins less the cost of production. Numismatic profit is any profit on the sale of proof coins, uncirculated coins, commemorative coins, and related products and accessories. The United States Mint is required to distribute seigniorage and numismatic profits in excess of operating expenses to the General Fund. In any given year, the amount recognized as seigniorage may differ from the amount distributed to the General Fund by an insignificant amount due to timing differences.

21. CONSOLIDATED STATEMENTS OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS

The Department's Consolidated Statements of Net Cost display information on a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (DO and each operating bureau).

REPORTING ENTITY

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Governmen*t which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to Department-wide programs is the result of using the following cost assignment methods: (1) direct costs, (2) cause and effect, and (3) cost allocation.

INTRA-DEPARTMENTAL COSTS/REVENUES

Intra-departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations and as revenues by receiving sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

INTRA-GOVERNMENTAL COSTS

Intra-governmental cost relates to the source of goods and services purchased by the Department and not to the classification of the related intra-governmental revenue.

In certain cases, other Federal agencies incur costs that are directly identifiable to the Department's operations. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending*; SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, the Department recognizes identified costs paid for the Department by other agencies as an expense of the Department. The material imputed inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the Federal Employees Health Benefits Program (FEHB), and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department. The funding for these costs is reflected as imputed financing sources on the Statement of Changes in Net Position. Costs paid by other agencies on behalf of the Department were $925 million and $1.0 billion for the years ended September 30, 2011 and 2010, respectively.

CONSOLIDATED STATEMENT OF NET COSTS PRESENTATION

OMB Circular No. A-136, *Financial Reporting Requirements*, as revised, requires that the presentation of the Consolidated Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, the Department has presented the gross costs and earned revenues by the applicable strategic goals in its fiscal years 2007 – 2012 Strategic Plan. The majority of Treasury bureaus' and reporting entities' net cost information falls within a single strategic goal in the Consolidated Statements of Net Cost. TTB and DO allocate costs to multiple programs using a net cost percentage calculation.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which certain earned revenue amounts can reasonably be attributed to programs. The attribution of such earned revenues requires the exercise of managerial judgment.

The Department's Consolidated Statements of Net Cost also present interest expense on the Federal Debt and other federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. Government. These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury sub-organizations.

Other federal costs shown on the Statements of Net Cost for the years ended September 30, 2011 and 2010 consisted of the following (in millions):

	2011	2010
Credit Reform Interest on Uninvested Fund (Intra-governmental)	$ **8,015**	$ 8,192
Resolution Funding Corporation	**2,239**	2,276
Judgment Claims and Contract Disputes	**2,290**	1,119
Corporation for Public Broadcasting	**435**	506
Legal Services Corporation	**408**	418
All Other Payments	**356**	242
Total	**$ 13,743**	$ 12,753

21. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions)

For Fiscal Year Ended September 30, 2011

Program Costs	Bureau of Engraving & Printing	Bureau of the Public Debt	Depart-mental Office[(a)]	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM							
Intra-governmental Gross Costs	$ -	$ 111	$ 1,957	$ -	$ 197	$ 4,405	$ -
Less: Earned Revenue	-	(22)	(2,225)	-	(170)	(70)	-
Intra-governmental Net Costs	-	89	(268)	-	27	4,335	-
Gross Costs with the Public	-	218	577	-	1,222	9,059	-
Less: Earned Revenue	-	(4)	(1)	-	-	(408)	-
Net Costs with the Public	-	214	576	-	1,222	8,651	-
Net Cost: Financial Program	-	303	308	-	1,249	12,986	-
ECONOMIC PROGRAM							
Intra-governmental Gross Costs	89	-	9,618	-	-	-	76
Less: Earned Revenue	(3)	-	(2,496)	-	-	-	(10)
Intra-governmental Net Costs	86	-	7,122	-	-	-	66
Gross Costs with the Public	459	-	(1,467)	-	-	-	4,408
Less: Earned Revenue	(539)	-	(8,479)	-		-	(4,601)
Net Costs with the Public	(80)	-	(9,946)	-	-	-	(193)
Net Cost: Economic Program	6	-	(2,824)	-	-	-	(127)
SECURITY PROGRAM							
Intra-governmental Gross Costs	-	-	160	67	-	-	-
Less: Earned Revenue	-	-	(23)	(3)	-	-	-
Intra-governmental Net Costs	-	-	137	64	-	-	-
Gross Costs with the Public	-	-	155	55	-	-	-
Less: Earned Revenue	-	-	-	-	-	-	-
Net Costs with the Public	-	-	155	55	-	-	-
Net Cost: Security Program	-	-	292	119	-	-	-
MANAGEMENT PROGRAM							
Intra-governmental Gross Costs	-	66	188	-	-	-	-
Less: Earned Revenue	-	(192)	(168)	-	-	-	-
Intra-governmental Net Costs	-	(126)	20	-	-	-	-
Gross Costs with the Public	-	121	283	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-	-
Net Costs with the Public	-	121	283	-	-	-	-
Net Cost: Management Program	-	(5)	303	-	-	-	-
Total Program Cost Before Assumption Changes	6	298	(1,921)	119	1,249	12,986	(127)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	-	-	195	-	-	-	-
Net Cost of Operations	$ 6	$ 298	$ (1,726)	$ 119	$ 1,249	$ 12,986	$ (127)

(a) Of the total $2.8 billion of net income (negative cost) reported on the Net Economic Program Cost line by Departmental Office, GSE and ESF contributed $21.1 and $1 billion of net income, respectively; partially offset by OFS, DO policy offices, and OAS net cost of $9.5 billion, $7.1 billion, and $2.5 billion, respectively. Other immaterial net costs were spread throughout other DO programs or offices.

21. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions) (con't):

For Fiscal Year Ended September 30, 2011

Program Costs	Office of the Comptroller of the Currency	Office of (b) Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2011 Consolidated
FINANCIAL PROGRAM						
Intra-governmental Gross Costs	$ -	$ -	$ 15	$ 6,685	$ 2,130	$ 4,555
Less: Earned Revenue	-	-	-	(2,487)	(270)	(2,217)
Intra-governmental Net Costs	-	-	15	4,198	1,860	2,338
Gross Costs with the Public	-	-	40	11,116	-	11,116
Less: Earned Revenue	-	-	(3)	(416)	-	(416)
Net Costs with the Public	-	-	37	10,700	-	10,700
Net Cost: Financial Program	-	-	52	14,898	1,860	13,038
ECONOMIC PROGRAM						
Intra-governmental Gross Costs	122	31	15	9,951	9,561	390
Less: Earned Revenue	(26)	(15)	-	(2,550)	(2,514)	(36)
Intra-governmental Net Costs	96	16	15	7,401	7,047	354
Gross Costs with the Public	715	161	38	4,314	-	4,314
Less: Earned Revenue	(817)	(169)	-	(14,605)	-	(14,605)
Net Costs with the Public	(102)	(8)	38	(10,291)	-	(10,291)
Net Cost: Economic Program	(6)	8	53	(2,890)	7,047	(9,937)
SECURITY PROGRAM						
Intra-governmental Gross Costs	-	-	-	227	77	150
Less: Earned Revenue	-	-	-	(26)	(21)	(5)
Intra-governmental Net Costs	-	-	-	201	56	145
Gross Costs with the Public	-	-	-	210	-	210
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	-	210	-	210
Net Cost: Security Program	-	-	-	411	56	355
MANAGEMENT PROGRAM						
Intra-governmental Gross Costs	-	-	-	254	85	169
Less: Earned Revenue	-	-	-	(360)	(303)	(57)
Intra-governmental Net Costs	-	-	-	(106)	(218)	112
Gross Costs with the Public	-	-	-	404	-	404
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	-	404	-	404
Net Cost: Management Program	-	-	-	298	(218)	516
Total Program Cost Before Assumption Changes	(6)	8	105	12,717	8,745	3,972
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	-	-	-	195	-	195
Net Cost of Operations	$ (6)	$ 8	$ 105	$ 12,912	$ 8,745	$ 4,167

(b) On July 21, 2011, OTS merged into OCC. Accordingly, OTS's operating results through July 20, 2011 are reported separately herein, and its operating results subsequent to July 20, 2011 were combined with OCC's operating results..

21. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions) (con't):

For Fiscal Year Ended September 30, 2010

Program Costs	Bureau of Engraving & Printing	Bureau of the Public Debt	Depart-mental Office[c]	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM							
Intra-governmental Gross Costs	$ -	$ 120	$ 1,712	$ -	$ 189	$ 4,577	$ -
Less: Earned Revenue	-	(21)	(2,234)	-	(168)	(68)	-
Intra-governmental Net Costs	-	99	(522)	-	21	4,509	-
Gross Costs with the Public	-	221	459	-	1,185	9,323	-
Less: Earned Revenue	-	(6)	(1)	-	-	(386)	-
Net Costs with the Public	-	215	458	-	1,185	8,937	-
Net Cost: Financial Program	-	314	(64)	-	1,206	13,446	-
ECONOMIC PROGRAM							
Intra-governmental Gross Costs	90	-	12,727	-	-	-	75
Less: Earned Revenue	(4)	-	(2,260)	-	-	-	(11)
Intra-governmental Net Costs	86	-	10,467	-	-	-	64
Gross Costs with the Public	515	-	308,859	-	-	-	3,451
Less: Earned Revenue	(627)	-	(11,698)	-		-	(3,566)
Net Costs with the Public	(112)	-	297,161	-	-	-	(115)
Net Cost: Economic Program	(26)	-	307,628	-	-	-	(51)
SECURITY PROGRAM							
Intra-governmental Gross Costs	-	-	141	71	-	-	-
Less: Earned Revenue	-	-	(19)	(3)	-	-	-
Intra-governmental Net Costs	-	-	122	68	-	-	-
Gross Costs with the Public	-	-	156	57	-	-	-
Less: Earned Revenue	-	-	-	-	-	-	-
Net Costs with the Public	-	-	156	57	-	-	-
Net Cost: Security Program	-	-	278	125	-	-	-
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	-	65	160	-	-	-	-
Less: Earned Revenue	-	(180)	(206)	-	-	-	-
Intra-governmental Net Costs	-	(115)	(46)	-	-	-	-
Gross Costs with the Public	-	102	337	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-	-
Net Costs with the Public	-	102	337	-	-	-	-
Net Cost: Management Program	-	(13)	291	-	-	-	-
Total Program Cost Before Assumption Changes	(26)	301	308,133	125	1,206	13,446	(51)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	-	-	818	-	-	-	-
Net Cost of Operations	$ (26)	$ 301	$ 308,951	$ 125	$ 1,206	$ 13,446	$ (51)

(c) Of the total $307.6 billion of Net Economic Program Costs incurred by Departmental Offices, GSE contributed $321.7 billion, partially offset by OFS which contributed net income of $23.1 billion.

21. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations (in millions) (con't):

For Fiscal Year Ended September 30, 2010

Program Costs	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2010 Consolidated
FINANCIAL PROGRAM						
Intra-governmental Gross Costs	$ -	$ -	$ 15	$ 6,613	$ 1,985	$ 4,628
Less: Earned Revenue	-	-	-	(2,491)	(276)	(2,215)
Intra-governmental Net Costs	-	-	15	4,122	1,709	2,413
Gross Costs with the Public	-	-	38	11,226	-	11,226
Less: Earned Revenue	-	-	(3)	(396)	-	(396)
Net Costs with the Public	-	-	35	10,830	-	10,830
Net Cost: Financial Program	-	-	50	14,952	1,709	13,243
ECONOMIC PROGRAM						
Intra-governmental Gross Costs	111	39	15	13,057	12,661	396
Less: Earned Revenue	(21)	(10)	-	(2,306)	(2,279)	(27)
Intra-governmental Net Costs	90	29	15	10,751	10,382	369
Gross Costs with the Public	676	202	39	313,742	-	313,742
Less: Earned Revenue	(766)	(220)	-	(16,877)	-	(16,877)
Net Costs with the Public	(90)	(18)	39	296,865	-	296,865
Net Cost: Economic Program	-	11	54	307,616	10,382	297,234
SECURITY PROGRAM						
Intra-governmental Gross Costs	-	-	-	212	81	131
Less: Earned Revenue	-	-	-	(22)	(18)	(4)
Intra-governmental Net Costs	-	-	-	190	63	127
Gross Costs with the Public	-	-	-	213	-	213
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	-	213	-	213
Net Cost: Security Program	-	-	-	403	63	340
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	-	-	-	225	82	143
Less: Earned Revenue	-	-	-	(386)	(330)	(56)
Intra-governmental Net Costs	-	-	-	(161)	(248)	87
Gross Costs with the Public	-	-	-	439	-	439
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	-	439	-	439
Net Cost: Management Program	-	-	-	278	(248)	526
Total Program Cost Before Assumption Changes	-	11	104	323,249	11,906	311,343
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	2	-	-	820	-	820
Net Cost of Operations	$ 2	$ 11	$ 104	$ 324,069	$ 11,906	$ 312,163

22. ADDITIONAL INFORMATION RELATED TO THE COMBINED STATEMENTS OF BUDGETARY RESOURCES

Federal agencies are required to disclose additional information related to the Combined Statements of Budgetary Resources (per OMB Circular No. A-136). In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2011 and 2010 was as follows (in millions):

UNDELIVERED ORDERS

	2011	2010
Undelivered Orders		
Paid	**$ 114**	$ 126
Unpaid	**208,868**	169,305
Undelivered orders at the end of the year	**$ 208,982**	$ 169,431

CONTRIBUTED CAPITAL

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund of the Treasury to repay a portion of a capital investment.

	2011	2010
Contributed Capital	**$ 58**	$ 20

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*. Apportionment Category A represents resources apportioned for calendar quarters. Apportionment Category B represents resources apportioned for other time periods for activities, projects or objectives, or for any combination thereof (in millions).

DIRECT VS. REIMBURSABLE OBLIGATIONS INCURRED

	2011	2010
Direct - Category A	**$ 3,203**	$ 2,849
Direct - Category B	**247,733**	330,068
Direct - Exempt from Apportionment	**461,985**	481,785
Total Direct	**712,921**	814,702
Reimbursable - Category A	**-**	11
Reimbursable - Category B	**5,872**	4,883
Reimbursable - Exempt from Apportionment	**1,254**	1,242
Total Reimbursable	**7,126**	6,136
Total Direct and Reimbursable	**$ 720,047**	$ 820,838

TERMS OF BORROWING AUTHORITY USED

Several Departmental programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. Repayment requirements are defined by OMB Circular No. A-11. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing account pays on its debt owed to BPD. In the event that principal and interest collections exceed the interest expense due, the excess will be repaid to the Department. If principal and interest do not exceed interest expense due, the Department will borrow the difference. The Department makes periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings were due on September 30, 2011. Interest rates on FCRA borrowings range from 1.00 percent to 8.96 percent.

AVAILABLE BORROWING

(in millions)	**2011**	2010
Beginning Balance	**$ 23,477**	$ 51,510
Current Authority	**201,863**	151,473
Decreases	**(44,803)**	(19,274)
Borrowing Authority Withdrawn	**(2,307)**	(37,982)
Borrowing Authority Converted to Cash	**(54,386)**	(122,250)
Ending Balance	**$ 123,844**	$ 23,477

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for fiscal year 2011, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2012, and can be located at the OMB website http://www.whitehouse.gov/omb and will be available from the U.S. Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2010 Agency Financial Report and the actual fiscal year 2010 balances included in the fiscal year 2012 President's Budget.

Reconciliation of Fiscal Year 2010 Combined Statement of Budgetary Resources to the Fiscal Year 2012 President's Budget

(in millions)	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources (SBR) Amounts	$ 1,193,081	$ 519,419	$ (178,909)	$ 340,510	$ 820,838
Included in the Treasury Department Chapter of the PB but not in the SBR					
IRS non-entity tax credit payments (1)	112,465	112,457	-	112,457	112,457
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	378	378	-	378	378
Non-Treasury offsetting receipts	-	-	(47)	(47)	-
Treasury offsetting receipts considered to be General Fund transactions for reporting purposes (2)	-	-	(6)	(6)	-
Continued dumping subsidy - U.S. Customs and Border Patrol	109	259	-	259	259
Other	-	2	67	69	-
Subtotal	112,952	113,096	14	113,110	113,094
Included in the SBR but not in the Treasury Department chapter of the PB					
Treasury resources shown in non-Treasury chapters of the PB (3)	(40,638)	(4,806)	-	(4,806)	(5,729)
Offsetting collections net of collections shown in PB	(11,084)	-	(289)	(289)	-
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR	-	-	574	574	-
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(335,498)	-	-	-	2
ESF resources not shown in PB (4)	(104,770)	2	-	2	(61,168)
Treasury Financing Accounts (CDFI, OFS and GSEs)	(243,083)	(4,667)	-	(4,667)	(219,264)
Enacted reduction, 50% Transfer Accounts, and Capital Transfers to General Fund not included in PB	(25)	-	-	-	-
Other	-	(1)	(1)	(2)	(2)
Subtotal	(735,098)	(9,472)	284	(9,188)	(286,161)
Trust Fund - OCC (5)	(155)	55	(94)	(39)	-
President's Budget Amounts(6)	**$ 570,780**	**$ 623,098**	**$ (178,705)**	**$ 444,393**	**$ 647,771**

(1) *These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in the Department's financial statements and thus are not reported as budgetary resources.*

(2) *These are receipt accounts that the Department manages on behalf of other agencies and considers to be General Fund receipts rather than receipts of the Department reporting entity.*

(3) *The largest of these resources relate to the Department's International Assistance Programs.*

(4) *The ESF is a self-sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.*

(5) *The OCC negative outlay also appears in the offsetting receipts section of the Analytical Perspectives, and hence shown as a reconciling item.*

(6) *Per the President's Budget for fiscal year 2012 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.*

LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

The use of unobligated balances is restricted based on annual legislation requirements or enabling authorities. Funds are presumed to be available for only one fiscal year unless otherwise noted in the annual appropriation language. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless some restrictions had been placed on those funds by law. In those situations, the restricted funding will be temporarily unavailable until such time as the reasons for the restriction have been satisfied or legislation has been enacted to remove the restriction.

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

CHANGE IN ACCOUNTING POLICY EFFECT ON UNOBLIGATED AND UNPAID OBLIGATIONS

Effective in fiscal year 2010, the Department changed its budgetary accounting policy for the accounting and reporting of ESF investment balance changes. The change in accounting policy allowed the Department to present the revaluations of ESF investments, as well as other ESF assets not readily convertible to cash, as a budgetary resource that is permanently not available without affecting outlays.

In order to facilitate this change in accounting, an adjustment for $14.1 billion was made to the line item, Unobligated balances, brought forward, October 1, 2009, of the Combined Statement of Budgetary Resources for the fiscal year ended September 30, 2010. This adjustment primarily included additions of accumulated FCDA investment balances now permitted by OMB to be reported on the Combined Statement of Budgetary Resources through the use of a new USSGL. These budgetary adjustments had no impact on ESF proprietary account balances in fiscal year 2010 or previous years.

In order to maintain appropriate budgetary relationships on the Combined Statement of Budgetary Resources between Budgetary Resources, Status of Budgetary Resources, and Relationship of Obligations to Outlays, an adjustment corresponding to the FCDA investment balance of $14.1 billion was made to the fiscal year 2010 line item, Obligations Incurred, Unpaid Obligations Brought Forward, and Obligations Incurred.

23. Collection and Disposition of Custodial Revenue

The Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the years ended September 30, 2011 and 2010 (in millions):

	Tax Year				
	2011	**2010**	**2009**	**Pre-2009**	**2011 Collections**
Individual Income and FICA Taxes	**$ 1,357,129**	**$ 703,856**	**$ 18,980**	**$ 22,065**	**$ 2,102,030**
Corporate Income Taxes	**165,768**	**62,650**	**1,855**	**12,575**	**242,848**
Estate and Gift Taxes	**23**	**6,367**	**691**	**1,998**	**9,079**
Excise Taxes	**53,429**	**19,023**	**87**	**255**	**72,794**
Railroad Retirement Taxes	**3,523**	**1,164**	**1**	**4**	**4,692**
Unemployment Taxes	**4,806**	**1,961**	**39**	**87**	**6,893**
Fines, Penalties, Interest, & Other Revenue - Tax Related	**284**	**9**	**-**	**-**	**293**
Tax Related Revenue Received	**1,584,962**	**795,030**	**21,653**	**36,984**	**2,438,629**
Federal Reserve Earnings	**63,792**	**18,754**	**-**	**-**	**82,546**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	**273**	**25**	**-**	**-**	**298**
Non-Tax Related Revenue Received	**64,065**	**18,779**	**-**	**-**	**82,844**
Total Revenue Received	**$ 1,649,027**	**$ 813,809**	**$ 21,653**	**$ 36,984**	**$ 2,521,473**
Less Amounts Collected for Non-Federal Entities					**462**
Total					**$ 2,521,011**

	Tax Year				
	2010	2009	2008	Pre-2008	2010 Collections
Individual Income and FICA Taxes	$ 1,315,876	$ 635,920	$ 20,182	$ 16,782	$ 1,988,760
Corporate Income Taxes*	188,527	75,459	1,612	12,339	277,937
Estate and Gift Taxes	4	7,841	881	11,025	19,751
Excise Taxes	52,112	18,583	98	153	70,946
Railroad Retirement Taxes	3,547	1,099	1	1	4,648
Unemployment Taxes	4,697	1,726	37	83	6,543
Fines, Penalties, Interest, & Other Revenue - Tax Related	244	1	-	-	245
Tax Related Revenue Received	1,565,007	740,629	22,811	40,383	2,368,830
Federal Reserve Earnings	56,582	19,263	-	-	75,845
Fines, Penalties, Interest, & Other Revenue - Non-Tax Related	1,613	22	-	-	1,635
Non-Tax Related Revenue Received	58,195	19,285	-	-	77,480
Total Revenue Received	$ 1,623,202	$ 759,914	$ 22,811	$ 40,383	$ 2,446,310
Less Amounts Collected for Non-Federal Entities					387
Total					$ 2,445,923

** Tax amounts collected as reported by tax year for this line item have been restated to correct for amounts that were incorrectly reported in the Department's prior year annual financial report. The corrections made were deemed immaterial by the Department's management. Corporate Income taxes by Tax Year for 2010 have been corrected to agree with the Financial Report of IRS and the amounts reported in the Financial Report of the U.S. Government (See Note 1 AC).*

Amounts reported for Corporate Income Taxes collected in fiscal year 2011 and 2010 include corporate taxes of $9 billion and $13.2 billion for tax years 2012 and 2011, respectively.

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the years ended September 30, 2011 and 2010, collections of custodial revenue transferred to other entities were as follows (in millions):

	2011	2010
Department of the Interior	$ 344	$ 361
General Fund [(1)]	2,106,419	1,975,625
Total	**$ 2,106,763**	$ 1,975,986

(1) The General Fund amount for fiscal year 2011 includes cash proceeds from sale of AIG common stock of $1.973 billion as reported on the Statement of Custodial Activity.

FEDERAL TAX REFUNDS PAID

Refund activity, by revenue type and tax year, was as follows for the years ended September 30, 2011 and 2010 (in millions):

	Tax Year				
	2011	**2010**	**2009**	**Pre-2009**	**2011 Refunds**
Individual Income and FICA Taxes	$ 1,140	$ 302,832	$ 26,455	$ 13,957	$ 344,384
Corporate Income Taxes	6,342	16,623	6,451	38,361	67,777
Estate and Gift Taxes	-	11	401	1,366	1,778
Excise Taxes	799	1,047	159	184	2,189
Railroad Retirement Taxes	-	2	-	1	3
Unemployment Taxes	3	54	15	18	90
Total	**$ 8,284**	**$ 320,569**	**$ 33,481**	**$ 53,887**	**$ 416,221**

	Tax Year				
	2010	2009	2008	Pre-2008	2010 Refunds
Individual Income and FICA Taxes*	$ 1,343	$ 316,596	$ 36,144	$ 17,223	$ 371,306
Corporate Income Taxes	2,630	15,913	16,414	61,229	96,186
Estate and Gift Taxes	-	209	439	277	925
Excise Taxes	429	611	171	215	1,426
Railroad Retirement Taxes	-	1	-	-	1
Unemployment Taxes	1	56	13	23	93
Total	$ 4,403	$ 333,386	$ 53,181	$ 78,967	$ 469,937

**Tax refund amounts as reported by tax year for this line item have been restated to correct for amounts that were incorrectly reported in the Department's prior year annual financial report. The corrections made were deemed immaterial by the Department's management (Note 1AC).*

FEDERAL TAX REFUNDS PAYABLE

As of September 30, 2011 and September 30, 2010, refunds payable to taxpayers consisted of the following (in millions):

	2011	2010
Internal Revenue Service	$ 3,981	$ 4,133
Alcohol, Tobacco Tax and Trade Bureau	2	13
Total	**$ 3,983**	$ 4,146

24. EARMARKED FUNDS

The majority of the Department's earmarked fund activities are attributed to the ESF and the pension and retirement funds managed by the Office of D.C. Pensions. In addition, several Department bureaus operate with either a public enterprise (or revolving fund) and receive no appropriations from the Congress. These bureaus are BEP, Mint, IRS, OCC, and OTS. Other miscellaneous earmarked funds are managed by BPD, DO, FMS, FMD (a division of FMS), IRS, OFR, and TFF.

The following is a list of earmarked funds and a brief description of the purpose, accounting, and uses of these funds.

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	20X4444	Exchange Stabilization Fund
D.C. Pensions		
DCP	20X1713	Federal payment - D.C. Judicial Retirement
DCP	20X1714	Federal payment - D.C. Federal Pension Fund
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund
Public Enterprise/Revolving Funds		
BEP	20X4502	Bureau of Engraving and Printing Fund
MNT	20X4159	Public Enterprise Fund
OCC	20X8413	Assessment Funds
OCC	20X4264	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund
IRS	20X4413	Federal Tax Lien Revolving Fund
Other Earmarked Funds		
BPD	20X5080	Gifts to Reduce Pubic Debt
DO	20X5816	Confiscated and Vested Iraqi Property and Assets
DO	20X8790	Gifts and Bequests Trust Fund
FMD	20X5081	Presidential Election Campaign
FMD	20X8902	Esther Cattell Schmitt Gift Fund
FMD	9515585	Travel Promotion Fund, Corp for Travel Promotion
FMD	95X5585	Travel Promotion Fund, Corp for Travel Promotion
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
FMS	207/85445	Debt Collection Special Fund
FMS	208/95445	Debt Collection Special Fund
FMS	209/05445	Debt Collection Special Fund
FMS	200/15445	Debt Collection Special Fund
FMS	201/25445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agency Program
IRS	20X5433	Informant Reimbursement
OFR	20X5590	Financial Research Fund
TFF	20X5697	Treasury Forfeiture Fund

Pursuant to the legal authority found in section 10 of the Gold Reserve Act of 1934, as amended, the ESF may purchase or sell foreign currencies, holds U.S. foreign exchange and SDR assets, and may provide financing to foreign governments and foreign entities. The ESF accounts for and reports its holdings to FMS on the Standard Form 224, "Statement of Transactions," and provides other reports to Congress. Interest on SDRs in the IMF, Investments in U.S. Securities (BPD), and Investments in Foreign Currency Assets are its primary sources of revenue. The ESF's earnings and realized gains on foreign currency assets represent inflows of resources to the government, and the interest revenues earned from U.S. Securities are the result of intra-Departmental flows.

D.C. Pension Funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked. Note 18 provides detailed information on various funds managed by DCP.

The Department's three non-appropriated bureaus as of September 30, 2011 – BEP, Mint, and OCC – operate "public enterprise/revolving funds" to account for their respective revenues and expenses. 31 USC § 5142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. P.L. 104-52 (31 USC § 5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion products, and the sale of circulating coins to the FRB system. 12 USC § 481 established the Assessment Funds for OCC and 12 USC § 1467 governs the collection and use of assessments and other funds by OTS (merged with OCC on July 21, 2011). Revenue and financing sources are from the bank examinations and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These non-appropriated funds do not directly contribute to the inflows of resources to the government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce the public debt, and other enforcement related activities. Public laws, the U.S. Code, and the *Debt Collection Improvement Act* established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and debt collection.

INTRA-GOVERNMENTAL INVESTMENTS IN TREASURY SECURITIES

The U.S. Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The Department's bureaus and other federal agencies invest some of the earmarked funds that they collect from the public, if they have the statutory authority to do so. The funds are invested in securities issued by BPD. The cash collected by BPD is deposited in the General Fund, which uses the cash for general government purposes.

The investments provide Department bureaus and other federal agencies with authority to draw upon the General Fund to make future benefit payments or other expenditures. When the Department bureaus or other federal agencies require redemption of these securities to make expenditures, the government finances those redemptions 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.

The securities are an asset to the Department bureaus and other federal agencies and a liability of the BPD. The General Fund is liable to BPD. Because the Department bureaus and other federal agencies are parts of the U.S. 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.

The balances related to the investments made by the Department bureaus are not displayed on the Department's financial statements because the bureaus are subcomponents of the Department. However, the General Fund remains liable to BPD for the invested balances and BPD remains liable to the investing Department bureaus (See Note 4).

Summary Information for Earmarked Funds as of and for the Fiscal Year Ended September 30, 2011

(in millions)	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise/ Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Elimi-nations	2011 Total
ASSETS							
Fund Balance	$ -	$ 7	$ 1,123	$ 493	$ 1,623	$ -	$ 1,623
Investments and Related Interest - Intragovernmental	22,721	4,048	1,188	1,587	29,544	29,544	-
Cash, Foreign Currency and Other Monetary Assets	66,678	-	-	20	66,698	-	66,698
Investments and Related Interest	15,777	-	-	-	15,777	-	15,777
Other Assets	-	2	1,422	110	1,534	6	1,528
Total Assets	$ 105,176	$ 4,057	$ 3,733	$ 2,210	$ 115,176	$ 29,550	$ 85,626
LIABILITIES							
Intra-governmental Liabilities	$ -	$ -	$ 48	$ 369	$ 417	$ 58	$ 359
Certificates Issued to Federal Reserve Banks	5,200	-	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	55,150	-	-	-	55,150	-	55,150
DC Pension Liability	-	9,671	-	-	9,671	-	9,671
Other Liabilities	35	55	661	176	927	-	927
Total Liabilities	60,385	9,726	709	545	71,365	58	71,307
Net Position							
Unexpended Appropriations – Earmarked Funds	200	-	-	-	200	-	200
Cumulative Results of Operations– Earmarked Funds	44,591	(5,669)	3,024	1,665	43,611	-	43,611
Total Liabilities and Net Position	$ 105,176	$ 4,057	$ 3,733	$ 2,210	$ 115,176	$ 58	$ 115,118
Statement of Net Cost							
Gross Cost	$ 438	$ 287	$ 6,062	$ 306	$ 7,093	$ 81	$ 7,012
Less: Earned Revenue	(1,484)	(117)	(6,181)	-	(7,782)	(165)	(7,617)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	195	-	-	195	-	195
Total Net Cost of Operations	$ (1,046)	$ 365	$ (119)	$ 306	$ (494)	$ (84)	$ (410)
Statement of Changes in Net Position							
Cumulative Results of Operations:							
Beginning Balance, as adjusted	$ 43,545	$ (5,805)	$ 2,528	$ 1,158	$ 41,426	$ -	$ 41,426
Budgetary Financing Sources	-	501	(51)	851	1,301	(50)	1,351
Other Financing Sources	-	-	428	(38)	390	(36)	426
Total Financing Sources	-	501	377	813	1,691	(86)	1,777
Net Cost of Operations	1,046	(365)	119	(306)	494	84	410
Change in Net Position	1,046	136	496	507	2,185	(2)	2,187
Ending Balance	$ 44,591	$ (5,669)	$ 3,024	$ 1,665	$ 43,611	$ (2)	$ 43,613

** The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.*

Summary Information for Earmarked Funds as of and for the Fiscal Year ended September 30, 2010

(in millions)	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise/ Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Elimi-nations	2010 Total
ASSETS							
Fund Balance	$ -	$ 7	$ 490	$ 362	$ 859	$ -	$ 859
Investments and Related Interest-Intragovernmental	20,436	3,980	1,398	1,385	27,199	27,199	-
Cash, Foreign Currency and Other Monetary Assets	70,878	-	-	12	70,890	-	70,890
Investments and Related Interest	12,616	-	-	-	12,616	-	12,616
Other Assets	-	5	1,306	114	1,425	7	1,418
Total Assets	$ 103,930	$ 3,992	$ 3,194	$ 1,873	$ 112,989	$ 27,206	$ 85,783
LIABILITIES							
Intra-governmental Liabilities	$ -	$ -	$ 38	$ 260	$ 298	$ 55	$ 243
Certificates Issued to Federal Reserve Banks	5,200	-	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	54,958	-	-	-	54,958	-	54,958
DC Pension Liabilities	-	9,743	-	-	9,743	-	9,743
Other Liabilities	27	54	628	455	1,164	-	1,164
Total Liabilities	60,185	9,797	666	715	71,363	55	71,308
Net Position							
Unexpended Appropriations-Earmarked Funds	200	-	-	-	200	-	200
Cumulative Results of Operations - Earmarked Funds	43,545	(5,805)	2,528	1,158	41,426	-	41,426
Total Liabilities and Net Position	$ 103,930	$ 3,992	$ 3,194	$ 1,873	$ 112,989	$ 55	$ 112,934
Statement of Net Cost							
Gross Cost	$ 1,476	$ 417	$ 5,159	$ 229	$ 7,281	$ 80	$ 7,201
Less: Earned Revenue	(1,392)	(128)	(5,225)	-	(6,745)	(177)	(6,568)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	818	2	-	820	-	820
Total Net Cost of Operations	$ 84	$ 1,107	$ (64)	$ 229	$ 1,356	$ (97)	$ 1,453
Cumulative Results of Operations							
Beginning Balance, as adjusted	$ 43,647	$ (5,225)	$ 2,465	$ 766	$ 41,653	$ -	$ 41,653
Budgetary Financing Sources	(18)	527	(13)	384	880	(12)	892
Other Financing Sources	-	-	12	237	249	(38)	287
Total Financing Sources	(18)	527	(1)	621	1,129	(50)	1,179
Net Cost of Operations	(84)	(1,107)	64	(229)	(1,356)	97	(1,453)
Net Changes	(102)	(580)	63	392	(227)	47	(274)
Total Cumulative Results of Operations	$ 43,545	$ (5,805)	$ 2,528	$ 1,158	$ 41,426	$ 47	$ 41,379

** The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.*

25. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. As of September 30, 2011 and 2010, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2011	2010
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 720,047	$ 820,838
Less: Spending Authority from Offsetting Collections and Recoveries	(223,941)	(251,553)
Obligations Net of Offsetting Collections and Recoveries	496,106	569,285
Less: Offsetting Receipts	(119,958)	(178,909)
Net Obligations	376,148	390,376
Other Resources:		
Donations and Forfeiture of Property	163	319
Financing Sources for Accrued Interest and Discount on the Debt	14,042	11,086
Transfers In/Out Without Reimbursement	(60)	(42)
Imputed Financing from Cost Absorbed by Others	925	1,008
Transfers to the General Fund and Other (Note 20)	(127,938)	(128,945)
Net Other Resources Used to Finance Activities	(112,868)	(116,574)
Total Resources Used to Finance Activities	263,280	273,802
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	67,967	20,955
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(23,549)	(40,146)
Adjustment to Accrued Interest and Discount on the Debt	15,277	12,011
Other (primarily Offset to Offsetting Receipts)	(164,856)	(98,559)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(105,161)	(105,739)
Total Resources Used to Finance the Net Cost of Operations	368,441	379,541
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	23,213	307,422
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	12,501	(28,122)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	35,714	279,300
Net Cost of Operations	$ 404,155	$ 658,841

26. NON-TARP INVESTMENTS IN AMERICAN INTERNATIONAL GROUP, INC.

Under the initial terms of a capital facility agreement between the FRBNY and AIG, a 77.9 percent equity interest in AIG (in the form of Series C Convertible Participating Serial Preferred Stock convertible into approximately 77.9 percent of the issued and outstanding shares of AIG common stock) was issued to a trust (Trust) established by the FRBNY. Subsequent to the initial agreement, a reverse stock split of AIG's common stock increased this equity interest to 79.8 percent. The General Fund of the U.S. Government was the sole beneficiary of the Trust. In connection with the establishment of the Trust, the Department, as custodian of the General Fund, recorded a non-entity asset of $23.5 billion as of September 30, 2009, along with a corresponding entry to custodial revenue for the same amount, to reflect the value of the General Fund's beneficiary interest holding in the Trust. As of September 30, 2010, the value of the Trust had declined by $2.7 billion, reducing the carrying value of this non-entity asset to $20.8 billion. Both the initial recording of the non-entity Trust asset of $23.5 billion in fiscal year 2009, along with the subsequent $2.7 billion decline in value in fiscal year 2010, were reported on the Consolidated Statements of Custodial Activity.

On September 30, 2010, the Department, the FRBNY, and AIG entered into an AIG Recapitalization Agreement for the purpose of restructuring the U.S. Government's holdings in AIG. This restructuring was executed on January 14, 2011, converted the Trust's AIG preferred stock was converted into 562.9 million shares of AIG common stock, and the Trust was dissolved (refer to Note 7 for a discussion of the TARP-related transactions that occurred in connection with the January 14, 2011 restructuring). The Department intends to sell both its General Fund and TARP holdings in AIG common stock together, on a pro rata basis, in the open market over time. The General Fund will be the ultimate recipient of any future dividends earned and proceeds realized from the liquidation of the AIG common stock. Accordingly, such dividends and proceeds will be deposited into the accounts of the General Fund. The conversion of the Trust's preferred stock into AIG common stock reduced the non-entity portion of the outstanding common stock ownership in AIG from 79.8 percent to approximately 31 percent. In connection with the January 14, 2011 restructuring, the Department recorded a non-entity asset of $25.5 billion to reflect the value of the General Fund's 31 percent ownership in AIG's common stock. This transaction also included removing the previous asset which represented the General Fund's sole beneficiary interest in the Trust, which was dissolved as part of the recapitalization.

On May 27, 2011, the Department sold in the open market 200 million shares of AIG common shares held by the General Fund and TARP (68 million and 132 million shares, respectively). The sale of the AIG common stock resulted in total gross cash proceeds of $5.8 billion, of which the General Fund and the TARP received $2.0 billion and $3.8 billion, respectively, for the fiscal year ended September 30, 2011.

After taking into consideration the May 2011 sale of AIG common stock, the carrying value of the non-entity investment in AIG was $10.9 billion as of September 30, 2011, which represented the fair value as of that date of the remaining AIG common stock held by the General Fund. As of September 30, 2010, the carrying value of the non-entity investment in AIG was $20.8 billion, which represented the fair value, as of that date, of the General Fund's sole beneficiary interest in the Trust. The fair value of the non-entity assets recorded as of September 30, 2011 and 2010 were based on the market value of AIG's common stock which is actively traded on the NYSE. This basis of valuation was used for the Trust since the underlying AIG common stock, to which the preferred shares were converted, represented the best independent valuation available for the General Fund's beneficial interest. During fiscal years 2011 and 2010, the Department's AIG investments held on behalf of the General Fund experienced a net fair value decline of $9.9 billion and $2.7 billion, respectively. Accordingly, the carrying value of the AIG common stock investment was decreased by this amount, and a corresponding amount was reported as custodial expense on the Statement of Custodial Activity.

The Department will re-value its non-entity AIG common stock holdings at least annually until all of these common shares are liquidated. Like any asset, future events may increase or decrease the value of the General Fund's interest in the AIG common stock.

27. Schedule of Fiduciary Activity

The following funds have been identified by the Department as meeting the criteria for fiduciary activity. Details of the funds are provided below.

Bureau	Fund Code	Authority	Fund Title/Description
BEP	20X6513.013	31 USC 5119	Mutilated Currency Claims Funds
BPD	20X6008	31 USC 3513	Payment Principal & Interest Govt. Agencies
FMD	20X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
FMD	20X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Checks
FMD	2015X6078	50 APP. USC 2012	War Claims Fund, Foreign Claims Settlement Commission
FMD	20X6092	31 USC 1321	Debt Management Operations
FMD	20X6104	22 USC 1627	Albanian Claims Fund, Treasury
FMD	20X6133	31 USC 1322	Payment of Unclaimed Moneys
FMD	20X6309	22 USC 1627(a)	Libyan Claims Settlement Fund
FMD	20X6310	22 USC 1627(a)	Libyan Claims Settlement Fund
FMD	20X6311	98 Stat. 1876	Kennedy Center Revenue Bond
FMD	20X6312	22 USC 1627	Iranian Claims Settlement Fund
FMD	20X6314	22 USC 1644g	German Democrat Settlement Fund
FMD	20X6315	22 USC 1645h	Vietnam Claims Settlement Fund
FMD	20X6501.018	31 USC 3513	Small Escrow Amounts
FMD	20X6720	31 USC 3513	SM DIF Account for Dep. & Check Adj.
FMD	20X6830	104 Stat. 1061	Net Interest Payments to/from State
FMD	20X6999	31 USC 3513	Accounts Payable, Check Issue UNDDR
IRS	20X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRS	20X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRS	20X6740	31 USC 3515	Coverover Withholdings-Guam
IRS	20X6741	31 USC 3513	Coverover Withholdings-American Samoa
OAS	20X6317.001	22 USC 2431	Belize Escrow, Debt Reduction
OAS	20X6501.018	31 USC 3513	Small Escrow Amounts

Unclaimed monies were authorized by 31 USC 5119, which authorized FMS to collect unclaimed monies on behalf of the public. Other fiduciary activities by the Department as listed above are included in All Other Fiduciary Funds.

Schedule of Fiduciary Activity

(in millions)	2011			2010		
	Unclaimed Monies - FMD	**All Other Fiduciary Funds**	**Total Fiduciary Funds**	Unclaimed Monies - FMD	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 420**	**$ 156**	**$ 576**	$ 390	$ 208	$ 598
Increases:						
Contributions to Fiduciary Net Assets	**31**	**479**	**510**	103	1,004	1,107
Investment Earnings	**-**	**1**	**1**	-	1	1
Total Increases	**31**	**480**	**511**	103	1,005	1,108
Decreases:						
Disbursements to and on behalf of beneficiaries	**-**	**(223)**	**(223)**	(73)	(1,057)	(1,130)
Total Decreases	**-**	**(223)**	**(223)**	(73)	(1,057)	(1,130)
Net Increase (Decrease) in Fiduciary Assets	**31**	**257**	**288**	30	(52)	(22)
Fiduciary Net Assets, End of Year	**$ 451**	**$ 413**	**$ 864**	$ 420	$ 156	$ 576

Schedule of Fiduciary Net Assets

(in millions)	2011			2010		
	Unclaimed Monies - FMD	**All Other Fiduciary Funds**	**Total Fiduciary Funds**	Unclaimed Monies - FMD	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Assets						
Cash and Cash Equivalents	**$ 451**	**$ 336**	**$ 787**	$ 420	$ 57	$ 477
Investments	**-**	77	77	-	99	99
Total Fiduciary Assets	**$ 451**	**$ 413**	**$ 864**	$ 420	$ 156	$ 576

28. COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The Department is a party in various administrative proceedings, legal actions, and claims, including equal opportunity matters which may ultimately result in settlements or decisions adverse to the U.S. Government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Department's Judgment Fund, which is separate from the operating resources of the Department. For cases related to the *Contract Disputes Act of 1978* and awards under federal anti-discrimination and whistle-blower protection acts, the Department must reimburse the Judgment Fund from future appropriations.

The Department had two contingent liabilities in fiscal year 2011 related to legal action taken in the cases of *American Council of the Blind v. Geithner* and *Cobell v. Salazar* where losses are determined to be probable. An amount of loss cannot be estimated for the American Council of the Blind case. In *Cobell v. Salazar*, the parties agreed to a total settlement of $3.4 billion. Specific details of these two litigation cases are provided below.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of other legal actions, individually or in the aggregate, will not have a materially adverse effect on the Department's consolidated financial statements, except for the pending legal actions described below which may have a materially adverse impact on the consolidated financial statements depending on the outcomes of the cases.

Pending Legal Actions

- *American Council of the Blind, et. al. v. Geithner:* Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. In 2007, a U.S. District Court judge ruled that the current U.S. currency design violates this Act; this ruling was subsequently appealed. In 2008, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the District Court's ruling. No monetary damages were awarded by the court, but the Department was ordered to provide meaningful access to U.S. currency for blind and other visually impaired persons. This may require changes to U.S. currency (excluding the one-dollar note). The court ordered such changes to be completed in connection with each denomination of currency, not later than the date when a redesign is next approved by the Secretary of the Treasury. Because the cost of implementing these changes will be incorporated into future currency redesign costs, and cannot be estimated at this time, no redesign costs have been accrued in the accompanying financial statements as of September 30, 2011 and 2010.

  On May 20, 2010, the BEP published in the Federal Register its proposed recommendations on the appropriate method(s) to comply with the court's order to make currency accessible to the blind to be implemented with the next currency design. The comment period for the Federal Register notice closed on August 18, 2010. On May 31, 2011, Secretary Geithner approved the proposed recommendations, and BEP is working to implement the approved methodologies.

- *Cobell et al. v. Salazar et al. (formerly Cobell v. Kempthorne):* Native Americans allege that the Department of Interior and the Department of the Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. On August 7, 2008, the Federal District Court issued an opinion awarding $455 million to the plaintiffs. This decision was overturned in July 2009. The Appellate Court found that the U.S. Government owes a cost-effective accounting, in scale with available funds.

  In December 2009, the parties agreed to settle the plaintiff's claims, as well as claims for mismanagement of assets and land that were not asserted in the case, for $1.5 billion. The U.S. Government also agreed to pay an additional amount of up to $1.9 billion to purchase certain land interests owned by Native Americans. Final approval of the settlement will not occur until the court issues a formal written order, and any appeals from individuals challenging the settlement have run their course. The Department of the Interior, jointly named in the case, accrued the entire $3.4 billion as a contingent liability in fiscal year 2011 upon President Obama's signing of legislation authorizing the settlement in December 2010. Accordingly, the Department of the Treasury will not accrue any portion of this liability.

  Tribal Trust Fund Cases: Numerous cases have been filed in the U.S. District Courts in which Native American Tribes seek a declaration that the United States has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the U.S. Government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the U.S. Court of Federal Claims, which do not name the Department as a defendant. The U.S. Government is currently in discussion with counsel representing approximately 80 tribes with tribal trust cases pending against the United States (the Settlement Proposal to the Obama Administration or "SPOA" group) about the feasibility of an omnibus settlement of the tribal trust cases. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

In April 2011, the U.S. Supreme Court decided the *United States v. Tohono O'Odham Nation* tribal trust fund case. This case involved the interpretation of a federal statute which limits the jurisdiction of the U.S. Court of Federal Claims when a plaintiff has cases pending simultaneously in the U.S. Court of Federal Claims and any other court. The U.S. Supreme Court held that the U.S. Court of Federal Claims action brought by the Tohono O'Odham Nation must be dismissed pursuant to 28 USC § 1500.

- *Amidax Trading Group v. S.W.I.F.T.*: Plaintiffs allege that the Department's Terrorist Finance Tracking Program has involved unlawful disclosure of information by the Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.). Defendants include the Department of the Treasury as well as several Treasury officials. The case was dismissed by the District Court on February 13, 2009, and the plaintiff has subsequently appealed that ruling to the Court of Appeals for the Second Circuit. The parties have completed the appellate briefing, and the oral argument occurred on July 14, 2010. The parties are awaiting the Second Circuit's decision. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *James X. Bormes v. United States of America:* The complaint alleges that the government willfully violated certain provisions of the Fair and Accurate Credit Transaction Act (FACTA) P.L. 108-159 in that the transaction confirmation received by the complainant from Pay.gov improperly included the expiration date of the credit card used for that transaction. The complaint does not state the amount of damages sought on behalf of the class beyond asserting that each class member would be entitled to $100 to $1,000 in statutory damages. In a letter sent to the Department of Justice, the plaintiff proposed a fund of $30 million for just the Illinois class members.

  On July 24, 2009, the U.S. District Court for the Northern District of Illinois granted the U.S. Government's motion to dismiss this case for lack of an unequivocal waiver of sovereign immunity. On November 16, 2010, the U.S. Court of Appeals for the Federal Circuit reversed the District Court's decision and directed that the case be remanded back to the District Court for further proceedings. The U.S. Government's petition for a rehearing of that decision was denied by the Federal Circuit on March 15, 2011. On August 12, 2011, the U.S. Government filed a petition for a writ of certiorari concerning this decision with the U.S. Supreme Court; a decision by the Supreme Court is pending.

  Other Legal Actions: The Department is also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before the Equal Employment Opportunity Commission, Merit System Protection Board, etc.) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. It is not expected that these cases will have a material effect on the Department's financial position or results.

Other Commitments and Contingencies

Treaties and International Agreements.

The Department does not have any treaties or international agreements to report for fiscal year 2011 which would have a material impact on the Department's consolidated financial statements.

Loan Commitments

The Department, through FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2011 and 2010, the Department had loan commitments totaling $95.5 billion and $113.9 billion, respectively.

Multilateral Development Banks

The Department on behalf of the United States has subscribed to capital for certain multilateral development banks (MDBs), portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2011 and 2010, U.S. callable capital in MDB was as follows (in millions):

		2011		2010
African Development Bank	**$**	**1,545**	$	1,634
Asian Development Bank		**8,469**		5,911
European Bank for Reconstruction and Development		**1,803**		1,805
Inter-American Development Bank		**28,687**		28,687
International Bank for Reconstruction and Development		**29,966**		24,251
Multilateral Investment Guarantee Agency		**293**		301
North American Development Bank		**1,275**		1,275
Total	**$**	**72,038**	$	63,864

Amounts included in the above table do not include amounts for which the Department may be liable to pay if future congressional action is taken to fund executed agreements between the Department and certain multilateral development banks.

In accordance with the disclosure requirements of SFFAS No. 5 "Accounting for Liabilities of the Federal Government", an increase of $5.7 billion in callable capital of the International Bank for Reconstruction and Development (IBRD) was made to reflect the Department's authorization to use a public debt transaction in the United States' original subscription to capital stock of the IBRD. In prior years, this amount had not been presented as a commitment.

Additionally, the Department recorded callable capital in fiscal year 2007 for the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD) and the Multilateral Investment Guarantee Agency (MIGA) as a result of a full year Continuing Appropriation Resolution (PL 110-5) which was based on fiscal year 2006 appropriation language authorizing callable capital. However, all outstanding commitments to the EBRD and the AfDB have been satisfied and to the extent that any outstanding authority exists, it is no longer necessary. In addition, Congress explicitly provided no appropriated funds for MIGA in fiscal year 2007 and no further callable commitments were made to MIGA in accordance with the intent of Congress. As a result, the callable capital for these financial institutions has been reduced to reflect the actual limitations imposed by Congress.

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. TRIA helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The Terrorism Risk Insurance Program (TRIA Program) is activated upon the certification of an "act of terrorism" by the Secretary in concurrence with the Secretary of State and the Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. Government. TRIA also gives the Department authority to recoup federal payments made under the TRIA Program through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2011 or 2010.

On August 3, 2010, the Department issued a notice of proposed rulemaking with requests for comment. The intent of this rule is to provide a process by which the Department would close out its claims operation for insured losses from a TRIA Program year. The Department expects to issue a final rule incorporating public comments in fiscal year 2012.

Exchange Stabilization Agreement

In April 1994, the Department signed the North American Framework Agreement (NAFA), which includes the Exchange Stabilization Agreement (ESA) with Mexico. The Department has a standing swap line for $3.0 billion with Mexico under the NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA does provide sample clauses that state that transactions shall be exchange rate neutral for the ESF and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2011 and 2010. On December 13, 2010, the Department renewed the agreement until December 15, 2011.

New Arrangements to Borrow

P.L. 111-32 provided the authorization and appropriations for an increase in the United States' participation in the New Arrangements to Borrow (NAB). Because the U.S. financial participation in the IMF is denominated in SDRs, the P.L. 111-32 authorized and appropriated up to the dollar equivalent of SDR 75 billion to implement this commitment. The United States agreed on May 10, 2010 that its participation in the NAB would increase from its existing SDR 6.6 billion (a portion of this SDR 6.6 billion is in connection to a similar borrowing arrangement, the GAB) to SDR 69.1 billion, pursuant to IMF Executive Board Decision No. 14577-(10/35) adopted April 12, 2010. Total U.S. participation in the NAB of SDR 69.1 billion was equivalent to $107.9 billion on September 30, 2011. Only the new portion of U.S. participation in the NAB is subject to the FCRA and is accounted for as a direct loan. This accounting treatment will not affect the treatment of the reserve position in the IMF, only the budget presentation. Refer to Notes 11 and 12 for a more detailed discussion of this accounting treatment.

Contingent Liability to GSEs

The Department has recorded a contingent liability at September 30, 2011 and 2010 of $316.2 billion and $359.9 billion, respectively, to the GSEs – Fannie Mae and Freddie Mac – based on probable future liability under the SPSPA between the Department and the GSEs. Refer to Note 8 for a full description of the agreements and related contingent liability.

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

INTRODUCTION

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended.

OTHER CLAIMS FOR REFUNDS

The Department has estimated that $15.6 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the federal courts or internally, by Appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $8.1 billion and by appeals is $7.5 billion.

The Department made an administrative determination to accept the position that certain medical residents who received stipends be exempted from FICA taxes for periods before April 1, 2005. At September 30, 2011, the IRS estimated unpaid refund claims of approximately $3.7 billion. In accordance with federal accounting standards, the amounts of these claims have not been recorded as a liability in the consolidated financial statements because certain administrative processes have not been completed as of September 30, 2011.

IRS Federal Taxes Receivable, Net

In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, some unpaid tax assessments do not meet the criteria for financial statement recognition. Under Internal Revenue Code Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers, including many failed financial institutions liquidated by the FDIC and the former Resolution Trust Corporation (RTC). Write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the U.S. Government.

The components of the total unpaid assessments at September 30, 2011 and 2010, were as follows (in millions):

		2011		2010
Total Unpaid Assessments	**$**	**356,314**	$	330,000
Less: Compliance Assessments		**(102,693)**		(93,000)
Write Offs		**(106,519)**		(99,000)
Gross Federal Taxes Receivable		**147,102**		138,000
Less: Allowance for Doubtful Accounts		**(112,363)**		(103,091)
Federal Taxes Receivables, Net	**$**	**34,739**	$	34,909

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $2.0 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Alcohol and Tobacco Tax and Trade Bureau

As an agent of the U.S. Government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain tobacco businesses. During fiscal years 2011 and 2010, TTB collected approximately $23.5 billion and $23.8 billion in taxes, interest, and other revenues, respectively. Federal excise taxes are also collected on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 USC 7652, such taxes collected on rum imported into the United States are “covered over” or paid into the treasuries of Puerto Rico and the Virgin Islands.

Substantially all of the taxes collected by TTB net of related refund disbursements are remitted to the General Fund. The Department further distributes this revenue to Federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. Those revenues are remitted to the Fish and Wildlife Restoration Fund under provisions of the *Pittman-Robertson Act of 1937*.

DEFERRED MAINTENANCE

In fiscal years 2011 and 2010, the Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department.

Deferred maintenance applies to owned PP&E. Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and is put off or delayed for a future period. Maintenance is defined as the act of keeping capitalized assets in an “acceptable condition” to serve their required mission. It includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected useful life. Maintenance excludes activities aimed at expanding the capacity or significantly upgrading the assets to a different form than it was originally intended (i.e., activities related to capitalized improvements, modernization, and/or restoration).

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies.

STATEMENT OF BUDGETARY RESOURCES DISAGGREGATED BY TREASURY REPORTING ENTITY

The following table provides the Statement of Budgetary Resources disaggregated by Treasury reporting entity for fiscal year 2011.

Fiscal Year 2011 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices[3]	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service
Budgetary Resources						
Unobligated balance, brought forward, Oct. 1	$ 59	$ 95	$ 369,701	$ 28	$ 287	$ 806
Recoveries of prior year unpaid obligations	-	6	16,533	1	14	122
Budget authority						
Appropriations (Note 20)	-	490,185	31,301	110	22,413	13,474
Borrowing authority:	-	-	201,863	-	-	-
Spending authority from offsetting collections:						
Earned:						
Collected	531	199	222,823	15	247	198
Change in receivables from Federal sources	11	5	6	2	4	(5)
Change in unfilled customer orders:						
Advance received	-	-	26	-	-	-
Without advance from Federal sources	-	-	(22,852)	(4)	(9)	-
Subtotal	542	490,389	433,167	123	22,655	13,667
Non-expenditure transfer, net	-	(6)	153	-	(22)	-
Temporarily not available pursuant to Public Law	-	-	(426)	-	-	-
Permanently not available	-	(35,862)	(226,167)	-	(4,073)	(175)
Total Budgetary Resources	$ 601	$ 454,622	$ 592,961	$ 152	$ 18,861	$ 14,420
Status of Budgetary Resources						
Obligations incurred (Note 22):						
Direct	$ -	$ 454,318	$ 226,686	$ 105	$ 18,313	$ 13,396
Reimbursable	575	209	253	13	236	139
Subtotal	575	454,527	226,939	118	18,549	13,535
Unobligated balance						
Apportionment	22	88	245,705	32	257	287
Exempt from apportionment	-	-	22,810	-	7	-
Subtotal	22	88	268,515	32	264	287
Unobligated balance not available	4	7	97,507	2	48	598
Total Status of Budgetary Resources	$ 601	$ 454,622	$ 592,961	$ 152	$ 18,861	$ 14,420
Change in Obligated Balance						
Obligated balance, net						
Unpaid obligations brought forward, Oct. 1	$ 117	$ 76	$ 229,275	$ 30	$ 413	$ 1,807
Uncollected customer payments from Federal sources brought forward	(29)	(14)	(23,857)	(10)	(29)	(57)
Total unpaid obligated balance, net	88	62	205,418	20	384	1,750
Obligations incurred, net	575	454,527	226,939	118	18,549	13,535
Gross outlays	(552)	(454,509)	(171,011)	(120)	(18,115)	(13,445)
Recoveries of prior year unpaid obligations, actual	-	(6)	(16,533)	(1)	(14)	(122)
Change in uncollected customer payments from Federal source	(11)	(5)	22,846	2	5	5
Obligated balance, net, end of period:						
Unpaid obligations	140	87	268,670	27	833	1,776
Uncollected customer payments from Federal sources	(40)	(18)	(1,011)	(8)	(24)	(53)
Total, unpaid obligated balance, net, end of Period	$ 100	$ 69	$ 267,659	$ 19	$ 809	$ 1,723
Net Outlays						
Gross outlays	$ 552	$ 454,509	$ 171,011	$ 120	$ 18,115	$ 13,445
Offsetting collections	(531)	(199)	(222,849)	(15)	(247)	(198)
Distributed offsetting receipts	-	(38,509)	(80,625)	-	(434)	(390)
Net outlays	$ 21	$ 415,801	$ (132,463)	$ 105	$ 17,434	$ 12,857

[3] Of the $593.0 billion of Total Budgetary Resources for Departmental Offices, OFS, GSE and OAS had $103.0 billion, $273.5 billion and $154.7 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2011 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U.S. Mint	Office of the Comptroller of the Currency	Office of[(a)] Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
Budgetary Resources						
Unobligated balance, brought forward, Oct. 1	$ 111	$ 847	$ 304	$ 5	$ 348,424	$ 23,819
Recoveries of prior year unpaid obligations	44	-	8	1	11,058	5,671
Budget authority						
Appropriations (Note 20)	-	-	-	101	552,971	4,613
Borrowing authority:	-	-	-	-	1	201,862
Spending authority from offsetting collections:						
Earned:						
Collected	4,970	892	182	4	11,059	219,002
Change in receivables from Federal sources	-	4	-	-	27	-
Change in unfilled customer orders:						
Advance received	15	-	(52)	-	(11)	-
Without advance from Federal sources	(1)	-	-	1	(18)	(22,847)
Subtotal	4,984	896	130	106	564,029	402,630
Non-expenditure transfer, net	-	245	(245)	-	125	-
Temporarily not available pursuant to Public Law	-	-	-	-	(426)	-
Permanently not available	(51)	-	-	(1)	(44,417)	(221,912)
Total Budgetary Resources	$ 5,088	$ 1,988	$ 197	$ 111	$ 878,793	$ 210,208
Status of Budgetary Resources						
Obligations incurred (Note 22):						
Direct	$ -	$ -	$ -	$ 103	$ 531,283	$ 181,638
Reimbursable	4,675	825	197	4	7,126	-
Subtotal	4,675	825	197	107	538,409	181,638
Unobligated balance						
Apportionment	413	-	-	2	246,296	510
Exempt from apportionment	-	1,163	-	-	23,980	-
Subtotal	413	1,163	-	2	270,276	510
Unobligated balance not available	-	-	-	2	70,108	28,060
Total Status of Budgetary Resources	$ 5,088	$ 1,988	$ 197	$ 111	$ 878,793	$ 210,208
Change in Obligated Balance						
Obligated balance, net						
Unpaid obligations brought forward, Oct. 1	$ 229	$ 185	$ 44	$ 22	$ 182,707	$ 49,491
Uncollected customer payments from Federal sources brought forward	(8)	(4)	-	(1)	(192)	(23,817)
Total unpaid obligated balance, net	221	181	44	21	182,515	25,674
Obligations incurred, net	4,675	825	197	107	538,409	181,638
Gross outlays	(4,513)	(798)	(194)	(105)	(561,707)	(101,655)
Recoveries of prior year unpaid obligations, actual	(44)	-	(8)	(1)	(11,058)	(5,671)
Change in uncollected customer payments from Federal source	1	(4)	-	(1)	(9)	22,847
Obligated balance, net, end of period:						
Unpaid obligations	346	251	-	23	148,351	123,802
Uncollected customer payments from Federal sources	(6)	(8)	-	(2)	(201)	(969)
Total, unpaid obligated balance, net, end of Period	$ 340	$ 243	$ -	$ 21	$ 148,150	$ 122,833
Net Outlays						
Gross outlays	$ 4,513	$ 798	$ 194	$ 105	$ 561,707	$ 101,655
Offsetting collections	(4,985)	(892)	(130)	(4)	(11,048)	(219,002)
Distributed offsetting receipts	-	-	-	-	(119,958)	-
Net outlays	$ (472)	$ (94)	$ 64	$ 101	$ 430,701	$ (117,347)

[(a)] On July 21, 2011, OTS merged into OCC. Accordingly, OTS's budgetary resources through July 20, 2011 are reported separately herein, and its operating results subsequent to July 20, 2011 were combined with OCC's operating results.