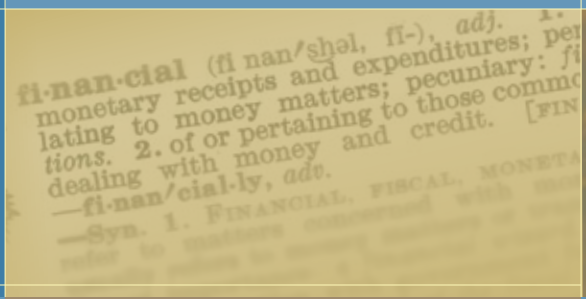
PART 3:

ANNUAL FINANCIAL REPORT



MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

November 15, 2010

In fiscal year 2010, the Department of the Treasury built on the framework established during the preceding year to restore confidence in America's financial system, ease the housing crisis, and provide the foundation for sustained economic recovery as Treasury's Troubled Asset Relief Program and Recovery Act programs matured.

Challenges lie ahead as Treasury works to implement myriad changes contained in major legislation enacted in 2010, including the broad health care reform provisions of the *Patient Protection and Affordable Care Act*; the sweeping financial reforms of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*; and the new loan programs and tax law changes in the *Small Business Jobs and Credit Act*. These programs, once implemented, will have a significant, positive impact in the lives of millions of Americans.

In fiscal year 2010, the Department of the Treasury demonstrated fiscal prudence and strong management reforms as we:

- Launched a new performance management process, led by the Treasury Deputy Secretary, to review bureau and Departmental office missions, goals, performance measures, and budget proposals
- Realized $23.1 billion in net income from Troubled Asset Relief Program (TARP) operations, resulting in reducing the cumulative net cost of the program from $41.6 billion at the end of fiscal year 2009 to $18.5 billion at the end of fiscal year 2010
- Identified $315 million in efficiency savings, rescissions, and new user fees in the fiscal year 2011 budget submission, to reduce the cost of Treasury operations
- Supported our veterans by achieving the Department's goal of spending at least 3 percent of its prime contracting dollars to support service-disabled, veteran-owned small businesses, while generating over $200 million in procurement savings
- Improved the effectiveness and efficiency of Treasury's execution of processes and procedures through the ongoing application of continuous improvement techniques
- Implemented the President's Open Government Directive, releasing approximately 80 data sets to the public
- Reformed Treasury's Senior Executive Service performance management system to strengthen the Department's performance culture

The Department received an unqualified audit opinion on both our Office of Financial Stability/TARP and Treasury-wide fiscal year 2010 financial statements. Treasury closed the material weakness on financial management practices at the Departmental level during fiscal year 2010, and made progress toward resolving the four material weaknesses remaining open as of September 30, 2010 [IRS - Modernization Management (due to close by 2011), Computer Security (due to close by 2012), and 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 systems enhancements is the major impediment to closing these weaknesses. Treasury made significant progress in managing programs included in the Government Accountability Office's High-Risk List and in addressing management and performance challenges identified by the Department's Inspectors General.

We will continue to devote special attention to these programs and challenges as we work to further improve the U.S. economy, help create jobs, and restore confidence in our financial system.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 15, 2010

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 2010 and 2009

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, 2010 and 2009.

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 2010 and 2009 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 systems 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 management practices at the Departmental level, 2) financial accounting and reporting at the Office of Financial Stability, and 3) information system 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;

- 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 certain transactions and activities of the Treasury Inspector General for Tax Administration.

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, 2010, 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

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, 2010 and 2009, and the related consolidated statements of net cost, and changes in net position, 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 2010 Performance and Accountability Report* (PAR).

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 thereon 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 2010 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, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 21, the Department implemented Statement of Federal Financial Accounting Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective October 1, 2009.

As discussed in Note 29, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

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

Notes 1A, 1V, 8, 9, and 12 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 potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on 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, 2010, 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 identified significant 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 Management Practices at the Departmental Level (Repeat Condition)
- Financial Accounting and Reporting at the Office of Financial Stability (Repeat Condition)
- Information System 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 (FFMSR) and applicable Federal accounting standards. Our, and the other auditor's audit disclosed no instances in which the Treasury's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

In other matters, the Department informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities of the Treasury Inspector General for Tax Administration (TIGTA). This matter is currently under review.

The following sections discuss our opinion on the 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 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 Department of the Treasury as of September 30, 2010 and 2009, 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 the IRS, a component entity of the Department, which reflect total assets of $43.2 billion and $36.8 billion, net costs of operations of $13.4 billion and $12.5 billion, before applicable eliminating entries, budgetary resources of $13.4 billion and $12.8 billion, and custodial revenues of $2.3 trillion each as of and for the years ended September 30, 2010 and 2009, respectively. The financial statements of IRS as of and for the years ended September 30, 2010 and 2009, were audited by another auditor whose report dated November 5, 2010, has been provided to us, and our opinion, insofar as it relates to the amounts included for the IRS, is based solely on the report of the other auditor.

In addition, we did not audit the amounts included in the consolidated financial statements related to the OFS, a component entity of the Department, which reflect total assets of $244.2 billion and $337.4 billion, net (income) and net costs of operations of ($23.1) billion and $41.6 billion, before applicable eliminating entries, and budgetary resources of $195.3 billion and $699.4 billion, as of and for the years ended September 30, 2010 and 2009, respectively. The financial statements of OFS as of and for the years ended September 30, 2010 and 2009, were audited by another auditor whose report dated November 5, 2010, has been provided to us, and our opinion, insofar as it relates to the amounts included for the 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 Department of the Treasury as of September 30, 2010 and 2009, 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 Note 21, the Department implemented Statement of Federal Financial Accounting Standards No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, effective October 1, 2009.

As discussed in Note 29, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets.

Notes 1A, 1V, 8, 9, and 12, 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 potential effect of proposed transactions, such as the restructuring of American International Group, Inc., on 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, 2010, 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 PAR in Part 1: *Management's Discussion and Analysis (MD&A)*, and the Required Supplemental Information section of Part 3: *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*, Part 2: the *Annual Performance Report*, the *Message from the Assistant Secretary for Management and Chief Financial Officer,* and the *Inspector General's Transmittal Letter* in Part 3, and Part 4: *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, and the other auditor's, consideration of the internal control over financial reporting was for a limited purpose described in the Responsibilities section of this report, and was not designed to identify all deficiencies in the 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 Department's consolidated 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 2010 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 IRS is considered to be a material weakness. Because of the IRS material weakness in internal control discussed below, the other auditor's opinion on IRS' internal control stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2010, and thus did not provide reasonable assurance that losses and misstatements 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, 2010.

MATERIAL WEAKNESS

Financial Systems and Reporting at IRS (Repeat Condition)

IRS continued to make progress in addressing its internal control deficiencies. However, material weaknesses related to unpaid tax assessments, and information security controls continued to exist in fiscal year 2010, in addition to a new significant deficiency related to tax refunds disbursements.

The challenges IRS faces as a result of these deficiencies adversely affect IRS's ability to (1) produce reliable financial statements without significant compensating procedures, and (2) make well-informed decisions. As IRS continues to increase the automation of accounting and reporting processes, the need for effective security over the data these systems process becomes increasingly critical. These weaknesses also significantly increase the risk that sensitive taxpayer information may be compromised.

These deficiencies in internal control over financial reporting identified by the auditors of IRS's financial statements are collectively considered a material weakness for the Department as a whole. These deficiencies are summarized as follows:

- Serious internal control issues continue to affect IRS's management of unpaid tax assessments. Specifically, a lack of adequate procedures and systemic limitations in the programs used resulted in the following issues: (1) IRS's reported balances for taxes receivable and other unpaid 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, and (3) IRS experienced errors and delays in recording taxpayer information, payments, and other tax assessment-related activities. (Material Weakness)

- Internal control over IRS's information system's security continued to be ineffective, particularly as it relates to controls over access to mission-critical applications and processing sensitive information. As a result, IRS could not rely on the internal controls contained in its automated financial management system to provide reasonable assurance that (1) its financial statements taken as a whole, were fairly stated, (2) the information IRS relied on to make decisions on a daily basis were accurate, complete, and timely, and (3) proprietary financial and taxpayer information was appropriately safeguarded. (Material Weakness)

- Weaknesses in IRS's controls over manual tax refunds as well as processing of claims for the First-Time Home Buyer Credit that resulted in duplicate or otherwise erroneous tax refund disbursements. (Significant Deficiency)

The other auditor noted that the material weaknesses and significant deficiency 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 material weakness identified above have been provided to IRS management by the auditors of IRS's financial statements in their report dated November 5, 2010.

Recommendations

Recommendations to address the material weakness discussed above have been provided to IRS management by the auditors of IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by IRS to resolve this material weakness.

SIGNIFICANT DEFICIENCIES

Financial Management Practices at the Departmental Level (Repeat Condition)

We identified the following two deficiencies that we collectively consider to be a significant deficiency at the Departmental level. Both are repeat deficiencies related to Department-wide control environment weaknesses.

Department-wide Entity Level Controls Affecting Financial Reporting

Due to expanded accounting and reporting requirements and related responsibilities, further improvements are needed in the current staffing structure and staff skills at the Departmental level.

The Office of Accounting and Internal Control (AIC), within the Office of the Deputy Chief Financial Officer (ODCFO) is responsible for establishing and maintaining financial policies that guide financial and budgetary reporting throughout the Department, and ensure the overall integrity of financial data reported at the Departmental level. In fiscal year 2010, the Department took several steps to improve its current staffing structure and staff skills, including outlining a human capital needs assessment, hiring new staff, and providing training to existing staff. However, we continue to note weaknesses in the internal control environment, as described below, that negatively impact financial management at the Departmental level.

In fiscal year 2010, AIC supplemented its existing staff and realigned duties and responsibilities within AIC. Although these steps helped with AIC's staffing structure and needs, delays in hiring these additional personnel limited the opportunity to fully train them on the Department's unique accounting and reporting needs. As a result, key accounting functions and duties, as well as accounting decisions continue to be performed by a few key senior staff members, until the new staff members are fully trained on Treasury's unique accounting transactions. With regard to budgetary accounting and issues identified Department-wide, there is limited senior staff within AIC who have the knowledge and experience to adequately respond to and address issues. The lack of accounting staff possessing the knowledge and experience necessary to address accounting and reporting issues and questions at the Departmental level increases the risk that a misstatement in the consolidated financial statements and related note disclosures will not be detected.

Financial Accounting and Reporting

The Department's financial accounting and reporting policies, procedures, the related internal controls, and testing for effectiveness of internal control over financial reporting, need improvement in the following areas.

- Management's review procedures over the consolidated financial statements are not sufficient to ensure the accuracy and validity of reported amounts. We continued to identify incorrect amounts and disclosures in the draft consolidated financial statements that were significant, but not material, and that were not detected by AIC. While improvements were noted in the review and approval process for preparing its consolidated financial statements and related note disclosures, additional supervision and review is needed. Further, the documentation supporting the consolidated financial statements amounts were in certain instances inadequate or incomplete in areas such as the President's Budget Reconciliation. For example, certain key documentation that supported reconciling items was not provided until requested or had to be prepared subsequently.
- While the Department took steps in fiscal year 2010 to develop policies and procedures over 14 accounting and reporting areas, policies and procedures related to certain other significant accounting areas need to be addressed. Written policies and procedures to account for and report various non-routine, complex, and unique transactions, such as accounting and reporting of custodial transactions, U.S. Mint's Seigniorage, transfers to the General Fund, and non-entity transactions have not been documented. Further, AIC did not have written procedures for performing certain key financial statements analyses such as that for proprietary and budgetary relationships, and cumulative results of operations. In addition, while the policies and procedures developed in fiscal year 2010 identify management controls in the workflow diagrams, descriptions of the controls need to be included in the policies and procedures. Proper

documentation depicting processes and controls is a critical component of internal control because it presents management's overall processes to gather, process, and report financial information and ensure their compliance with applicable laws and regulations.

- The Department's actions to ensure that the Secretary's assurance statement on the effectiveness of internal control over financial reporting is supported by verifiable results continue to require further improvement. Specifically, components are not consistently complying with the Department's guidance for conducting management's assessment of the effectiveness of internal control over financial reporting. Several steps were taken in the current year to improve implementation. AIC provided additional guidance to components by publishing fiscal year 2010 OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123) Guidance (FY 10 Guidance), which clarified and enhanced previous guidance in various key areas. AIC provided sample documentation to components to follow during their test work. While the FY 2010 Guidance appeared to be clear in terms of instructions, our review revealed several instances where the components did not completely adhere to the requirements of the Guidance. Four of six components that we tested conducted some, but not all, test work as required by the FY 2010 Guidance. These issues may ultimately result in the Secretary's assurance statement on the effectiveness of internal control over financial reporting not being supported.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards)*. The GAO *Standards* require that internal controls be documented in management directives, administrative policies or operating manuals; transactions and other significant events be clearly documented; and information be recorded and communicated timely with those who need it within a timeframe that enables them to carry out their internal control procedures and other responsibilities. The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* also identify the control environment as one of the five key elements of control, which emphasizes the importance of conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, policies, procedures, monitoring, and segregation of duties.

A-123 states that monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. An effective, continuous monitoring program can level the resources needed to maintain effective internal controls throughout the year.

Recommendations

We recommend that the ASM/CFO:

Department-wide Entity Level Controls Affecting Financial Reporting

1. Provide AIC staff the appropriate training and on-the job experience to ensure that they possess the necessary knowledge and skills needed for their respective positions.

Financial Accounting and Reporting

2. Develop a plan to enhance the quality of supervisory reviews performed on the consolidated financial statements and supporting documentation by responsible officials including those with programmatic oversight, to ensure that errors and inconsistencies are identified and corrected in a timely manner.

3. Require that policies and procedures are developed in sufficient detail to support all of the significant accounting and reporting requirements at the Departmental level, and include non-routine or complex accounting and reporting matters. These policies should be periodically updated (at least annually).

4. Improve the monitoring process of the A-123 work conducted by components to ensure that the Department's Guidance is fully implemented and complied with, and supports the Secretary's assurance statement on the effectiveness of internal control over financial reporting.

Financial Accounting and Reporting at the OFS (Repeat Condition)

During fiscal year 2010, OFS resolved one significant deficiency and made progress in addressing their other significant deficiency. 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 also collectively constitute a significant deficiency for the Department and are summarized as follows:

- While improvements were noted in OFS's review and approval process for preparing its financial statements, notes, and MD&A, the other auditor identified incorrect amounts and inconsistent disclosures in OFS's draft financial statements, notes, and MD&A that were significant, but not material, and were not detected by OFS.
- The other auditor identified instances where OFS's procedures related to its process for accounting for certain program transactions, preparing its financial statements, and its oversight and monitoring of financial-related services provided to OFS by asset managers and certain financial agents were not always followed or effectively implemented.
- OFS's documentation was incomplete for certain areas of its asset valuation process. Specifically, some valuation methodology changes and the basis for certain assumptions derived from informed opinion that were used in valuing assets were not included in its written documentation. After the other auditor notified OFS that the documentation was incomplete, OFS was able to provide adequate additional information about its asset valuation process.

- OFS did not have adequate procedures to determine whether the tool and related guidance it used properly calculated valuations for certain assets with projected future disbursements. OFS's use of the tool and related guidance resulted in errors in the valuation of such assets.

OFS had other controls that reduced the risk of misstatements resulting from these deficiencies. 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 because of this significant deficiency.

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

Recommendations

Recommendations to address the significant deficiency discussed above will be provided to OFS management by the auditors of OFS's financial statements. We recommend that the ASM/CFO provide effective oversight to ensure that corrective actions are taken by OFS to resolve this significant deficiency.

Information System Controls at the FMS (Repeat Condition)

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; and (4) segregation of duties. 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

The detailed findings and related recommendations have been provided to FMS management in separate reports. We recommend that the ASM/CFO provide effective oversight and the resources necessary to ensure that information security requirements over financial systems are implemented at FMS.

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 that is required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04.

- ***Noncompliance with IRC Section 6325*** - The IRC grants IRS the power to file a 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 a Federal tax lien 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 IRS has taken to date to improve its lien release process, instances continued to be identified where IRS did not timely release the applicable Federal tax lien 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 system requirements (FFMSR), and (2) applicable Federal accounting standards. Our, and the other auditor's audit disclosed no instances in which the Treasury's financial management systems did not substantially comply with the U.S. Standard General Ledger at the transaction level.

Instances of noncompliance with FFMSR are summarized below:

- Persistent deficiencies in IRS's internal control over information security remain uncorrected. As a result of these deficiencies, IRS was (1) unable to rely upon these controls to provide reasonable assurance that its financial statements are fairly stated in the absence of effective compensating procedures, (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.

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

- IRS's automated systems for tax related transactions did not support the net taxes receivable amount on IRS's balance sheet and other required supplemental information related to uncollected taxes - compliance assessments and tax write-offs - in accordance with Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

The Secretary of the Treasury also stated in his Letter of Assurance, included in Part 1: *Management's Discussion and Analysis*, of the accompanying PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. IRS has established a remediation plan to address the conditions that led to its systems' substantial noncompliance with the requirements of FFMIA. 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. The Department's remedial actions and related timeframes are presented in Appendix D: *Material Weaknesses, Audit Follow-up, Financial Systems, and Recovery Act Risk Management*, of the PAR.

Recommendation

We recommend that the ASM/CFO provide effective oversight to 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 auditors of the IRS's financial statements.

Other Matter

The Department informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities of the TIGTA. Specifically, budgetary control weaknesses existing within the TIGTA may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review.

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, it has responded that it will take corrective action, as necessary, to ensure the matters presented are addressed by the respective component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to 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 2010 and 2009 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 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 2010 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 5, 2010, have been provided to us. We, and the other auditor, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express 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. The objective of the other auditor's audits was to express an opinion on the effectiveness of the IRS's and the OFS's internal control over financial reporting. Because of the IRS material weakness in internal control, the other auditor's opinion on the IRS' internal control stated that IRS did not maintain effective internal control over financial reporting as of September 30, 2010. 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, 2010.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2010 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 audits 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, the Department's Office of Inspector General, OMB, the GAO, 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, 2010

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2010

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 2010 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 eleventh consecutive year. We are also proud of the second unqualified opinion from the Government Accountability Office (GAO) on the Office of Financial Stability's financial statements.

These successful results also are due in large part to the high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting the audit. Treasury appreciates your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. Treasury is equally appreciative of the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of Inspector General, GAO, and the firms that audited several of our bureaus.

KPMG recognized Treasury's intensive efforts in fiscal year 2010 to resolve the material weakness on financial management practices at the departmental level by downgrading the weakness to a significant deficiency. The Department continued to make significant progress during the year to address previously identified financial and information management deficiencies. As reported by GAO, the Internal Revenue Service made strides in improving its financial management by bringing its financial management systems into compliance with the *United States Standard General Ledger* and correcting several longstanding information security weaknesses.

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 quickly and aggressively.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

CONSOLIDATED BALANCE SHEETS
As of September 30, 2010 and 2009
(In Millions)

ASSETS	2010	2009
Intra-governmental Assets		
Fund Balance (Note 2)	$ 437,026	$ 504,582
Loans and Interest Receivable (Note 3)	552,853	410,591
Troubled Asset Relief Program Asset Guarantee Program (Note 8)	815	0
Advances to the Unemployment Trust Fund (Note 4)	34,111	7,981
Due from the General Fund (Note 4)	13,655,637	11,992,719
Accounts Receivable and Related Interest (Note 5)	361	298
Other Intra-governmental Assets	3	5
Total Intra-governmental Assets	14,680,806	12,916,176
Cash, Foreign Currency, and Other Monetary Assets (Note 6)	375,282	341,308
Gold and Silver Reserves (Note 7)	11,062	11,062
Troubled Asset Relief Program Direct Loans and Equity Investments, Net and Asset Guarantee Program (Note 8)	144,692	239,657
Investments in Government Sponsored Enterprises (Notes 4 and 9)	109,216	64,679
Investments in International Financial Institutions (Note 10)	5,580	5,575
Other Investments and Related Interest (Note 11)	12,639	13,565
Credit Program Receivables and Direct Loans, Net (Note 12)	186,396	184,460
Loans and Interest Receivable (Notes 4 and13)	124	127
Reserve Position in the International Monetary Fund (Note 14)	12,938	13,469
Tax, Other, and Related Interest Receivables, Net (Note 15)	36,976	30,408
Inventory and Related Property, Net (Note 16)	697	598
Property, Plant, and Equipment, Net (Note 17)	2,031	2,036
Beneficial Interest in Trust (Notes 4 and 29)	20,805	23,472
Other Assets	13	9
Total Assets	$ 15,599,257	$ 13,846,601

Heritage Assets (Note 17)

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

CONSOLIDATED BALANCE SHEETS

As of September 30, 2010 and 2009

(In Millions)

LIABILITIES	2010	2009
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 19)	$ 4,587,802	$ 4,403,080
Other Debt and Interest Payable (Note 20)	10,358	12,060
Due to the General Fund (Notes 4, 6, and 27)	1,414,252	1,263,128
Other Intra-governmental Liabilities (Note 22)	366	425
Total Intra-governmental Liabilities	6,012,778	5,678,693
Federal Debt and Interest Payable (Notes 4 and 19)	9,035,929	7,559,305
Certificates Issued to the Federal Reserve (Note 6)	5,200	5,200
Allocation of Special Drawing Rights (Note 6)	54,958	55,953
Gold Certificates Issued to the Federal Reserve (Note 7)	11,037	11,037
Refunds Payable (Notes 4 and 26)	4,146	4,040
D.C. Pensions and Judicial Retirement Actuarial Liability (Note 21)	9,743	9,049
Liabilities to Government Sponsored Enterprises (Note 9)	359,900	91,937
Other Liabilities (Note 22)	4,470	3,331
Total Liabilities	15,498,161	13,418,545
Commitments and Contingencies (Note 31)		
NET POSITION		
Unexpended Appropriations:		
Earmarked Funds (Note 27)	200	200
Other Funds	400,357	454,944
Subtotal	400,557	455,144
Cumulative Results of Operations:		
Earmarked Funds (Note 27)	41,426	41,653
Other Funds	(340,887)	(68,741)
Subtotal	(299,461)	(27,088)
Total Net Position (Note 23)	101,096	428,056
Total Liabilities and Net Position	$ 15,599,257	$ 13,846,601

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

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2010 and 2009

(In Millions)

COST OF TREASURY OPERATIONS: (Note 24)	2010	2009
Financial Program:		
Gross Cost	$ 15,854	$ 15,313
Less Earned Revenue	(2,611)	(2,258)
Net Program Cost	13,243	13,055
Economic Program:		
Gross Cost	314,138	210,490
Less Earned Revenue	(16,904)	(14,785)
Net Program Cost	297,234	195,705
Security Program:		
Gross Cost	344	325
Less Earned Revenue	(4)	(3)
Net Program Cost	340	322
Management Program:		
Gross Cost	582	569
Less Earned Revenue	(56)	(60)
Net Program Cost	526	509
Total Program Gross Costs	330,918	226,697
Total Program Gross Earned Revenues	(19,575)	(17,106)
Total Program Cost before Changes in Actuarial Assumptions	311,343	209,591
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	820	0
Total Net Cost of Treasury Operations (Note 24)	312,163	209,591
Federal Costs:		
Federal Debt Interest	412,855	380,519
Less Interest Revenue from Loans	(22,258)	(17,326)
Net Federal Debt Interest Costs	390,597	363,193
Other Federal Interest	6	0
Net GSEs Non-Entity Revenue (Note 9)	(56,678)	(61,983)
Other Federal Costs (Note 24)	12,753	12,131
Total Net Federal Costs	346,678	313,341
Net Cost of Treasury Operations, Federal Debt Interest, Net GSEs Non-Entity Cost, and Other Federal Costs	$ 658,841	$ 522,932

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2010

(In Millions)

CUMULATIVE RESULTS OF OPERATIONS	Combined Earmarked Funds	Combined All Other Funds	Elimination	Consolidated Total
Beginning Balances	$ 41,653	$ ($68,741)	$ 0	$ (27,088)
Budgetary Financing Sources:				
Appropriations Used	527	501,912	0	502,439
Non-exchange Revenue	56	229	(4)	281
Donations and Forfeitures of Cash/Equivalent	324	0	0	324
Transfers In/Out Without Reimbursement	(27)	13	0	(14)
Other	0	12	0	12
Other Financing Sources (non-exchange):				
Donation/Forfeiture of Property	319	0	0	319
Accrued Interest and Discount on Debt	0	11,086	0	11,086
Transfers In/Out Without Reimbursement	(79)	37	0	(42)
Imputed Financing Sources	74	1,486	(552)	1,008
Transfers to the General Fund and Other (Note 23)	(65)	(128,880)	0	(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)	0	(272,373)
Cumulative Results of Operations	**$ 41,426**	**$ (340,887)**	**$ 0**	**$ (299,461)**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 200	$ 454,944	$ 0	$ 455,144
Budgetary Financing Sources:				
Appropriations Received (Note 23)	527	456,443	0	456,970
Appropriations Transferred In/Out	0	92	0	92
Other Adjustments	0	(9,210)	0	(9,210)
Appropriations Used	(527)	(501,912)		(502,439)
Total Budgetary Financing Sources	**0**	**(54,587)**	**0**	**(54,587)**
Total Unexpended Appropriations	**200**	**400,357**	**0**	**400,557**
Net Position	**$ 41,626**	**$ 59,470**	**$ 0**	**$ 101,096**

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

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2009

(In Millions)

CUMULATIVE RESULTS OF OPERATIONS	Combined Earmarked Funds	Combined All Other Funds	Elimination	Consolidated Total
Beginning Balances	$ 37,586	$ 157	$ 0	$ 37,743
Budgetary Financing Sources:				
Appropriations Used	408	667,745	0	668,153
Non-exchange Revenue	263	234	(4)	493
Donations and Forfeitures of Cash/Equivalent	257	0	0	257
Transfers In/Out Without Reimbursement	(16)	(7)	2	(21)
Other	10	2	0	12
Other Financing Sources (non-exchange):				
Donation/Forfeiture of Property	127	0	0	127
Accrued Interest and Discount on Debt	0	6,027	0	6,027
Transfers In/Out Without Reimbursement	(63)	29	(2)	(36)
Imputed Financing Sources	61	1,206	(474)	793
Transfers to the General Fund and Other (Note 23)	(31)	(217,673)	0	(217,704)
Total Financing Sources	**1,016**	**457,563**	**(478)**	**458,101**
Net Cost of Operations	3,051	(526,461)	478	(522,932)
Net Change	4,067	(68,898)	0	(64,831)
Cumulative Results of Operations	**$ 41,653**	**$ (68,741)**	**$ 0**	**$ (27,088)**
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 200	$ 271,768	$ 0	$ 271,968
Budgetary Financing Sources:				
Appropriations Received (Note 23)	408	855,354	0	855,762
Appropriations Transferred In/Out	0	11	0	11
Other Adjustments	0	(4,444)	0	(4,444)
Appropriations Used	(408)	(667,745)	0	(668,153)
Total Budgetary Financing Sources	**0**	**183,176**	**0**	**183,176**
Total Unexpended Appropriations	**200**	**454,944**	**0**	**455,144**
Net Position	**$ 41,853**	**$ 386,203**	**$ 0**	**$ 428,056**

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

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward, Oct. 1	$ 401,626	$ 41,827	$ 443,453
ESF Adjustment for Change in Accounting Policy (Notes 1 and 25)	14,135	0	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 23)	569,010	0	569,010
Borrowing authority (Note 25)	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	0	22
Change in unfilled customer orders:			
Advance received	(56)	0	(56)
Without advance from Federal sources	2	(5,111)	(5,109)
Subtotal	578,380	351,307	929,687
Non-expenditure transfers, net	361	0	361
Temporarily not available pursuant to Public Law	(142)	0	(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 25):			
Direct	$ 581,303	$ 219,264	$ 800,567
ESF Adjustment for Change in Accounting Policy	14,135	0	14,135
Direct, Adjusted	595,438	219,264	814,702
Reimbursable	6,136	0	6,136
Subtotal	601,574	219,264	820,838
Unobligated Balance:			
Apportioned	267,581	20,961	288,542
Exempt from apportionment	13,269	0	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
Change 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 & 25)	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.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2009

(In Millions)

	Budgetary	Non-Budgetary Financing	Total
Budgetary Resources			
Unobligated balance, brought forward	$ 260,173	$ 24,457	$ 284,630
Recoveries of prior year unpaid obligations	8,097	(1)	8,096
Budget authority:			
Appropriations (Note 23)	952,185	0	952,185
Borrowing authority	493	548,242	548,735
Spending Authority from Offsetting Collections			
Earned: Collected	11,681	272,768	284,449
Change in receivables from Federal sources	(44)	0	(44)
Change in unfilled customer orders:			
Advance received	(31)	0	(31)
Without advance from Federal sources	(134)	28,926	28,792
Subtotal	964,150	849,936	1,814,086
Non-expenditure transfers, net	(43)	0	(43)
Temporarily not available pursuant to Public Law	2	0	2
Permanently not available	(92,001)	(179,736)	(271,737)
Total Budgetary Resources	**$ 1,140,378**	**$ 694,656**	**$ 1,835,034**
Status of Budgetary Resources			
Obligations incurred (Note 25): Direct	$ 729,697	$ 652,829	$ 1,382,526
Reimbursable	4,669	0	4,669
Subtotal	734,366	652,829	1,387,195
Unobligated Balance: Apportioned	349,889	19,612	369,501
Exempt from apportionment	44,497	0	44,497
Subtotal	394,386	19,612	413,998
Unobligated balance not available	11,626	22,215	33,841
Total Status of Budgetary Resources	**$ 1,140,378**	**$ 694,656**	**$ 1,835,034**
Change in Obligated Balance			
Obligated balance, net:			
Unpaid obligations, brought forward, Oct. 1	$ 57,314	$ 10	$ 57,324
Uncollected customer payments from Federal sources, brought forward, Oct. 1	(346)	(1)	(347)
Total unpaid obligated balance, net	56,968	9	56,977
Obligations incurred, net	734,366	652,829	1,387,195
Gross outlays	(675,286)	(573,630)	(1,248,916)
Recoveries of prior year unpaid obligations, actual	(8,097)	1	(8,096)
Change In uncollected customer payments from Federal source	178	(28,926)	(28,748)
Obligated balance, net, end of period:			
Unpaid obligations	108,297	79,209	187,506
Uncollected customer payments from Federal sources	(168)	(28,926)	(29,094)
Total unpaid obligated balance, net, end of period	108,129	50,283	158,412
Net Outlays			
Gross outlays	675,286	573,630	1,248,916
Offsetting collections	(9,369)	(272,768)	(282,137)
Distributed offsetting receipts	(40,114)	(4,500)	(44,614)
Net Outlays	**$ 625,803**	**$ 296,362**	**$ 922,165**

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

STATEMENTS OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2010 and 2009

(In Millions)

	2010	2009
Sources of Custodial Revenue (Note 26):		
Revenue Received		
Individual Income and FICA Taxes	$ 1,988,760	$ 2,036,557
Corporate Income Taxes	277,937	225,482
Estate and Gift Taxes	19,751	24,677
Excise Taxes	70,946	67,248
Railroad Retirement Taxes	4,648	4,711
Unemployment Taxes	6,543	6,765
Deposit of Earnings, Federal Reserve System	75,845	34,318
Fines, Penalties, Interest and Other Revenue	1,880	1,929
Total Cash Revenue Received	2,446,310	2,401,687
Less Refunds	(469,937)	(437,972)
Net Cash Revenue Received	1,976,373	1,963,715
Non-Cash Custodial Transactions		
Beneficial Interest in Trust – Market Adjustment (Note 29)	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Custodial Revenue	1,980,246	1,986,090
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	387	487
Amounts Provided to Fund the Federal Government (Notes 26)	1,975,986	1,963,228
Total Disposition of Cash Revenue	1,976,373	1,963,715
Non-cash Revenue – Beneficial Interest in Trust – Market Adjustment	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Disposition of Custodial Revenue	1,980,246	1,986,090
Net Custodial Revenue	$ 0	$ 0

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

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1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the 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 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 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 manufacturing of coins, currency, and other products for customer agencies and the public.

The Department includes the Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is composed of: International Assistance Programs (IAP), Office of Inspector General (OIG), the Special Office of Inspector General for the Troubled Asset Relief Program (SIGTARP), Treasury Forfeiture Fund (TFF), Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), 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 Program (GSEs) and the DO policy offices.

The nine 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); Office of Thrift Supervision[1] (OTS); and the Alcohol and Tobacco Tax and Trade Bureau (TTB).

The Department's financial statements reflect the reporting of its own entity activities, 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, 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, which directs that such "bailout" investments should not be consolidated into the financial reports of the Federal Government, either in part or as a whole.

1 On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which includes the Enhancing Financial Institution Safety and Soundness Act of 2010 (the "Act"). Under the Act, OTS will be abolished and some of its functions will be transferred to the OCC on July 21, 2011 (the "transfer date").

In addition, the Department has made loans and investments in certain Special Purpose Vehicles[2] (SPV). 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 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 8, see Automotive Industry Financing Program, Term Asset-Backed Loan Facility and the Public-Private Investment Program.

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 A-136, *Financial Reporting Requirements*, as amended. 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 2010 and fiscal year 2009 information.

While these financial statements have been prepared from the books and 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 books and 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 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.

C. Investments

Investments in Troubled Asset Relief Program (TARP)

Troubled Asset Relief Program (TARP) equity investments, including investments in preferred and common stock and warrants of public companies, are accounted for pursuant to the provisions of the Federal Credit Reform Act (FCRA) and the associated FASAB accounting

2 The Department invested in SPV's under the Consumer and Business Lending Initiative, the Automotive Industry Financing Program and the Public-Private Investment Program.

standard SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, as amended. As additional consideration for investments made, the Department received common stock warrants, additional preferred shares (referred to as warrant preferred shares) or additional notes. The Department considered market risk in its calculation and determination of the estimated net present value of its direct loans, equity investments and asset guarantee program for budgetary purposes. Similarly, market risk is considered in the valuations for financial reporting purposes (see Note 8 for further discussion). The Department concluded that GAAP accounting for such investments using the concepts embedded in SFFAS No. 2 was appropriate analogous accounting guidance based on the similarity between the equity investments made by the Department and direct loans. Consequently, TARP equity investments, including investments in preferred and common stock and warrants of public companies, are accounted for by the Department using credit reform accounting in accordance with SFFAS No. 2, and reported in accordance with FCRA in these financial statements. In addition, the inclusion of market risk required by the Emergency Economic Stabilization Act (EESA) in the valuation calculation results in accounting for these investments at estimated fair value, which is consistent with the accounting for other equity investments held by the Department (i.e. investments in GSEs).

The Department recognizes dividend revenue associated with equity investments when declared by the entity in which the Department has invested and when received in relation to any repurchases and restructuring. The Department reflects changes in the fair value of direct loans, equity investments, and asset guarantees in the subsidy cost on the Statement of Net Cost annually, as required by FCRA. The estimated values associated with these additional instruments are disclosed in Note 8.

Investments in Government Sponsored Enterprises (GSEs)

The senior preferred stock liquidity preference (preferred stock) and associated common stock warrant (warrant(s)) in 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.

Increases in the non-entity preferred stock liquidity preference occur when quarterly payments to the GSEs are made pursuant to the preferred stock purchase agreements (i.e., when a GSE's liabilities exceed its assets at the end of any quarter). As funds for these payments are appropriated directly to the Department, these payments are treated as entity expenses and reflected as such on the Statement of Net Cost (SNC) and Cumulative Results of Operations. These payments also result in an increase to the non-entity investment in GSEs preferred stock, with a corresponding increase in Due to the General Fund, as the Department holds the investment on behalf of the U.S. Government General Fund.

Investments in International Financial Institutions

The Department invests in Multilateral Development Banks (MDB) to support poverty reduction, private sector development, and transition to market economies and sustainable economic growth and development, thereby advancing the United States' economic, political, and commercial interests abroad. These investments are non-marketable equity investments valued at cost.

Other Investments and Related Interest

The ESF holds most of the Department's other investments. "Other Foreign Currency Denominated Assets" and "Investment Securities" are considered "available for sale" securities and recorded at fair value as permitted by OMB Circular No. A-136 beginning in fiscal year 2009. These holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities.

D. Tax and Other Non-Entity Receivables

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 Federal 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 assessments and write-offs are not reported on the balance sheet. Statutory provisions require the accounts to be maintained until the statute for collection expires.

E. Inventory and Related Property

Inventory and related property include inventory, operating materials and supplies, and forfeited property. The Treasury values inventories at either standard cost, or lower of cost or latest acquisition cost, except for finished goods inventories, which are valued at weighted-average unit cost. These inventories were categorized based on the Department's major activities and the services the Department provides to the Federal Government and the public. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayer's assessed liability is recorded when title to the property passes to the U.S. Government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local, or federal agency. Revenue is not recognized if the forfeited property is ultimately destroyed or cannot be legally sold.

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 Federal 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 Unemployment Trust Fund from the General Fund of the U.S. Government to states for unemployment benefits. The Bureau of the Public Debt accounts for the advances on behalf of the General Fund. As outlined in 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 then forming 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 of the Treasury, in consultation with the Secretary of Labor, has determined that the balance in the Unemployment Trust Fund is adequate to allow repayment.

H. Receivable on Deposit of Earnings, Federal Reserve System

Reserve Banks 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, a Reserve Bank 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 Receivable on Deposit of Earnings, Federal Reserve System, 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

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 users 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. 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 (2-50 years) are high due to the Department's diversity of PP&E. 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 United States Mint facilities in Denver, San Francisco, 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. Non-Entity Government-Wide Cash

Non-entity government-wide cash is held in depositary institutions and Federal Reserve 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 Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury Tax and loan 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 Treasury Tax and Loan (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.

U.S. Treasury Tax and Loan Accounts include funds invested through the Term Investment Option program and the Repo program. Under the Term Investment Option program Treasury auctions funds for a set term, usually in the range of one day to three weeks. Under the Repo program, the Department invests funds through overnight reverse repurchase agreements. However, under both programs, the Department reserves the right to call the funds prior to maturity under special circumstances. These investments programs where suspended in fiscal year 2010.

The Supplementary Financing Program (SFP) Account is maintained at FRBNY. SFP is a temporary program announced by the Department and the Federal Reserve on September 17, 2008, to provide emergency cash for Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. The program consists of a series of Treasury bills, apart from the Department's current borrowing program.

K. Federal Debt

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 FFB recognizes loan commitments when the FFB and the other parties fully execute the promissory notes and reduces loan commitments when the FFB issues loans or when the commitments expire. Most obligations of the FFB give a borrower the contractual right to a loan or loans immediately or at some point in the future. The FFB limits the time available for a loan under an obligation, where applicable.

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 Treasury.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes a fixed percentage of pay.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 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 Treasury, 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 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, the Department's bureaus, OCC and OTS, separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides the Financial Institution Retirement Fund (FIRF) private defined retirement benefit plan to certain employees as well as certain health and life insurance benefits for all retired employees that meet eligibility requirements. Effective January 1, 1993, OTS adopted SFAS No. 106 to account for its share of the cost of life insurance.

N. Special Drawing Rights (SDRs)

The ESF was established for use by the Secretary of the Treasury to account for the purchase or sale of foreign currencies, to hold Special Drawing Rights (SDRs) holdings, and to provide financing to foreign governments. SDRs transactions of the ESF require the explicit authorization of the Secretary of the Treasury.

The International Monetary Fund (IMF) has authority to cancel, in part or in whole, SDRs created under previous allocations. Decisions of the IMF to cancel SDRs are adopted by the IMF's Board of Governors on a basis of proposal by the IMF Managing Director, with concurrence by the IMF Executive Board. The same majority requirements as those for allocations apply to the Executive Board's concurrence and to the Board of Governor's decision on an SDRs cancellation proposal.

Allocations and Holdings

Allocations of SDRs are recorded as assets and liabilities. The liabilities represent the amount that is payable in the event of liquidation of, or U.S. withdrawal from, the SDRs department of the IMF, or cancellation of the SDRs.

SDRs holdings represent transactions resulting from ESF SDRs activities. These activities are primarily the result of IMF allocations. Other transactions reported in this account are recorded as incurred. They include SDRs acquisitions and sales, interest received on SDRs holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. Government receives remuneration in SDRs from the IMF. This is based on claims on the IMF, represented by the U.S. Reserve Position. The allocations and holdings are revalued monthly based on the SDRs valuation rate calculated by the IMF.

Certificates

The *SDRs Act of 1968* authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDRs holdings, to the Federal Reserve Banks in return for interest-free 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 resources for financing other ESF operations. Certificates issued are to be redeemed by the Treasury at such times and in such amounts as the Secretary may determine. Certificates issued to Federal Reserve Banks are reported at their face value. It is not practical to estimate the fair value of certificates issued to Federal Reserve Banks, 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 the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursements from the Treasury 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 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 IRS reimbursable 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. Non-exchange revenues are recognized when received by the respective Treasury collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. 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 also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the Forfeiture Fund program are reported on the Consolidated Statement of Net Cost.

In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, the material imputed inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the Federal Employees Health Benefits Program (FEHBP), and any un-reimbursed payments made from the Treasury Judgment Fund on behalf of the Department.

R. Custodial Revenues and Collections

Non-entity revenue reported on the Department's Statement 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 Statement of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The "accrual adjustment" is the net increase or decrease, during the reporting period, in net revenue related-assets and liabilities, mainly taxes receivable. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. Government at September 30, 2010 and September 30, 2009.

S. Tax Assessments, Abatements, and Refunds Payable

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.

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 (Refunds Payable on the Balance Sheet), with a corresponding receivable from the General Fund. This receivable is included on the Balance Sheet in 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 reestimation process required by the FCRA.

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 Federal Reserve Banks 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 Federal 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 these financial statements. Actual results could differ from these estimates. Significant transactions subject to estimates include loan receivables; investments in 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 loan receivables mentioned above include mortgage-backed securities (MBS) issued by the GSEs and GSE obligations obtained under the programs of the Housing Finance Agency (HFA) Initiative, which include securities issued under the New Issue Bond Program (NIBP), and participation interests in liquidity facilities obtained under the Temporary Credit and Liquidity Program (TCLP). Other loan receivables exist as part of TARP. Investments in non-federal securities have been made in the GSEs and other domestic public entities.

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 re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. The Department currently accounts for the GSE MBS purchase program and the two programs of the HFA Initiative (the NIBP and TCLP) under the provisions of credit reform and the use of estimates is dictated by the Federal Credit Reform Act (Note 12). Additionally, all TARP credit activity, including investments in common and preferred stock and warrants of public companies, loans, and loan guarantees or guaranty-like insurance activities, are also subject to credit reform subsidy cost estimates. (Notes 8 and 12)

The forecasted cash flows used to determine these amounts as of September 30, 2010, 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 Direct Loans and Equity Investments, Net, and Asset Guarantee Program line items as of September 30, 2010, are 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 Performance and Accountability Report.

The GSE Preferred Stock Purchase Agreements (PSPAs) 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. Based on U.S. GAAP, these contingent liquidity commitments, predicated on the future occurrence of any shareholders' deficits of the GSEs at the end of any reporting quarter, are potential liabilities of the Department. The Department performs annual valuations, as of September 30th, of the preferred stock and warrants to 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 5.

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. Accordingly, since the costs of preferred stock and warrants are exchange transactions, any changes in valuation are recorded as a non-entity exchange transaction that is either an expense or revenue. Dividends are also recorded as non-entity exchange transactions and are accrued when declared; therefore, no accrual is made for future dividends. 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 9 discusses the results of the valuation and the liability recorded as of September 30, 2010.

Estimation of such complex and long duration contingencies is subject to uncertainty, and it is possible that new developments adversely impact ultimate amounts required to be funded by Treasury under the Senior Preferred Stock Purchase Agreements. Specifically, the occurrence of future shareholder deficits, which ultimately determines our GSE Contingent Liability, are most sensitive to future changes in the housing price index.

It is possible that the results of operations, cash flows or financial position of Treasury, could be materially affected in future periods by adverse changes in the outlook for the key assumptions underlying management's estimates.

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 11). 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 expectation of credit losses is nominal.

The Department also takes on credit risk related to 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 asset guarantees of the TARP, 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 8, 9 & 12).

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. Thus, for all TARP direct loan, asset guarantee, and equity purchase 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 providing the fair value of the assets.

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*, defines the following three criteria for determining an earmarked fund: (1) A statute committing the Federal 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 Federal 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. Beginning in fiscal year 2007, 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 (A-136, III.4.2, section 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. The Department had no significant allocation transfers to report in fiscal years 2010 and 2009.

Z. Credit Reform Accounting

The authoritative guidance for the credit reform portion of these statements is contained primarily in 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*. This guidance was promulgated as a result of the *Federal Credit Reform Act of 1990* (FCRA).

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. The cost of loan guarantee programs is the net present value of the estimated future cash flows from payments (for claims and interest rate subsidies). The primary purpose of the FCRA, which became effective on October 1, 1991, 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.

SFFAS No. 2, which generally mirrors the requirements of the FCRA, established guidance for estimating the cost of direct and guaranteed loan programs, asset guarantees, as well as for recording direct loans and liabilities for loan guarantees for financial reporting purposes. SFFAS No. 2 states that the actual and expected costs of federal credit programs should be fully recognized in both budgetary and financial reporting. To accomplish this, agencies first predict or estimate the future performance of direct and guaranteed loans when preparing their annual budgets. 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 data used for these estimates were reestimated at the fiscal year-end to 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 agencies' Statement of Net Cost.

The FCRA establishes budgetary and financing control for each credit program through the use of the program, financing and subsidy receipt accounts for direct loans obligated after September 30, 1991. These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the program accounts and receipt accounts. The non-budgetary accounts consist of the credit reform financing accounts.

The program account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or guarantee and disburses the subsidy cost to the financing account. The program account also receives appropriations for administrative expenses. The financing account is a non-budgetary account that records all of the cash flows resulting from Credit Reform direct loans, loan guarantees, or asset guarantees. It disburses loans, collects repayments and fees, makes claim payments, holds balances, borrows from BPD, earns or pays interest, and receives the subsidy cost payment from the program account.

The General Fund receipt account is a budget account used for the receipt of amounts paid from the financing account when there is a negative subsidy or negative modification from the original estimate or a downward reestimate. They are available for appropriations only in the sense that all General Fund receipts are available for appropriations. Any assets in this account are non-entity assets and are offset by Intra-governmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the General Fund receipt account is no longer included in the Department's fund balance reporting.

The Department accounts for the following programs in accordance with FCRA and the provisions under the FASAB accounting standard SFFAS No. 2, as amended:

TARP Direct Loans, Equity Investments and Asset Guarantee Program

The FCRA provided for the use of program, financing, and general fund receipt accounts to separately account for activity related to loans and guarantees. These accounts are classified as either budgetary or non-budgetary in the Statement of Budgetary Resources. The budgetary accounts include the program and general fund receipt accounts, and the non-budgetary accounts consist of the credit reform financing accounts.

As discussed previously, the Department accounts for the cost of purchases of troubled assets and guarantees of troubled assets, and any cash flows associated with authorized activities in accordance with Section 123(a) of the EESA and the FCRA for budgetary accounting and SFFAS No. 2 for financial reporting, except for the Treasury Housing Programs Under TARP (see Note 8).

The authoritative guidance for financial reporting is primarily contained in the SFFAS No. 2, as amended by the SFFAS No. 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees*, and the SFFAS No. 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees*.

In accordance with SFFAS No. 2, the Department maintains program accounts which receive appropriations and obligate funds to cover the subsidy cost of direct loans, equity investments and asset guarantees, and disburses the subsidy cost to the Department financing accounts. The financing accounts are non-budgetary accounts that are used to record all of the cash flows resulting from the Department direct loans, equity investments and asset guarantees.[3] Cash flows include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from the sale of stock and warrants, borrowings from Treasury, negative subsidy and the subsidy cost received from the program accounts.

The financing arrangements specifically for the TARP activities are provided for in the EESA as follows: (1) Borrowing for program funds under Section 118 that constitute appropriations when obligated or spent, which are reported as "appropriations" in these financial statements; (2) borrowing by financing accounts for non-subsidy cost under the FCRA and Section 123; and (3) the Troubled Assets Insurance Financing Fund (TAIFF) under Section 102(d).

The Department uses general fund receipt accounts to record the receipt of amounts paid from the financing accounts when there is a negative subsidy or negative modification (a reduction in subsidy cost due to changes in program policy or terms that change estimated future cash flows) from the original estimate or a downward reestimate. Amounts in the general fund receipt accounts are available for appropriations only in the sense that all general fund receipts are available for appropriations. Any assets in these accounts are non-entity assets and are offset by intra-governmental liabilities. At the end of the fiscal year, the fund balance transferred to the U.S. Treasury through the general fund receipt account is closed and therefore no longer included in the Department's fund balance reporting.

The SFFAS No. 2 requires that the actual and expected costs of federal credit programs be fully recognized in financial reporting. The Department calculated and recorded an initial estimate of the future performance of direct loans, equity investments, and asset guarantees. The data used for these estimates were reestimated at the fiscal year-end to reflect adjustments for market risk, asset performance, and other key variables and economic factors. The reestimate data was then used to estimate and report the "Subsidy Cost" in the Statement of Net Cost. A detailed discussion of the Department subsidy calculation and reestimate assumptions, process and results is provided in Note 8.

GSE MBS Purchase Program

The Department purchases mortgage-backed pass-through securities through the Government Sponsored Enterprise Mortgage-Backed Securities (GSE MBS) Purchase Program. The purchase authority under this Program expired December 31, 2009. Consistent with the FCRA, these securities are treated as direct loans, and the value of the Department's position and the associated credit

3 For the Asset Guarantee Program, the Department has established the Troubled Assets Insurance Financing Fund, which is the program's financing account under the FCRA, as required by Section 102(d) of the EESA.

subsidy requirements are determined based on the net present value of the securities' forecasted future cash flows. The Department estimates nominal future cash flows using a financial model that incorporates each security's payment characteristics together with assumptions about the future prepayment, default, and loss severity performance of underlying loan collateral and the GSEs' ability to uphold their guarantee. Nominal cash flow forecasts are discounted at interest rates of Treasury securities with comparable maturities using the Office of Management and Budget's Credit Subsidy Calculator. Cash flows are estimated under the assumption that all securities will be held to maturity.

Security-level data used as the basis for cash flow model forecasts are obtained directly from Treasury's program custodian. Assumptions about security and program performance are drawn from widely available market sources as well as information published by the GSEs. Key inputs to the cash flow forecast include:

- Security characteristics such as unpaid principal balance, pass-through coupon rate, weighted-average loan age, and weighted-average maturity
- Forecast prepayment rates and default rates

State and Local Housing Finance Agency Initiative

Under the Housing and Economic Recovery Act of 2008 (HERA), the Department, together with the Federal Housing Finance Agency (FHFA), Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development announced in October 2009 an initiative to provide support to state and local housing finance agencies (HFAs). HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families in all 50 states and many localities across the country. This initiative is 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 closed as part of the HFA Initiative's two separate HFA programs: (1) the New Issue Bond Program (NIBP) and (2) the Temporary Credit and Liquidity Program (TCLP).

Security-level data used as the basis for the NIBP cash flow model forecasts are obtained directly from the Department's program custodian. Assumptions about security and program performance are drawn from information published in the fiscal year 2009 FHA Actuarial Review of the Mutual Mortgage Insurance Fund and default and recovery reports published by Moody's and S&P. Key inputs to the NIBP cash flow forecast include:

- Security characteristics such as issued bond balance, coupon rate, credit rating, maturity date, and principal and interest payment schedules
- Forecast prepayment, and loss rates
- Expected escrow conversion & return rates

No TCLP disbursements have occurred as of September 30, 2010. In accordance with OMB Circular A-11, the Department did not perform a fiscal year 2010 subsidy reestimate for TCLP since there was no disbursement as of September 30, 2010.

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 Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the Federal Government. While these activities are no longer reported in the proprietary financial statements, they are required to be reported on schedules in the notes to financial statements (Note 30).

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 Federal Financing Bank. These activities are disclosed in these financial statements. The Department utilizes the services of the Federal Reserve to execute a variety of transactions on behalf of the BPD and the Exchange Stabilization Fund. The Federal Reserve is serving as the Department's fiscal agent in executing these transactions and receives fees for its services. The Department also consults with the Federal Reserve on matters affecting the economy, such as the structuring of bailout financing for American International Group and other companies affected by the current economic situation. However, these actions do not involve transactions between the Department and the Federal Reserve.

Finally, the Secretary of the Treasury serves on the FHFA Oversight Board, and consults with the Director of FHFA in 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, and thus some influence over major decisions involving Fannie Mae and Freddie Mac. The Department has no transactions with FHFA; transactions and balances arising from transactions with Fannie Mae and Freddie Mac are accounted for and disclosed in these financial statements.

AC. Reclassifications

Certain fiscal year 2009 balances on the Balance Sheet and notes to the financial statements have been reclassified to conform to fiscal year 2010 presentations. In fiscal year 2010, certain Balance Sheet amounts were aggregated and reclassified, whereas in fiscal year 2009 they were reported disaggregated. Amounts related to the TARP program were disaggregated in fiscal year 2009. The changes to aggregate and reclassify amounts were made to conform to how TARP is presented on the OFS stand-alone and Financial Report of the U.S. Government levels. In fiscal year 2010, the CDFI direct loans began to be disclosed in the credit reform footnote. The change impacted the reclassification of the Balance Sheet, and disclosures in Notes 12 and 13.

AD. Accounting Policy Change

Effective fiscal year 2010, as a result of a new United States Standard General Ledger (USSGL), the Department changed its budgetary accounting and reporting policy related to ESF foreign currency investments. The change in accounting policy permits 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. ESF investments includes cash and cash equivalents, Foreign Currency Denominated Assets (FCDA) (representing long-term investments in interest bearing securities issued by or held through foreign governments) and Special Drawing Rights (SDR) Allocations (international reserve assets) and Monetization (SDR Certificates) (collectively "ESF Investments" henceforth). The new USSGL 4295, *Revaluation of Foreign Currency in the Exchange Stabilization Fund* permits the Department to report those assets that are not readily convertible to cash (such as FCDAs, SDR revaluations (gains/losses) and other SDR additions including SDR Allocations and SDR Monetizations) as part of Budgetary Resources in the Statement of Budgetary Resources (SBR) *Permanently Not Available* and report these as a component of Status of Budgetary Resources in the SBR *Unobligated Balance Not Available line*, respectively.

In order to facilitate this change, the Department's current year SBR Unobligated balance, brought forward, as well as Unpaid Obligations, brought forward, beginning balances, have been adjusted for changes in ESF investments balances accumulated through September 30, 2009, to allow fiscal year 2010 to reflect only current year activity. Using guidance provided in SFFAS No. 21 – *Reporting Corrections of Errors and Changes in Accounting Principles*, the Department considers this to represent a change from one generally accepted accounting principle to another more preferable. Note 25 - Additional Information Related to the Combined Statements of Budgetary Resources, explains the effect of the policy change on the SBR beginning balances. This change in accounting policy and resulting budgetary beginning balance adjustments does not impact the Department's proprietary accounts.

2. Fund Balance

Fund Balance with Treasury 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.

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department. Appropriated funds include clearing funds, which represent reconciling differences with the Department balances.

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 include non-entity collections that do not belong to the Federal Government.

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.

Fund Balance With Treasury

As of September 30, 2010 and September 30, 2009, fund balances consisted of the following (in millions):

	2010	2009
Appropriated Funds	$ 402,036	$ 455,983
Revolving Funds	34,096	47,897
Clearing Funds	21	93
Deposit Funds	132	146
Trust Funds	84	5
Special Funds	656	455
Other Funds (Receipt Fund and Suspense Funds)	1	3
Total Fund Balances	**$ 437,026**	**$ 504,582**

Status Of Fund Balance With Treasury

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed 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 with Treasury as reported in the accompanying Balance Sheets:

- Adjustments for Non-Budgetary Funds are receipt, clearing, and deposit funds that represent amounts on deposit with Treasury that have no budget status

- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status but not in Fund Balance with Treasury
- Adjustments for Intra-Treasury Investments – Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments
- Adjustments for Imprest Funds – Imprest funds represent monies moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status
- Adjustments for IMF – Monies moved from Fund Balance with Treasury to Other Monetary Assets related to IMF accounts that have no budgetary resources and are with the Federal Reserve Bank of New York. They also include the IMF Reserve Position based on SDRs
- Adjustments for ESF – ESF investments and related balances that meet criteria for reporting as part of budgetary resources are reported on the SBR, however, they are not a component of Fund Balance with Treasury as they represent invested funds and thus have to be excluded from Total Status of Fund Balance reported in this note. Prior to fiscal year 2010, the ESF budgetary resources balances were adjusted in Note 2 to show resources net of the ESF investments and related balances that are not components of Fund Balance. The change in presentation for fiscal year 2010 was facilitated by the change in accounting policy discussed further in Note 1AD, and Note 25
- Adjustment for Unavailable for Obligations reduced the budgetary resources; however, did not impact the Fund Balance with Treasury

As of September 30, 2010 and September 30, 2009, the status of fund balances consisted of the following (in millions):

	2010	2009
Unobligated Balance – Available	$ 301,811	$ 382,047
Unobligated Balance – Unavailable	70,432	33,841
Obligated Balance not yet Disbursed	208,189	158,324
Subtotal	**$ 580,432**	**$ 574,212**
Adjustment for Non-Budgetary Funds	161	241
Adjustment for Borrowing Authority	(23,477)	(51,510)
Adjustment for Intra-Treasury Investments	(7,026)	(8,554)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for IMF	(13,081)	(13,513)
Adjustment for ESF	(103,788)	0
Adjustments for Temporary Reduction	90	30
Authority Unavailable for Obligation	3,727	3,680
Adjustment for Indian Trust Funds	(8)	0
Total Status of Fund Balances	**$ 437,026**	**$ 504,582**

For fiscal year 2009, the above balances only include unobligated balances related to the ESF insurance program that began in fiscal year 2008, and expired on September 18, 2009. Otherwise, ESF does not have Fund Balance with Treasury. Accordingly, while other ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of Fund Balance with Treasury. The ESF balances displayed on the SBR include components of cash, foreign currency, and other monetary assets.

As of September 30, 2010 and September 30, 2009, the Department did not have any budgetary authority in Fund Balance with Treasury 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 of the U.S. Government. Such funds have an offsetting liability equal to fund balance. See Note 14 regarding restrictions related to the line of credit held on the U.S. Quota in the International Monetary Fund.

Unused funds in expired appropriations returned to the U.S. Treasury were $166 million and $126 million for the fiscal years ending September 30, 2010 and September 30, 2009, respectively.

3. Loans And Interest Receivable – Intra-Governmental

Entity Intra-Governmental

The FFB issues the below 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. Loan principal and interest are backed by the full faith and credit of the U.S. Government, except for loans to the U.S. Postal Service. The FFB has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2010 and September 30, 2009, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	2010 Total	Loans Receivable	Interest Receivable	2009 Total
Department of Agriculture	$ 31,264	$ 53	$ 31,317	$ 28,438	$ 52	$ 28,490
National Credit Union Administration	10,101	15	10,116	18,384	22	18,406
United States Postal Service	12,000	41	12,041	10,200	37	10,237
General Services Administration	1,973	35	2,008	2,037	36	2,073
Department of Energy	2,931	4	2,935	908	0	908
Department of Housing and Urban Development	0	0	0	587	71	658
Department of Defense	417	4	421	546	6	552
Department of Education	614	4	618	453	2	455
Other Agencies	8	0	8	12	0	12
Subtotal-Entity	**$ 59,308**	**$ 156**	**$ 59,464**	**$ 61,565**	**$ 226**	**$ 61,791**

Non-Entity Intra-Governmental

BPD accounts for and reports on the principal borrowings from and repayments to the General Fund of the U.S. Government for approximately 87 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.

	Loans Receivable	Interest Receivable	2010 Total	Loans Receivable	Interest Receivable	2009 Total
Department of Education	$ 373,717	$ 0	$ 373,717	$ 234,918	$ 12	$ 234,930
Department of Agriculture	56,598	0	56,598	55,627	2	55,629
Department of Homeland Security	18,504	0	18,504	19,004	0	19,004
Small Business Administration	11,752	0	11,752	10,873	0	10,873
Department of Labor	6,290	0	6,290	6,371	0	6,371
Department of Housing and Urban Development	4,775	0	4,775	4,425	0	4,425
Export Import Bank of the U.S.	7,254	0	7,254	3,805	0	3,805
Railroad Retirement Board	3,481	54	3,535	3,359	58	3,417
Department of Energy	2,601	21	2,622	2,131	18	2,149
Department of Veterans Affairs	1,650	0	1,650	1,545	0	1,545
Department of Transportation	3,076	0	3,076	2,477	0	2,477
Overseas Private Investment Corporation	1,403	0	1,403	1,006	0	1,006
Department of Defense	518	0	518	391	0	391
Agency for International Development	478	0	478	477	0	477
Department of the Interior	308	183	491	316	328	644
Federal Communications Commission	88	0	88	46	0	46
Other Agencies	638	0	638	1,610	1	1,611
Subtotal Non-Entity	**$ 493,131**	**$ 258**	**$ 493,389**	**$ 348,381**	**$ 419**	**$ 348,800**
Total Intra-governmental Loans and Interest Receivable Entity and Non-Entity			**$ 552,853**			**$ 410,591**

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 of the U.S. Government.

As of September 30, 2010 and September 30, 2009, 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	2010	2009
Federal Debt and Interest Payable (Note 19)	$ 9,035,929	$ 7,559,305
Federal Debt and Interest Payable - Intra-governmental (Note 19)	4,587,802	4,403,080
Refunds Payable (Note 26)	4,146	4,040
Adjustment for Eliminated Liabilities	27,760	26,294
Total Due from the General Fund	**$ 13,655,637**	**$ 11,992,719**

Assets to be Distributed to the General Fund	2010	2009
Fund Balance	$ 249	$ 202
Advances to the Unemployment Trust Fund	34,111	7,981
Cash Held by the Treasury Department (Note 6)	303,797	269,311
Foreign Currency	3	26
Custodial Gold without certificates and Silver held by the U.S. Mint	25	25
Loans and Interest Receivable - Intra-governmental (Note 3)	493,389	348,800
Loans and Interest Receivable (Note 13)	124	127
Investments in Government Sponsored Enterprises (Note 9)	109,216	64,679
Credit Reform Downward Subsidy Reestimate	25,579	118,139
Accounts Receivable - Intra-governmental	350	285
Tax and Other Non-Entity Receivables	36,927	30,353
Beneficial Interest in Trust (Note 29)	20,805	23,472
Miscellaneous Assets	5	3
Adjustment for Eliminated Assets	389,672	399,725
Total Due to the General Fund	**$ 1,414,252**	**$ 1,263,128**

The Adjustment for Eliminated Liabilities mainly 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 mainly represents loans and interest payable owed by reporting entities that are consolidated with the Department, which were eliminated against Loans and Interest Receivable Intra-governmental held by the BPD.

Advances have been issued to the Department of Labor's Unemployment Trust Fund from the General Fund of the U.S. Government to states for unemployment benefits.

The non-entity Credit Reform Downward Subsidy Reestimates represents amounts for the downward subsidy reestimates for the Department's credit programs including TARP Equity Investments and Direct Loan.

Downward subsidy reestimates indicates that too much subsidy will be or has been paid to the credit reform financing account. The downward reestimates are not available to the Department and they are returned to the U.S. Government General Fund Receipt Account (GFRA) in the fiscal year following the accrual of the reestimates. Generally, during the year, these GFRAs contain prior year reestimates. At year-end, the prior year funds are "swept" by the general fund. Also at year-end, the Department accrues the current year's reestimates, including downward reestimates, as applicable. For the downward reestimates, in the loan financing funds, the Department records an intra-governmental accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guarantee liability, and an account payable to the GFRA non-entity fund. In the loan program funds, the Department records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity GFRAs contain a corresponding intra-governmental account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Liability for Non-Entity Asset due to the General Fund. For consolidated financial statement presentation, the Department is required to eliminate the financing fund's intra-governmental payable due to the GFRA and the GFRA's intra-governmental receivable due from the financing funds; since both are included in the Department's reporting entity. The Downward Reestimate Liability for Non-Entity asset Due to the General Fund is reflected on the Balance Sheet's intra-governmental liability Due to the General Fund line (See Notes 8 and 12 for disclosure of credit program's reestimates).

On the Balance Sheet, the Department reported $437,026 million in Fund Balance as of September 30, 2010 ($504,582 million as of September 30, 2009). However, only $249 million is reported as Due to the General Fund of the U.S. Government ($202 million as of September 30, 2009). The balance represents non-entity funds held by the Department on behalf of the general fund of the U.S. Government, and are administered for programs such as the Presidential Election Campaign and Payments for Legal Service Corporation. The fund balance is not available for general use of the Department.

On the Balance Sheet, the Department reported $36,976 million in Tax, Other, and Related Interest Receivables as of September 30, 2010 ($30,408 million as of September 30, 2009). However, only $36,927 million is reported as Due to the General Fund of the U.S. Government ($30,353 million as of September 30, 2009). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (See Notes 5 and 15).

5. Accounts Receivable and Related Interest—Intra-Governmental

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Department under the *Contract Disputes Act* ($350 million of the $361 million and $285 million of the $298 million displayed on the balance sheet for 2010 and 2009, respectively). Other federal agencies are required to reimburse the Department for payments made on their behalf, related to the *Contract Disputes Act* and the *No Fear Act*. These amounts are a receivable on the Department's balance sheet, specifically the Financial Management Service, and a payable on the other federal agencies' balance sheet until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

6. Cash, Foreign Currency, and Other Monetary Assets

Cash, foreign currency, and other monetary assets held as of September 30, 2010 and September 30, 2009 were as follows (in millions):

Entity:	2010	2009
Cash	$ 16	$ 23
Foreign Currency and Foreign Currency Denominated Assets	13,439	13,701
Other Monetary Assets:		
Special Drawing Right Holdings	57,439	57,961
Other	144	44
Subtotal – Entity	**71,038**	**71,729**
Non-Entity:		
Operating Cash of the U.S. Government	303,576	269,052
Foreign Currency	3	26
Miscellaneous Cash held by all Treasury sub-components	665	501
Subtotal - Non-Entity	**304,244**	**269,579**
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 375,282**	**$ 341,308**

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

	2010	2009
Operating Cash of the U.S. Government	$ 2,032	$ 2,063
Operating Cash - Federal Reserve Bank Account	307,850	273,269
Subtotal	**309,882**	**275,332**
Outstanding Checks	(6,306)	(6,280)
Total Operating Cash of the U.S. Government	**303,576**	**269,052**
Other Cash	297	366
Subtotal	**303,873**	**269,418**
Amounts Due to the Public	(76)	(107)
Total Cash Due to the General Fund (See Note 4)	**$ 303,797**	**$ 269,311**

Entity

Cash, Foreign Currency, and Other Monetary Assets

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), Special Drawing Rights (SDRs), Securities Purchased Under Agreement to Resell, and forfeited cash. SDRs and FCDA are valued as of September 30, 2010 and September 30, 2009, using current exchange rates plus accrued interest. "Other" includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York (FRBNY).

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDA with original maturities of three months or less, classified as cash equivalents, were valued at $10,588 million as of September 30, 2010 ($11,311 million as of September 30, 2009). Other FCDAs having terms of less than or equal to a year but greater than three months are classified as available for sale. As of September 30, 2010, FCDA with maturities greater than three months were valued at $2,849 million ($2,379 million as of September 30, 2009).

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.

The Special Drawing Rights Act of 1968 authorizes the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued for the purpose of financing the acquisition of SDRs from other countries or for financing exchange stabilization activities. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2010, the value of the certificates issued to the Federal Reserve amounted to $5,200 million ($5,200 million as of September 30, 2009).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted 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 14) 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.

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

a. cancelled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF,

b. the SDR Department of the IMF is liquidated,

c. the IMF is liquidated, or

d. 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 1970, 1971, 1972, 1979, 1980, 1981, and 2009.

At the G-20 Leaders' Summit in London in April 2009, President Obama and his G-20 counterparts called for a general SDR allocation equivalent to $250,000 million to provide supplemental liquidity to address the consequences of the global economic and financial crisis and to support global recovery. IMF members endorsed this proposal and the allocation was made on August 28, 2009 to all IMF members in proportion to their IMF quotas. In August 2009, IMF members also adopted the Fourth Amendment to the IMF Articles of Agreement providing for a one-time SDR allocation that was made on September 9, 2009 in proportionally greater amounts to members that joined the Fund after 1981 and never received an SDR allocation. As a result of the general and special SDR allocations, the United States received SDR 30,416 million, which was the equivalent of $47,283 million as of September 30, 2009.

As of September 30, 2010, the total amount of SDR holdings of the United States was the equivalent of $57,410 million, and the amount of cumulative SDR allocations to the United States was the equivalent of $54,958 million. As of September 30, 2009, the total amount of SDR holdings of the United States was the equivalent of $57,945 million and the amount of cumulative SDR allocations to the United States was the equivalent of $55,953 million.

During fiscal year 2010, the United States received remuneration on its reserve position in the IMF, at the prevailing rates, in the amount of $23 million equivalent of SDRs ($40 million equivalent of SDRs during fiscal year 2009). The SDR amount was credited to the Exchange Stabilization Fund, which transferred to the Treasury General Account a counterpart amount of dollars plus $0.0029 million ($0.0038 million in fiscal year 2009) in interest.

Securities Purchased Under Agreement to Resell

The FRBNY 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 Euro, and issued or guaranteed in full by Belgium, France, Germany, Italy, the Netherlands, and Spain. Maturities of the Securities will not exceed 10.5 years. The duration of individual repo transactions will not exceed 90 days. ESF's investment in reverse repurchase agreements involves a pledge of securities account with Euroclear, the custodian/tri-party agent for such operations, to facilitate intra-day clearance of transactions. 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 Federal Reserve Banks, 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 (for balances up to $0.25 million), as of September 30, 2010, by the FDIC or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

Supplementary Financing Program

The Supplementary Financing Program (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, 2010, there were a total of 8 outstanding cash management bills earmarked for SFP that totaled $199,962 million (a total of 5 outstanding cash management bills earmarked for SFP that totaled $164,945 million as of September 30, 2009).

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

The Department is responsible for safeguarding most of the U.S. Government's gold and silver reserves in accordance with 31 USC §5117. The gold and silver reserves are in the custody of the U.S. Mint and FRBNY.

The majority of gold reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve Banks as provided in 31 USC §5117. Since 1934, Gold Certificates have been issued in non-definitive or book-entry form to the Federal Reserve Banks. The Department's liability incurred by issuing the Gold Certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve Banks, 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 Federal Reserve Banks. The U.S. Mint also holds 100,000 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 U S C §§ 5116 - 5117 (statutory rates) which are $42.2222 per fine troy ounce (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, 2010 and September 30, 2009, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/10 Statutory Value	Market Rate	9/30/10 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
Subtotal - Gold	**261,498,900**		**11,041**		**341,779**
Silver	16,000,000	$ 1.292929292	21	$ 22.07	353
Total Gold and Silver Reserves			**$ 11,062**		**$ 342,132**

	FTOs	Statutory Rate	9/30/09 Statutory Value	Market Rate	9/30/09 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 995.75	$ 246,992
Gold Held by Federal Reserve Banks	13,452,784	$ 42.2222	568	$ 995.75	13,396
Subtotal - Gold	**261,498,900**		**11,041**		**260,388**
Silver	16,000,000	$ 1.292929292	21	$ 16.45	263
Total Gold and Silver Reserves			**$ 11,062**		**$ 260,651**

8. Troubled Asset Relief Program (TARP) Direct Loans and Equity Investments, Net and Asset Guarantee Program

Direct Loan, Equity Investments and Asset Guarantee Program

The Department administers a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. The Department has made direct loans, equity investments, and entered into asset guarantees. The table below recaps TARP programs by title and type:

Program	Program Type
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
Public-Private Investment Program	Equity Investment and Direct Loan
Asset Guarantee Program	Asset Guarantee

The Department applies the provisions of SFFAS No. 2 to account for direct loans, equity investments, and the asset guarantee program. 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. 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 by the observability of inputs significant to the measurement of each value (in millions):

	As of September 30, 2010			
Investment	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2010 Total
Capital Purchase Program	$ 14,899	$ 0	$ 33,334	$ 48,233
American International Group Investment Program*	0	0	26,138	26,138
Targeted Investment Program	0	0	1	1
Automotive Industry Financing Program	0	0	52,709	52,709
Consumer and Business Lending Initiative, which includes TALF, SBA 7(a) securities and CDCI	0	0	966	966
Public-Private Investment Program	0	0	14,405	14,405
Asset Guarantee Program	2,240	815	0	3,055
Total TARP Program	**$ 17,139**	**$ 815**	**$ 127,553**	**$ 145,507**

	As of September 30, 2009			
Investment	Quoted Prices for Identical Assets	Significant Observable Inputs	Significant Unobservable Inputs	2009 Total
Capital Purchase Program	$ 37,231	$ 0	$ 104,440	141,671
American International Group Investment Program	0	0	13,152	13,152
Targeted Investment Program	0	40,341	0	40,341
Automotive Industry Financing Program	0	0	42,284	42,284
Consumer and Business Lending Initiative, which includes TALF	0	0	444	444
Asset Guarantee Program	0	0	1,765	1,765
Total TARP Program	**$ 37,231**	**$ 40,341**	**$ 162,085**	**239,657**

* Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

Note: Reported on the balance sheet as of September 30, 2010, $815 million is intra-governmental and $144,692 million is with the public for a combined total of $145,507 million.

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 assets.

Financial Institution Equity Investments[4]

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 assets-to-liabilities 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 1990-2009. 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.

4 This consists of equity investments made under CPP, CDCI, and TIP.

AIG Investment

The method used to measure AIG preferred shares is broadly analogous to the approach used to measure financial institution preferred shares. However, greater uncertainty exists for the valuation of preferred shares for AIG. First, the size of the Departments' holding of preferred shares relative to AIG's total balance sheet makes the valuation extremely sensitive to assumptions about the recovery ratio for preferred shares should AIG enter default. Second, no comparable traded preferred shares exist. Therefore, the Department based the AIG valuation on the observed market values of publicly traded junior subordinated debt, adjusted for the Departments' position in the capital structure. Further, based on certain publicly available third party sources, assumptions about payouts in different outcomes and the probability of some outcomes were made. Finally, an external asset manager provided estimated fair value amounts, premised on public information, which also assisted the Department in its measurement. These different factors were all used in determining the best estimate for the AIG assets. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for AIG as all points rely on market data.

Asset Guarantees Program

For fiscal year 2009, the value of the asset guarantee program reflects the net present value of estimated default-claim payments by the Department, net of income from recoveries on defaults, fees (including equity received), or other income. Default-claim payments were based on estimated losses on the guaranteed assets. Key inputs into these estimates are forecasted gross domestic product, unemployment rates, and home price depreciation, in a base scenario and a stress scenario. During fiscal year 2010, an agreement was entered into to terminate the guarantee of the Department to pay for any defaults. After the termination, the Department still holds some of the trust preferred securities (initially received as the guarantee fee) issued by Citigroup and the potential to receive $800 million (liquidation preference) of additional Citigroup trust preferred securities from the FDIC, see further discussion below under the heading of Asset Guarantee Program. As such, as of September 30, 2010, the value of the instruments within the AGP is the value of the trust preferred securities held and the estimated cash flows associated with the contingent right to receive additional trust preferred securities. On September 30, 2010, the Department entered into an agreement to sell[5] the trust preferred securities held within AGP, and the value of the trust preferred securities is approximately the sales price and the contingent right is valued in a similar manner as the financial institutions preferred equity investments noted above.

Investments in Special Purpose Vehicles

The Department has made certain investments in financial instruments issued by special purpose vehicles (SPVs). Generally, the Department estimates the cash flows of the SPV 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, requiring additional funding by the Department. 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 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). The simulated cash flows are then run through the waterfall of the RMBS/CMBS to determine the cash flows to the SPV. Once determined, the cash flows are run through the waterfall of the PPIF to determine the expected cash flows to

5 See further discussion of sale under Asset Guarantee Program below.

the Department through both the equity investments and loans. Inputs used to simulate the cash flows are unemployment forecast, home price appreciation/depreciation forecast, the current term structure of interest rates, historical pool performance as well as estimates of net income and value of commercial real estate supporting the CMBS.

SBA 7(a) Securities

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

Auto Industry Financing Program (AIFP) Investments and Loans

The valuation of equity investments was performed in a manner that is broadly analogous to the methodology used for financial institution equity investments, with reliance on publicly traded securities to benchmark the assumptions of the valuation exercise. AIFP loans with potential value is valued using rating agency default probabilities.

As part of the General Motors (GM) bankruptcy proceedings, the Department received a 60.8 percent stake in the common equity of General Motors Company (New GM). Because the unsecured bond holders in General Motors Corporation (Old GM) received 10 percent of the common equity ownership and warrants in New GM, the expected recovery rate implied by the current trading prices of the Old GM bonds provides the implied value of the New GM equity. The Department used this implied equity value to account for its equity stake in New GM. The adjustment for market risk is incorporated in the data points the Department uses to determine the measurement for GM as all points rely on market data.

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

The Department values direct loans 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.

Subsidy Cost

The recorded subsidy cost of a direct loan, equity investment, or asset guarantee is based on the estimated future cash flows calculated as discussed above. The Department actions, as well as changes in legislation, that change these estimated future cash flows change subsidy costs and are recorded as modifications. The cost of a modification is recognized as a modification expense, included in subsidy cost, when the direct loan, equity investment, or asset guarantee is modified. During fiscal year 2010, modifications occurred within the Capital Purchase Program, the Asset Guarantee Program, and the Automotive Industry Financing Program. During the fiscal year ended September 30, 2009, modifications occurred within the Capital Purchase Program; Consumer and Business Lending Initiative; the American International Group, Inc. Investment Program; and the Automotive Industry Financing Program. See detailed discussion related to each program and related modifications below. Total net modification cost for the fiscal year ended September 30, 2010 was $47.9 million. For the fiscal year ended September 30, 2009, net modification costs were $412.1 million.

The following table recaps gross loan or equity investment, subsidy allowance, and net loan or equity investment by TARP program. Detailed tables providing the net composition, subsidy cost, modifications and reestimates, along with a reconciliation of subsidy cost

allowances as of and for the fiscal year ended September 30, 2010 and September 30,2009, are provided at the end of this Note for Direct Loans and Equity Investments, detailed by program, and for the Asset Guarantee Program separately.

Descriptions and chronology of significant events by program are after the summary table.

(in millions)	As of September 30, 2010		
TARP Program	Gross Direct Loans or Equity Investment	Subsidy Allowance	Net Direct Loans or Equity Investment
Capital Purchase Program (CPP)	$ 49,779	$ (1,546)	$ 48,233
American International Group, Inc. Investment Program (AIG)*	47,543	(21,405)	26,138
Targeted Investment Program (TIP)	0	1	1
Automotive Industry Financing Program (AIFP)	67,238	(14,529)	52,709
Consumer and Business Lending Initiative (CBLI), which includes TALF, SBA 7(a) securities and CDCI	908	58	966
Public-Private Investment Program (PPIP)	13,729	676	14,405
Total TARP Program	**$ 179,197**	**$ (36,745)**	**$ 142,452**

(in millions)	As of September 30, 2009		
TARP Program	Gross Direct Loans or Equity Investment	Subsidy Allowance	Net Direct Loans or Equity Investment
Capital Purchase Program (CPP)	$ 133,901	$ 7,770	$ 141,671
American International Group, Inc. Investment Program (AIG)	43,206	(30,054)	13,152
Targeted Investment Program (TIP)	40,000	341	40,341
Automotive Industry Financing Program (AIFP)	73,762	(31,478)	42,284
Consumer and Business Lending Initiative (CBLI), which includes TALF	100	344	444
Public-Private Investment Program (PPIP)	0	0	0
Total TARP Program	**$ 290,969**	**$ (53,077)**	**$ 237,892**

* Does not give effect to the proposed restructuring as discussed under American International Group, Inc. Investment Program in this note.

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. Under the original terms of the senior preferred stock the QFI may not redeem the shares within the first three years of the date of the investment, unless it had received the proceeds of one or more Qualified Equity Offerings (QEO)[6] which results in aggregate gross proceeds to the QFI of not less than 25.0 percent of the issue price of the senior preferred stock. 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.

6 A Qualified Equity Offering is defined as the sale by the QFI after the date of the senior preferred stock investment of Tier 1 perpetual preferred stock or common stock for cash.

In February 2009 and May 2009, the United States Congress passed the American Recovery and Reinvestment Act of 2009 and the Helping Families Save Their Homes Act of 2009, respectively. These acts contained amendments to the EESA (EESA Amendments) which require the Secretary to allow QFIs to repay at any time, subject to regulatory approval, regardless of whether the 25.0 percent or greater QEO was accomplished. The ability of a QFI to repay the Department investment prior to year three or a 25.0 percent QEO was not considered in the original subsidy cost estimate. Therefore, a modification cost of $77.7 million was recorded for the fiscal year ended September 30, 2009 as a result of these amendments.

In addition to the senior preferred stock, the Department received warrants, as required by section 113(d) of 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. The exercise price per share used to determine the number of shares of common stock subject to the warrant was calculated based on the average closing prices of the common stock on the 20 trading days ending on the last day prior to the date the QFIs application was preliminarily approved for participation in the program. The warrants include customary anti-dilution provisions. Prior to December 31, 2009, in the event a public QFI completed one or more QEOs with aggregate gross proceeds of not less than 100.0 percent (100.0 percent QEO) 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. As of September 30, 2009, 19 QFIs had reduced shares pursuant to the provision. The warrants have a 10 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 35 and 20 institutions considered CDFIs were in the CPP portfolio as of September 30, 2010 and 2009, respectively.

The EESA Amendments previously discussed also allow the Secretary to liquidate warrants associated with repurchased senior preferred stock at the market price. In addition, 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 following table provides key data points related to the CPP. In addition, 106 and 38 QFIs have not declared and paid one or more dividends to the Department under CPP as of September 30, 2010 and 2009, respectively (dollars in millions):

	2010	2009
Number of Institutions Participating	707	685
Outstanding Beginning Balance, Investment in CPP Institutions	$ 133,901	$ 0
Purchase Price, current year Investments	278	204,619
Repayments and Sales of Investments	(81,462)	(70,718)
Write-offs and Losses	(2,575)	0
Transfers to CDCI	(363)	0
Outstanding Ending Balance, Investment in CPP Institutions	**$ 49,779**	**$ 133,901**
Interest and Dividend Collections	$ 3,100	$ 6,800
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	$ 6,700	$ 2,900

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 the fiscal year ended September 30, 2009, the Department entered into an exchange agreement with Citigroup under which the Department exchanged $25,000 million, at $3.25 per share, of its investment in senior preferred stock for 7,700 million common shares of Citigroup. This exchange transaction was not considered in the original subsidy cost estimate for CPP. As a result, the Department recorded a modification cost of $1,800 million for the fiscal year ended September 30, 2009. In April 2010, the Department began a process of selling the Citigroup common stock. As of September 30, 2010, the Department had sold approximately 4,000 million shares for total proceeds of $16,100 million resulting in proceeds from sales in excess of cost of approximately $3,000 million. As of September 30, 2010, the Department continues to hold approximately 3,700 million shares of Citigroup common stock with an estimated fair value of $14,300 million, based on the September 30, 2010 closing price of $3.91 per share. Included in shares held as of September 30, 2010, is approximately 77.2 million shares which were sold prior to or on September 30, 2010, but did not settle until October 2010. Proceeds from these sales were $302.7 million resulting in proceeds from sales in excess of cost of $51.9 million.

In addition to the above transaction 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, shares of mandatorily convertible preferred securities and selling preferred shares to acquiring financial institutions. 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 2010, certain financial institutions participating in CPP which are in good standing became eligible to exchange their Department-held stock investments to preferred stock under the Community Development Capital Initiative (CDCI) of the Consumer and Business Lending Initiative Program (CBLI). The exchange of stock is treated as a repayment of CPP investments from the participating financial institution and a distribution for the CDCI. See further discussion of the CBLI and CDCI below. This was not considered in the formulation estimate for the CPP program. As a result, the Department recorded a modification cost savings of $31.9 million in the CPP program for this option during fiscal year 2010.

Failed institutions

In November 2009, a CPP participant, CIT Group, filed for Chapter 11 Bankruptcy. The Department had invested $2,300 million in senior preferred stock of CIT Group and received a warrant for the purchase of common stock. In fiscal year 2010, as a result of the bankruptcy proceedings, the Department wrote off the $2,300 million investment in CIT Group and will not recover any amounts associated with it. In addition, during fiscal year 2010, four other financial institutions within the CPP portfolio either filed for bankruptcy or were closed by their regulators. The Department had invested approximately $396.3 million into these institutions. The Department does not anticipate recovery on these investments and therefore the value of these shares are reflected at zero as of September 30, 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 the receivership.

American International Group, Inc. Investment Program (AIG)

The Department provides assistance to certain systemically significant financial institutions on a case-by-case basis in order to provide stability to institutions that are critical to a functioning financial system and are at substantial risk of failure as well as to prevent broader disruption to financial markets.

In November 2008, the Department invested $40,000 million 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 53.8 million shares (adjusted to 2.7 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

$40,000 million of cumulative Series D preferred stock for $41,600 million of non-cumulative 10.0 percent Series E preferred stock. The amount of Series E preferred stock is equal to the original $40,000 million, plus approximately $733.0 million in undeclared dividends as of the February 1, 2009, scheduled quarterly dividend payment date, $15.0 million in dividends compounded on the undeclared dividends, and an additional $855.0 million in dividends from February 1, 2009, but not paid as of April 17, 2009. AIG's restructured agreement kept the quarterly dividend payment dates of May 1, August 1, November 1, and February 1, as established by the original November 2008 agreement. The original subsidy cost estimate did not consider this restructuring which resulted in a modification cost of $127.2 million being recorded. The Department requested and received an appropriation for this additional cost in the fiscal year ended September 30, 2009.

In addition to the exchange, the Department agreed to make available an additional $29,800 million capital facility to allow AIG to draw additional funds if needed to assist in AIG's restructuring. The Department investment related to the capital facility consists 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 increases with any draw down by AIG on the facility. The dividend rate applicable to these shares is 10.0 percent and is payable quarterly, if declared, on the outstanding liquidation preference. For the fiscal year ended September 30, 2010 and September 30, 2009, $4,300 million and $3,200 million, respectively, has been funded by the Department to AIG under this additional capital facility. Consistent with SFFAS No.2, the unused portion of the AIG capital facility is not recognized as an asset as of September 30, 2010 and 2009.

According to the terms of the preferred stock, if AIG misses four dividend payments, the Department may 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. The ability to appoint such directors shall remain in place until dividends payable on all outstanding shares of the Series E Preferred Stock have been declared and paid in full for four consecutive quarterly dividend periods, subject to revesting for each and every subsequent missed dividend payment. 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.

On September 30, 2010, the Department, Federal Reserve Bank of New York and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The restructuring plan provides for, among other items, the conversion of currently outstanding Series E & F preferred stock to 1,092 million shares of AIG common stock. Under the plan the current undrawn portion of Series F will be available to AIG for the repayment of certain amounts owed to the Federal Reserve Bank of New York and for general corporate liquidity. The plan is still subject to a number of conditions which must be met in order to close. The Department's management believes that implementation of this plan would not result in additional losses on the AIG investment. See additional discussion regarding the proposed restructuring plan within the Management's Discussion and Analysis section of the Performance and Accountability Report.

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.

In fiscal year 2009, the Department invested $20,000 million in each of Bank of America and Citigroup under TIP. Under each agreement, the Department purchased $20,000 million of perpetual preferred stock with an annual cumulative dividend rate of 8 percent and received a warrant for the purchase of common stock. In December 2009, Bank of America and Citigroup repaid the amounts invested by the Department along with dividends through the date of repayment. The amounts remaining within the TIP subsidy cost allowance represent the estimated value of the Citigroup warrant still held by the program.

During fiscal year 2010, the Department received $1,100 million in dividends under the TIP and proceeds of $1,200 million from the auction of the Bank of America warrants. In fiscal year 2009, the Department received $1,900 million in dividends under this program.

Automotive Industry Financing Program

The Automotive Industry Financing Program (AIFP) was designed to 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 (GM)

In fiscal year 2009, the Department provided $49,500 million to 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 GM was in bankruptcy. The Department assigned its rights in these loans (with the exception of $986.0 million which remained in GM for wind down purposes and $7,100 million that would be assumed) and previously received common stock warrants to a newly created entity (General Motors Company). General Motors Company used the assigned loans and warrants to credit bid for substantially all of the assets of GM in a sale pursuant to Section 363 of the Bankruptcy Code. Upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and the Department received $2,100 million in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity interest in General Motors Company. In addition, General Motors Company assumed $7,100 million of the DIP loan, simultaneously paying $400 million (return of warranty program funds), resulting in a balance of $6,700 million. 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. Recovery of the $986.0 million remaining in GM is subject to the final outcome of the bankruptcy proceedings. During fiscal year 2010, the Department had received the remaining $6,700 million as full repayment of the DIP loan assumed. In addition as of September 30, 2010 the Department had received $188.8 million in dividends and $343.1 million in interest on General Motors Company preferred stock and the loan prior to repayment, respectively. The Department received $34.1 million in dividends on the preferred stock and no interest on the loan during the fiscal year ended September 30, 2009. On October 27, 2010, the Department signed a Letter Agreement with GM agreeing to sell the preferred stock to GM. GM will repurchase the preferred stock for 102 percent of the liquidation amount.

The Department has not yet determined whether to sell any of its shares of General Motors Company common stock in connection with the company's proposed initial public offering. Due to the uncertainty as to the market price that would result from the initial public offering, the potential effect on the value of the Department's investment in General Motors Company is unknown and could be significantly different from the September 30, 2010 financial statement value.

GMAC LLC Rights Offering

In December 2008, the Department agreed, in principal, to lend up to $1,000 million to GM for participation in a rights offering by GMAC (now known as Ally Financial, Inc.) in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interest acquired in the rights offering. The loan agreement specified that at any time, at the option of the lender (the Department), the unpaid principal and accrued interest was exchangeable for the membership interest purchased by GM during the rights offering. The loan was funded for $884.0 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 the time, in GMAC in full satisfaction of the loan. In addition, during the fiscal year ended September 30, 2009, the Department received $9.1 million in interest while the loan was outstanding. The conversion to GMAC shares was not considered in the original subsidy cost. As a result, a modification was recorded reducing the estimated subsidy cost by approximately $1,600 million for the fiscal year ended September 30, 2009. As of September 30, 2010 the Department continues to hold the GMAC shares obtained in this transaction (see further discussion of Department's GMAC holdings under GMAC, Inc. in this note).

Chrysler Holding LLC (Chrysler)

In fiscal year 2009, the Department invested approximately $5,900 million in Chrysler. Specifically, $4,000 million was for general and working capital purposes (General Purpose Loan) and $1,900 million was for DIP financing while Chrysler was in bankruptcy (DIP Loan). Upon entering bankruptcy, a portion of Chrysler was sold to a newly created entity (New Chrysler). Under the terms of the bankruptcy agreement, $500.0 million of the general purpose loan was assumed by the New Chrysler (see discussion under Chrysler Exit for discussion of note terms). In fiscal year 2010, the Department received approximately $1,900 million and subsequently wrote-off the remaining $1,600 million of the General Purpose Loan. Recovery of the DIP Loan is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler. During fiscal year 2010 the Department received $40.2 million in recoveries on the DIP loan. The Department did not receive any interest on these loans during the fiscal year 2010. During fiscal year 2009, the Department had received $52.1 million in interest payments from these loans.

Chrysler Exit

In May 2009, the Department committed to make a loan to New CarCo Acquisition LLC (Chrysler Group LLC), the company that purchased certain assets of Chrysler. The final terms of the credit agreement resulted in a loan to New Chrysler for approximately $7,100 million. This amount consists of a commitment to fund up to $6,600 million of new funding and $500 million of assumed debt[7] from the Department January 2, 2009 General Purpose Loan with Chrysler, described above. The loan was secured by a first priority lien on the assets of Chrysler Group LLC. Funding of the loan was available in two installments or tranches (B and C), each with varying availability and terms. The following describes the terms of Tranches B and C.

The maximum funding under Tranche B was $2,000 million and was funded on the closing date of the agreement. Interest on Tranche B is generally[8] 3-Month Eurodollar plus 5.0 percent margin. Tranche B is due and payable on December 10, 2011, provided that the Chrysler Group LLC may elect to extend the maturity of up to $400.0 million of Tranche B to the Tranche C maturity date. If so elected, the applicable margin will increase from 5.0 percent to 6.5 percent.

The maximum funding under Tranche C is approximately $4,640 million, of which approximately $2,580 million was funded on the closing date. Interest on Tranche C is 3-Month Eurodollar plus 7.91 percent margin. On June 10, 2016, the Tranche C loan is due to be prepaid to the extent the funded amount is greater than 50.0 percent of the closing date commitment amount, taking into consideration amounts previously prepaid as a voluntary prepayment. The remaining balance of the Tranche C loan is due and payable on June 10, 2017.

Interest on both the Tranche B and Tranche C was payable in-kind through December 2009 and added to the principal balance of the respective Tranche. Subsequently, interest is paid quarterly beginning on March 31, 2010. In addition, additional in-kind interest is being accrued in the amount of $17.0 million per quarter. Such amount will be added to the Tranche C loan balance subject to interest at the appropriate rate.

The Department also obtained other consideration, including a 9.85 percent equity interest in Chrysler Group LLC and additional notes[9] with principal balances of $288.0 million and $100.0 million.[10] As of September 30, 2009, the Department had funded approximately $4,600 million under this facility, which was outstanding as of September 30, 2010 and 2009. During fiscal year 2010, the Department received $381.8 million in interest payments. No interest was due for payment in the fiscal year ended September 30, 2009. For the fiscal year ended September 30, 2010, the Department has recognized $344.4 million of in-kind interest that has been capitalized. No in-kind interest was recognized in the fiscal year ended September 30, 2009.

7 The assumed debt contains the same terms as the Tranche C loan with respect to mandatory prepayment, interest and maturity.

8 For both Tranche B and C, an Alternative Base Rate (defined in agreement) is available at the option of the Department in certain situations defined in the agreement.

9 The additional notes bear the same interest rate and maturity as the Tranche C loan.

10 Interest begins to accrue on this note after certain events, defined in the credit agreement, have taken place.

Chrysler Financial

In January, 2009, the Department loaned $1,500 million to Chrysler LB Receivables Trust (Chrysler Trust), a special purpose entity created by Chrysler Financial, to finance the extension of new consumer auto loans. On July 14, 2009, the loan and additional note of $15.0 million were paid in full. In fiscal year 2009, the Department received $7.4 million in interest payments while this loan was outstanding.

Auto Supplier Support Program

In April 2009, under the Auto Supplier Support Program, the Department committed $5,000 million in financing for the Auto Supplier Program as follows: $3,500 million for GM suppliers and $1,500 million for Chrysler suppliers. These commitments were subsequently reduced to $2,500 million for GM suppliers and $1,000 million for Chrysler suppliers per the loan agreement. Under the program, suppliers were able to sell their receivable to a SPV, created by the respective automaker, at a discount. The Department provided approximately $413.1 million of funding to this program during fiscal year 2009. The bankruptcy of Chrysler and GM did not impact this program, as both companies were allowed to continue paying suppliers while in bankruptcy. The Department received $5.9 million in interest during fiscal year 2009.The $413.1 million was repaid in fiscal year 2010 along with approximately $9.0 million in interest and $101.1 million in fees and other income.

Auto Warranty Program

In April 2009 and May 2009, the Department loaned approximately $280.0 million to Chrysler and $360.6 million to GM, respectively, to capitalize SPVs created by Chrysler and GM to finance participation in the Warranty Commitment Program (warranty program). The Department also received additional notes as consideration for its loans in an amount equal to 6.67 percent of the funded amounts. The warranty program covered all warranties on new vehicles purchased from Chrysler and GM during the period in which Chrysler and GM were restructuring. In fiscal year 2009, the Department received all principal amounts due on the Auto Warranty Program loans from both GM and Chrysler and terminated the warranty program. Interest in the amount of $3.1 million was received by the Department from Chrysler during the fiscal year ended September 30, 2009. No interest was received in connection with the GM repayment. The GM additional note was assigned to the General Motors Company as part of the bankruptcy proceedings and extinguished as part of the credit bid for the assets of old GM. In fiscal year 2010, the Chrysler additional note was written off with the remaining portion of the Chrysler General Purpose Loan.

GMAC Inc. (GMAC-currently known as Ally Financial)

In December 2008, the Department purchased preferred membership interests for $5,000 million that were converted to senior preferred stock with an 8.0 percent annual distribution right (dividends) from GMAC. Under the agreement, GMAC issued warrants to the Department to purchase, for a nominal price, additional preferred equity in an amount equal to 5.0 percent of the preferred equity purchased. These warrants were exercised at closing of the investment transaction. The additional preferred stock provided for a 9.0 percent annual distribution right. During fiscal year 2009, the Department received $265.2 million in dividends associated with these preferred and warrant preferred shares. On December 30, 2009, this preferred stock (including the warrant preferred shares) was exchanged for 105.0 million shares of GMAC's Series F-2 Fixed Rate Cumulative Mandatorily Convertible Preferred Stock (Series F-2) shares (described below). This exchange was not considered in the original subsidy estimate for GMAC; therefore the Department recorded a modification cost of $1,500 million in fiscal year 2010.

In May 2009, the Department published a non-binding term sheet to invest $13,100 million to support GMAC, subject to definitive documentation and GMAC's capital needs. In fiscal year 2009, the Department invested $7,500 million (150.0 million shares) in 9.0 percent Mandatorily Convertible Preferred Stock in GMAC to support its ability to originate new loans to Chrysler dealers and consumers, and help address GMAC's capital needs. The preferred stock have a liquidation preference of $50 per share and are convertible in whole or in part, at any time, at the option of GMAC, subject to the approval of the Federal Reserve. In addition, the Department received warrants to purchase an additional 7.5 million shares of Mandatorily Convertible Preferred Stock, which were exercised upon closing of the transaction. In December 2009, 97.5 million shares (which include the warrant preferred shares) were

exchanged for GMAC's Series F-2 shares (discussed below) and the remaining 60 million were converted to 259,200 shares of GMAC common stock.

In addition to the exchanges and conversions discussed above, on December 30, 2009, the Department entered into the following transactions with GMAC to assist it in complying with the requirements of the Federal Reserve Board's Supervisory Capital Assessment Program:

1. Purchased $2,540 million (2.54 million shares with a face value of $1,000) of 8.0 percent Trust Preferred Securities and received a warrant for an additional $127 million of the Trust Preferred Securities, which was immediately exercised. GMAC issued $2,747 million of subordinate debentures to a trust, established by GMAC, which in turn issued the trust preferred securities. The trust preferred securities pay cumulative cash distributions of 8 percent. GMAC may defer payments on the debentures (and the trust may defer distributions on the trust preferred securities) for a period of up to 20 consecutive quarters, but such distributions will continue to accrue through any such deferral period. GMAC has not elected to defer payments. The Trust Preferred Securities have no stated maturity date, but must be redeemed upon the redemption or maturity of the debentures (February 15, 2040).
2. Purchased $1,250 million (25 million shares) of GMAC's Series F-2, $50 liquidation preference per share. The Series F-2 is convertible into GMAC common stock at the option of GMAC subject to the approval of the Federal Reserve and consent by the Department or pursuant to an order by the Federal Reserve compelling such conversion. The Series F-2 is also convertible at the option of the Department upon certain specified corporate events. Absent an optional conversion, the Series F-2 will automatically convert to common stock after seven years from the issuance date. The initial conversion rate is .00432 and is subject to a "reset" such that the conversion price will be adjusted in 2011, if beneficial to the Department, based on the market price of private capital transactions occurring in 2010 and certain anti-dilution provisions. The Series F-2 have a stated dividend rate of 9 percent, payable when and if declared by the board of directors. The Series F-2 may be redeemed by GMAC, subject to certain limitations and restrictions. The Department also received a warrant to purchase $62.5 million (1.25 million shares) of additional Series F-2, which was immediately exercised.

As a result after the December 30, 2009 transaction, the Department has the following investments in GMAC, as of September 30, 2010:

	Number of Shares	Investment Amount / Percent Ownership (dollars in millions)	
8% Trust Preferred Securities			
Purchased	2,540,000	$	2,540
Received from warrant exercise	127,000		127
Total Trust Preferred Securities	**2,667,000**	**$**	**2,667**
Series F-2 Mandatorily Convertible Securities			
Purchased/exchanged for	227,500,000	$	11,375
Received from warrant exercise	1,250,000		63
Total Series F-2[1]	**228,750,000**	**$**	**11,438**
Common Stock[2]	450,121		56.3%

1 / These shares are convertible into 988,200 shares of GMAC common stock, which if combined with common stock currently held by the Department would represent approximately 80.5% ownership of GMAC.

2 / Includes shares received upon conversion of GMAC Rights Loan discussed above.

The Department received $1,200 million and $430.6 million in dividends from GMAC in fiscal year 2010 and 2009, respectively.

Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative is 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 was created to help jump start the market for securitized consumer and small business loans. The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. The Community Development Capital Initiative was created to provide additional low cost capital to small banks to encourage more lending to small businesses. Each program is discussed in more detail below.

Term Asset-Backed Securities Loan Facility

The Term Asset-Backed Securities Loan Facility (TALF) was created 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 Federal Reserve Board.

Under the TALF, the Federal Reserve Bank of New York (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. Generally ABS issued after January 1, 2009 are eligible collateral under the TALF program. In addition, SBA securities issued after January 1, 2008 and CMBS issued prior to January 2009 and originally AAA rated are eligible collateral. TALF loans have a term of three or five years and are secured solely by eligible collateral. Haircuts (a percentage reduction used for collateral valuation) are determined based on the riskiness of each type of eligible collateral and the maturity of the eligible collateral pledged to the FRBNY. The "haircuts" provide additional protection to the Department by exposing the TALF borrowers to some risk of loss. 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, 2010, approximately $29,700 million of loans due to the FRBNY remained outstanding.

As part of the program, the FRBNY has entered into a put agreement with the TALF, LLC, a special purpose vehicle created by the FRBNY. In the event of a TALF borrower default, the FRBNY will seize the collateral and sell it to the TALF, LLC under this agreement. The TALF, LLC receives a monthly fee equal to the difference between the TALF loan rate and the FRBNY's fee (spread) as compensation for entering into the put agreement. The accumulation of this fee will be used to fund purchases. In the event there are insufficient funds to purchase the collateral, the Department originally committed to invest up to $20,000 million in non-recourse subordinated notes issued by the TALF, LLC. On July 19, 2010, the Department's commitment was reduced to $4,300 million. The subordinated notes bear interest at 1-Month LIBOR plus 3.0 percent and mature 10 years from the closing date, subject to extension. The Department disbursed $100.0 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. Any amounts needed in excess of the Department commitment and the fee 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 cash balance will be disbursed according to the following payment priority:

1. FRBNY principal balance
2. The Department principal balance
3. FRBNY interest
4. The Department interest
5. Remaining cash balance – 90.0 percent to the Department, 10.0 percent to the FRBNY

During fiscal year 2009, subsequent to the initial cost estimates prepared for the TALF, certain changes were made to the terms of the program, including increasing the term to five years and the addition of different types of acceptable collateral. These program changes resulted in a modification, for fiscal year 2009, increasing the original cost estimate by $8.0 million.

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 would 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's financial statements.

As of September 30, 2010 and 2009, 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 the purchase of securities backed by Small Business Administration 7(a) loans (7(a) Securities) as part of the Unlocking Credit for Small Business Initiative. Under this program the Department purchases 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. Generally, the Department entered into a trade to purchase 7(a) Securities with actual settlement and delivery to occur one to three months in the future. As of September 30, 2010, the Department has entered into trades to purchase $356.3 million (excluding purchased accrued interest) of these securities. Of this amount, $240.7 million has settled with the remaining trades to be settled by December 30, 2010. During fiscal year 2010, the Department received $3.5 million in interest and principal payments on these securities.

Community Development Capital Initiative

In February 2010, the Department announced the Community Development Capital Initiative (CDCI) to invest lower cost capital in Community Development Financial Institutions (CDFIs). Under the terms of the program, the Department purchases senior preferred stock (or subordinated debt) from eligible CDFI financial institutions. The senior preferred stock has an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after eight years.

For CDFI credit unions, the Department purchased subordinated debt at rates equivalent to those offered to CDFI financial institutions and with similar terms. These institutions may apply for up to 3.5 percent of total assets—an amount approximately equivalent to the 5 percent of risk-weighted assets available to banks and thrifts.

CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their current CPP preferred shares (subordinated debt) for CDCI preferred shares (subordinated debt). These exchanges were treated as a disbursement from CDCI and a repayment to CPP.

As of September 30, 2010, the Department has invested $570.1 million ($363.3 million was a result of exchanges from CPP) in 84 institutions under the CDCI.

Public-Private Investment Program

The PPIP is part of the Department's efforts to help restart the market and provide liquidity for legacy assets. Under this program, the Department made equity investment in and loans to investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment was used to match private capital and equaled approximately 50.0 percent of the total equity invested. The loan is, at the option of the investment manager, equal to 50.0 percent or 100.0 percent of the total equity (including private equity). As of September 30, 2010, all PPIFs have elected to receive loans up to 100 percent of total equity. The loans bear interest at 1-Month Libor, plus 1.0 percent, which accrues monthly and is payable on the 10th business day of the month following the accrual period. The maturity date of the loan is the earlier of 10 years or the termination of the PPIF. The loan can be prepaid, subject to compliance with the priority of payments discussed below, without penalty. The PPIF will terminate in eight years from the commencement of the fund. The governing documents of the funds allow for two one-year extensions, subject to approval of the Department. The loan agreements also require purchased security cash flows from securities received by the PPIFs to be distributed in accordance with a priority of payments schedule (waterfall) designed to help ensure secured parties are paid

before equity holders. Specifically, security cash flows collected are disbursed as follows (steps 7 through 10 are at the discretion of the PPIF),

1. To pay administrative expenses, excluding certain tax expenses of the Partnership;
2. To pay interest or margin due on permitted interest rate hedges;
3. To pay current period interest due to the Lender;[11]
4. To pay amounts due to an interest reserve account if the total deposit in the interest reserve account is less than the required interest reserve account;
5. To pay principal on the Loan required when the minimum Asset Coverage Ratio Test is not satisfied as of the prior month end;
6. To pay other amounts due on permitted interest rate hedges not paid in accordance with step 2 above;
7. For investment in Temporary Investments, prepayments of the Loan and/or investment in eligible Assets during the investment period, which is three years from the Initial Closing Date (the "Investment Period");
8. For distribution to partners after step 1 through 7 not to exceed the lesser of: (a) cumulative consolidated net interest income for the preceding twelve months or (b) 8 percent on the funded capital commitments, so long as no event of default is then continuing and the appropriate Asset Coverage Ratio Requirement is satisfied;
9. To pay the Loan not to exceed the lesser of (a) prepayment on the Loan as scheduled or (b) an amount which reduces the Loan to zero, provided that dollar for dollar credit is given for any optional prepayments of the Loan made during the related collection period on any date prior to the applicable determination date; and
10. Remaining amounts to be used or distributed in accordance with the limited partnership agreement after repayment of the Loan.

The loan is subject to certain affirmative and negative covenants as well as a financial covenant, the Asset Coverage Test. The Asset Coverage Test generally requires that the Asset Coverage Ratio be equal to or greater than 150 percent. The Asset Coverage Ratio is a percentage obtained by dividing total assets of the PPIF by the principal amount of the loan and accrued and unpaid interest on the loan. Failure to comply with the test could require accelerated repayment of loan principal (see step 7 above) and prohibit the PPIF from borrowing additional funds under the loan agreement.

As a condition of its 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. The warrant payment will be distributed by the PPIF to the Department following the return of 100 percent of the non-Department partner's capital contributions to the PPIF.

The PPIFs pay a management fee to the fund manager from the Department's share of investment proceeds. During the Investment Period, the management fee is equal to 0.20 percent per annum of the Department's capital commitment as of the last day of the applicable quarter. Thereafter, the management fee will be equal to 0.20 percent per annum of the lesser of (a) the Department's capital commitment as of the last day of the applicable quarter and (b) the Department Interest Value as of the last day of the quarter.

The PPIFs are allowed to purchase commercial mortgage-backed securities (CMBS) and non-agency residential mortgage-backed securities (RMBS) issued prior to January 1, 2009 that were originally rated AAA or an equivalent rating by two or more nationally recognized statistical rating organizations without external credit enhancement and that are secured directly by the actual mortgage loans, leases or other assets (eligible assets) and not other securities. 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 percent of the assets underlying any eligible asset must be situated in the United States.

11 The Lender is the Department

As of September 30, 2010 the total market value of the eligible assets held by all PPIFs was approximately $19,300 million. The approximate split between RMBS and CMBS was 82 percent RMBS and 18 percent CMBS.

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 $356.3 million ($156.3 million equity investment and $200.0 million loan) in the fund. Upon final liquidation, the Department received $377.4 million representing return of the original investment, interest on the loan and return on the equity investment and warrant.

As of September 30, 2010, the Department had signed definitive limited partnership and loan agreements with eight investment managers, committing to disburse up to $22,100 million. During fiscal year 2010, the Department disbursed $4,900 million as equity investment and $9,200 million as loans to PPIFs. As of September 30, 2009, no investment managers had made any investments under PPIP and the Department had not disbursed any funds. During fiscal year 2010, the Department received (excluding amounts repaid in liquidation discussed above) $56.0 million in interest on loans and $151.8 million (net of management fees of $7.2 million) of income on the equity investments. In addition, the Department received $72.0 million in loan principal repayments.

Asset Guarantee Program

The Asset Guarantee Program (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. The AGP was applied with extreme discretion in order to improve market confidence in the systemically significant institution and in financial markets broadly.

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.

The Department completed its first transaction under the AGP in January 2009, when it finalized the terms of a guarantee agreement with Citigroup. Under the agreement, the Department, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank of New York (FRBNY) (collectively the USG Parties) provided protection against the possibility of large losses on an asset pool of approximately $301,000 million 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 $5,000 million.

As a premium for the guarantee, Citigroup issued $7,000 million 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; $4,000 million and the warrant were issued to the Department, and $3,000 million was issued to the FDIC. The Department received $265.2 million and $174.8 million during the fiscal years ending September 30, 2010 and September 30, 2009, 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.

As of September 30, 2009, the net present value of the estimated cash inflows from the preferred stock and warrant received by the Department from Citigroup as a premium was greater than the estimated net present value of future claims payments, resulting in an asset of $1,765 million, after reestimates.

In December 2009, the USG Parties and Citigroup agreed to terminate the guarantee agreement. Under the terms of the termination agreement the Department cancelled $1,800 million of the preferred stock previously issued to the Department. In addition, the FDIC agreed to transfer to the Department $800 million of their trust preferred stock holding plus dividends thereon contingent on

Citigroup repaying its previously issued FDIC guaranteed debt. The contingent receipt of additional preferred shares from the FDIC is included in the subsidy calculation for AGP, based on the expected value. Termination of the agreement was not considered in the formulation estimates of the guarantee and therefore the termination resulted in a negative modification cost (reduction of cost) of $1,400 million 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 it held for $2,246 million. The Trust Preferred Securities are valued at approximately the sales price in the financial statements. The sale settled on October 5, 2010.

In January 2009, the USG Parties and Bank of America signed a Summary of Terms (Term Sheet) pursuant to which the USG Parties agreed to guarantee or lend against a pool of up to $118,000 million of financial instruments consisting of securities backed by residential and commercial real estate loans and corporate debt and related derivatives. In May 2009, prior to completing definitive documentation, Bank of America notified the USG Parties of its desire to terminate negotiations with respect to the guarantee contemplated in the Term Sheet. All parties agreed that Bank of America received value for entering into the Term Sheet with the USG Parties and that the USG Parties should be compensated for out-of-pocket expenses and a fee equal to the amount Bank of America would have paid for the guarantee from the date of the signing of the Term Sheet through the termination date. Under the terms of the settlement, the U.S. Treasury received $276.0 million for its role in the guarantee agreement. All the Department funds received for the settlement were deposited in the TAIFF and subsequently paid to the Treasury General Fund. The $276 million received by the Department pursuant to the settlement is reflected in the Department Statement of Net Cost as a reduction of the AGP subsidy cost in the fiscal year ended September 30, 2009.

Subsidy Reestimates

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. Financial statement reestimates for all programs were performed using actual financial transaction data through September 30, 2010 and 2009. Market and security specific data publicly available as of September 30, 2010, was used for the CPP, AGP, TIP, AIG, CDCI, AIFP, and SBA programs in the reestimate calculations for fiscal year 2010. Security specific data through June 30, 2010, with market prices through September 30, 2010, was used for the PPIP and TALF programs in the reestimate calculations for fiscal year 2010. Market and security specific data publicly available as of September 30, 2009, was used for the CPP, AGP, TIP, and AIFP direct loans and data through August 31, 2009, was used for the equity portion of AIFP, AIG, and TALF programs in the reestimate calculations for the fiscal year ending September 30, 2009.

The Department using security specific data available as of September 30, 2010 and, in its determination, there were no significant changes to the portfolio characteristics or performance of the PPIP and TALF programs that would require a revision to the reestimates for fiscal year 2010. For fiscal year 2009, the Department assessed the key inputs of the reestimates using data publicly available as of September 30, 2009, and in its determination, there were no significant changes to the key inputs for the three programs for which August 31, 2009, data was used that required a revision to the reestimates.

Net downward reestimates for the fiscal years ended September 30, 2010 and September 30, 2009 totaled $30,318 million and $109,748 million, respectively. Descriptions of the reestimates with approximate amounts, by the Department Program, are as follows:

CPP

The net upward reestimate for the CPP of $3,900 million for the fiscal year ending September 30, 2010 is the net result of a decrease in the price of Citigroup common stock that was partially offset by an increase in the estimated value of the other investments within the CPP, due to improved market conditions during the year.

The $70,700 million in repurchases during the fiscal year ending September 30, 2009 accounted for $9,700 million of the $72,400 million in downward reestimates in the CPP for the fiscal year ending September 30, 2009. Projected repurchases of $30,000 million for fiscal year 2010 accounted for approximately $5,400 million, with the $57,300 million balance in downward reestimates in the CPP for the fiscal year ending September 30, 2009 primarily due to improved market conditions from when the original estimate was made in December 2008.

AIG

The $12,000 million in downward reestimates for the AIG Investment Program for the fiscal year ending September 30, 2010 are due to an increase in the estimated value of AIG assets and subordinated debt and improvements in market conditions over the fiscal year.

The $1,100 million in downward reestimates for the AIG Investment Program in the fiscal year ending September 30, 2009 was primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

TIP

The $1,900 million in net downward reestimates in the TIP in fiscal year 2010 included $2,200 million in downward reestimates due to the repurchase of the program's investments by the two institutions participating in the program. That downward reestimate amount was partially offset by a $300 million upward reestimate from a slight reduction in the estimated value of outstanding warrants.

The $21,500 million in downward reestimates in the TIP in the fiscal year ending September 30, 2009 was primarily due to improved market conditions from when the original estimates were made in December 2008 and January 2009. Approximately $2,300 million was due to a $20,000 million repurchase forecast for fiscal year 2010.

AIFP

The $19,300 million in downward reestimates for the AIFP direct loan and equity investments for the fiscal year ending September 30, 2010 was due to $1,800 million in payments exceeding projections, a reduction in estimated defaults due to improvements in the domestic automotive industry, and an increase in the bond prices and valuations used to estimate the cost of the remaining AIFP investments.

The approximately $10,600 million in downward reestimates for the direct loans-AIFP in the fiscal year ending September 30, 2009 was primarily the result of the post bankruptcy improved financial position of one of the major companies participating in the program. The $2,700 million in downward reestimates for the AIFP equity programs in the fiscal year ending September 30, 2009 were primarily due to improvements in market conditions from when the equities were purchased resulting in a reduction in the projected costs of the programs.

CBLI

The TALF and SBA programs within the CBLI had a total upward reestimate of less than $100 million for the fiscal year ending September 30, 2010. The TALF program had a $24 million upward reestimate mostly due to a projected reduction in the size of the portfolio and higher than projected repayments. The SBA program had a downward reestimate of less than $1 million due to an increase in projected interest rates and a reduction in market risks. The CDCI program had $7.3 million in upward reestimates for the fiscal year.

The $200 million in downward reestimates for the TALF in the fiscal year ending September 30, 2009 was due to projected improved performance of the securities within the program versus the original estimate.

PPIP

The $1,000 million in downward reestimates for the PPIP debt and equity programs for the fiscal year ending September 30, 2010 was the net of a $1,200 million upward reestimate in the PPIP debt program and $2,200 million in downward reestimates for the PPIP equity programs mostly due to the use of actual portfolio data for reestimates rather than the proxy data used in developing the baseline estimates and changes in market risks.

AGP

The AGP had a net $100 million downward reestimate for the fiscal year ended September 30, 2010. The reestimate amounts exclude an estimated cost savings of $1,400 million that resulted from the cancellation of the $5,000 million guarantee because this transaction was reflected in the subsidy modifications during fiscal year 2010.

The $1,200 million in downward reestimates for the AGP in the fiscal year ending September 30, 2009 was primarily due to improvements in market conditions from when the guarantee was committed in January 2009. The improved market conditions resulted in an increase in the projected AGP asset due to the net present value of the estimated cash inflows from the preferred stock and warrants received by the Department from Citigroup as a premium being greater than the estimated value of future claim payments associated with the $5,000 million asset guarantee.

The following detailed 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 the asset guarantee program for the fiscal years ended September 30, 2010 and 2009:

TROUBLED ASSET RELIEF PROGRAM DIRECT LOANS AND EQUITY INVESTMENTS (dollars in millions):

As of September 30, 2010	2010 TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 179,197	$ 49,779	$ 47,543	$ 0	$ 67,238	$ 908	$ 13,729
Subsidy Cost Allowance	(36,745)	(1,546)	(21,405)	1	(14,529)	58	676
Direct Loans and Equity Investments Outstanding, Net	**$ 142,452**	**$ 48,233**	**$ 26,138**	**$ 1**	**$ 52,709**	**$ 966**	**$ 14,405**
New Loans or Investments Disbursed	23,373	277	4,338	0	3,790	811	14,157
Obligations for Loans and Investments not yet Disbursed	36,947	0	22,292	0	2,066	4,339	8,250
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 53,077	$ (7,770)	$ 30,054	$ (341)	$ 31,478	$ (344)	$ 0
Subsidy Cost for Disbursements and Modifications	7,533	(16)	4,293	0	2,644	275	337
Interest and Dividend Revenue	6,977	3,131	0	1,143	2,475	0	228
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	8,013	6,676	0	1,237	99	0	1
Net Interest Expense on Borrowings	(4,690)	(2,018)	(981)	(161)	(1,309)	(20)	(201)
Write-offs	(3,934)	(2,334)	0	0	(1,600)	0	0
Balance, End of Period, Before Reestimates	66,976	(2,331)	33,366	1,878	33,787	(89)	365
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Balance, End of Period	**$ 36,745**	**$ 1,546**	**$ 21,405**	**$ (1)**	**$ 14,529**	**$ (58)**	**$ (676)**
Reconciliation of Subsidy Cost:							
Subsidy Cost for Disbursements	$ 6,067	$ 16	$ 4,293	$ 0	$ 1,146	$ 275	$ 337
Subsidy Cost for Modifications	1,466	(32)	0	0	1,498	0	0
Subsidy Reestimates	(30,231)	3,877	(11,961)	(1,879)	(19,258)	31	(1,041)
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	**$ (22,698)**	**$ 3,861**	**$ (7,668)**	**$ (1,879)**	**$ (16,614)**	**$ 306**	**$ (704)**

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 (See Note below):							
Interest Differential		(25.62%)			37.70%	30.39%	11.72%
Defaults		16.36%			13.78%	3.93%	0.00%
Fees and Other Collections		(3.00%)			(0.38%)	0.00%	(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	0
Fees and Other Collections		(8)	0		(15)	0	(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**

Note: The rates reflected in the "Budget Subsidy Rate" table above are fiscal year 2010 budget execution rates by program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy cost (income). The subsidy cost (income) for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy cost (income) reported in the current year also includes modifications and re-estimates. 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 LOANS AND EQUITY INVESTMENTS (dollars in millions):

As of September 30, 2009	2009 TOTAL	CPP	AIG	TIP	AIFP	CBLI	PPIP
Direct Loans and Equity Investment Programs:							
Direct Loans and Equity Investments Outstanding, Gross	$ 290,969	$ 133,901	$ 43,206	$ 40,000	$ 73,762	$ 100	$ 0
Subsidy Cost Allowance	(53,077)	7,770	(30,054)	341	(31,478)	344	0
Direct Loans and Equity Investments Outstanding, Net	**$ 237,892**	**$ 141,671**	**$ 13,152**	**$ 40,341**	**$ 42,284**	**$ 444**	**$ 0**
New Loans or Investments Disbursed	$ 363,826	$ 204,618	$ 43,206	$ 40,000	$ 75,902	$ 100	$ 0
Obligations for Loans and Investments not yet Disbursed	$ 51,681	$ 0	$ 26,629	$ 0	$ 5,152	$ 19,900	$ 0
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning of Period	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Subsidy Cost for Disbursements and Modifications	152,179	57,386	31,552	19,540	43,797	(96)	0
Interest and Dividend Collections	9,329	6,790	0	1,862	677	0	0
Net Proceeds from Sales and Repurchases of Assets in Excess of Cost	2,916	2,901	0	0	15	0	0
Net Interest Income (Expense) on Borrowings	(2,773)	(2,428)	(373)	(276)	309	(5)	0
Balance, End of Period, Before Reestimates	161,651	64,649	31,179	21,126	44,798	(101)	0
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	0
Balance, End of Period	**$ 53,077**	**$ (7,770)**	**$ 30,054**	**$ (341)**	**$ 31,478**	**$ (344)**	**$ 0**
Reconciliation of Subsidy Cost:							
Subsidy Cost (Income) for Disbursements	$ 151,767	$ 55,520	$ 31,425	$ 19,540	$ 45,386	$ (104)	$ 0
Subsidy Cost (Income) for Modifications	412	1,866	127	0	(1,589)	8	0
Subsidy Reestimates	(108,574)	(72,419)	(1,125)	(21,467)	(13,320)	(243)	0
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	**$ 43,605**	**$ (15,033)**	**$ 30,427**	**$ (1,927)**	**$ 30,477**	**$ (339)**	**$ 0**

TROUBLED ASSET RELIEF PROGRAM LOANS, EQUITY INVESTMENTS AND ASSET GUARANTEE PROGRAM BUDGET SUBSIDY RATES:

As of September 30, 2009	AGP	CPP	AIG	TIP	AIFP	CBLI	PPIP
Budget Subsidy Rates, Excluding Modifications and Reestimates (See Note below):							
Interest Differential	0.00%	5.97%	(45.52%)	9.31%	6.97%	5.87%	
Defaults	43.62%	25.60%	123.56%	48.38%	54.21%	0.00%	
Fees and Other Collections	(53.23%)	0.00%	0.00%	0.00%	0.00%	0.00%	
Other	(5.37%)	(4.58%)	4.74%	(8.84%)	(3.13%)	(110.10%)	
Total Budget Subsidy Rate	**(14.98%)**	**26.99%**	**82.78%**	**48.85%**	**58.05%**	**(104.23%)**	**N/A**
Subsidy Cost (Income) by Component (in millions):							
Interest Differential	$ 0	$ 12,279	$ (17,280)	$ 3,724	$ 5,446	$ 6	
Defaults	2,181	52,655	46,906	19,352	42,384	0	
Fees and Other Collections	(2,662)	0	0	0	0	0	
Other	(270)	(9,414)	1,799	(3,536)	(2,444)	(110)	
Total Subsidy Cost (Income), Excluding Modifications and Reestimates	**$ (751)**	**$ 55,520**	**$ 31,425**	**$ 19,540**	**$ 45,386**	**$ (104)**	**N/A**

Note: The rates reflected in the "Budget Subsidy Rate" table above are weighted rates for the program. To compensate for the weighting of the various risk category subsidy rates, the "by component" dollar amounts reflected were computed as a ratio of the component rate to the total weighted subsidy rate multiplied by the subsidy cost (income) for the program. Therefore, the *Total Subsidy Cost (Income), 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 (in millions):

As of September 30,	2010	2009
Asset Guarantees Outstanding:		
Outstanding Principal Amount of Guaranteed Loans, Face Value	$ 0	$ 301,000
Amount of Outstanding Principal Guaranteed	$ 0	$ 5,000
Asset Guarantee Program:		
Intra-governmental Portion (See Note below)	$ 815	$ 0
Portion held by the Department, net	2,240	1,765
Total Asset Guarantee Program	**$ 3,055**	**$ 1,765**
Reconciliation of Asset Guarantee Program		
Balance, Beginning of Period	$ (1,765)	$ 0
Subsidy Income for Disbursements and Modifications	(1,418)	(751)
Dividend Revenue	265	175
Net Interest Income on Borrowings	(50)	(15)
Balance, End of Period, Before Reestimates	(2,968)	(591)
Subsidy Reestimates	(87)	(1,174)
Balance, End of Period	**$ (3,055)**	**$ (1,765)**
Reconciliation of Subsidy Cost (Income):		
Subsidy Income for Disbursements	$ 0	$ (751)
Subsidy Income for modifications	(1,418)	0
Subsidy Reestimates	(87)	(1,174)
Cancellation Fees Collected	0	(276)
Total Asset Guarantee Program Subsidy Income	**$ (1,505)**	**$ (2,201)**

Note: The net present value of the future cash flows for the Asset Guarantee Program consists of (i) $800 million of Citigroup trust preferred securities, plus dividends thereon, that the FDIC agreed to transfer to the Department 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.

The Department Housing Programs Under TARP

Fiscal year 2010 has seen an expansion of programs designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

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

Under MHA, the initial programs rolled out in the fiscal year 2009 were the Home Affordable Modification Program (HAMP) including the Home Price Decline Protection Program (HPDP).

MHA includes HAMP, FHA-HAMP, Second Lien Program (2MP), Department/FHA Second Lien Program (FHA 2LP) (extinguishment of 2nd lien portion of the program), and Rural Development (RD-HAMP). The HAMP includes first lien modifications, the HPDP, the Principal Reduction Alternative Waterfall Program (PRA), the Unemployment Program (UP), and the Home Affordable Foreclosure Alternatives Program (HAFA). The HAMP first lien modification program provides for one-time, monthly and annual incentives to servicers, borrowers, and investors who participate in the program, whereby the investor and the Department share the costs of modifying qualified first liens. The HPDP provides incentives to investors to partially offset losses from home price declines. In fiscal year 2010, additional programs have been 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 deed in lieu of foreclosure processes and providing incentives to borrowers, servicers and investors to pursue short sales and deeds in lieu.

Fiscal year 2010 has also seen the introduction of additional programs under MHA. These programs include the FHA-HAMP which provides the same incentives as HAMP for Federal Housing Administration (FHA) guaranteed loans. The 2MP provides additional incentives to servicers to extinguish second liens on first lien loans modified under HAMP. The FHA 2LP provides for incentives to servicers for extinguishment of second liens for borrowers who refinance their FHA-insured first lien mortgages under the FHA-Refinance Program. The RD-HAMP Program provides HAMP incentives for USDA guaranteed mortgages.

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 the Department Housing Program cost 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 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.

The Housing Finance Agency (HFA) Hardest-Hit Fund was implemented in 2010 and provides targeted aid to families in the states hit hardest by the housing market downturn and unemployment. States that meet the criteria for this program consist of Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, Tennessee, and Washington D.C. Approved states 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 Department of Housing and Urban Development (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 to fund the Department portion of any claims associated with the FHA-insured mortgages. 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. 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. However, in fiscal year 2010, the Department paid $3 million to establish the Letter of Credit.

The table below recaps payments and accruals (included in other liabilities) as of September 30, 2010 and September 30, 2009. As noted above, the UP is structured so that there is no financial impact on the Department. Although in operation on September 30, 2010 the PRA, FHA-HAMP, 2LP and RD-HAMP had not been in operation for a period long enough to have fiscal year 2010 financial activity.

	Commitments	Payments		Accruals	
(in millions)	9/30/2010	9/30/2010	9/30/2009	9/30/2010	9/30/2009
MHA	$ 29,900	$ 0	$ 0	$ 0	$ 0
HAMP (1st Lien)	0	473.592	0.946	175.415	1.361
HPDP	0	8.755	0	107.914	0
PRA*	0	0	0	0	0
UP**	0	N/A	N/A	N/A	N/A
HAFA***	0	1.627	0	N/A	0
FHA HAMP	0	0	0	0.024	0
2MP	0	0.011	0	0.005	0
2LP*	0	0	0	0	0
RD-HAMP*	0	0	0	0	0
HFA Hardest Hit Fund	7,600	56.120	0	0	0
FHA - Refinance	8,100	3.015	0	0	0
Totals	**$ 45,600**	**$ 543.120**	**$ 0. 946**	**$ 283.358**	**$ 1.361**

* No fiscal year 2010 activity with financial impact

** No fiscal financial impact

*** HAFA payments are made in the month earned and not accrued

For fiscal year 2010 and 2009, cost for the Department Housing Programs Under TARP totaled $825 million and $2 million, respectively.

9. Investments in Government Sponsored Enterprises (GSEs)

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (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. These securities are subsequently sold to investors.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of GSEs, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act of 2008 on July 30, 2008 (HERA). This Act created the new Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury 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 until Fannie Mae and Freddie Mac can return to normal operations or until the Administration and Congress address how they should be structured going forward. As of September 30, 2010, there are no plans to bring these organizations into the government; rather, the purpose of these financial arrangements 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 deliberate what, if any, structural changes should be made. The FHFA director may terminate the conservatorship if safe and solvent conditions can be established. Per SFFAS No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities under paragraph 50. Accordingly, the Department has not consolidated them into the financial statements, but includes "disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities" in the consolidated financial statements. 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 construction 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 investments made on behalf of the taxpayers were fully and fairly accounted for.

Under the SPSPAs, the Department initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and (2) 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 percent per year, payable quarterly. This rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. Dividends of $12,142 million and $4,336 million were received for the fiscal years ended September 30, 2010 and September 30, 2009. In addition, beginning on March 31, 2011, the GSEs are scheduled to begin paying the Department a periodic commitment fee on a quarterly basis unless the payment is waived. This fee is to be initially set by December 31, 2010, based on mutual agreement between the Department and each GSE, in consultation with the Chairman of the Federal Reserve Board. The fee is to be established for five-year periods, and may be waived by the Department for one year at a time, if warranted by adverse mortgage market conditions. It may be paid in cash or may be added to the liquidation preference.

The initial agreements, which had no expiration date, provided that the Department would 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 $100,000 million and in May 2009 was raised to $200,000 million. In December 2009, the Department amended the SPSPAs to replace the $200,000 million 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 $200,000 million, and will become fixed at the end of the three years. At the conclusion of the three year period, 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, 2010 and September 30, 2009 were $52,600 million and $95,600 million, respectively. Additionally, $359,900 million has been accrued as a contingent liability as of September 30, 2010 ($91,937 million as of September 30, 2009). The amount accrued is the total estimated contingent liability under the SPSPAs. 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 will be funded through the Department's direct appropriations. Therefore, they are reflected at their gross amount as "entity" costs on the Department's Statements of Net Cost and Cumulative Results of Operations, without considering the increase in Senior Preferred Stock liquidity preference/fair value adjustments, future dividend receipts from the GSEs, or any future commitment fees.

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 Statement of Net Cost as "GSE Non-Entity Revenue." The associated valuation losses and dividends are likewise General Fund costs and revenues.

Over time, the Department's entity expense for the accrued contingent liability under the SPSPAs will be offset in part by the General Fund's exchange revenues recognized when actual draw payments are made to the GSEs.

Investments in GSEs

As of September 30, 2010 and September 30, 2009, the Department's investments in the GSEs consisted of the following (in millions):

GSEs Investment	Gross Investment as of 9/30/10	Cumulative Valuation Gain/(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 Investment	**$ 155,233**	**$ (46,017)**	**$ 109,216**

GSEs Investment	Gross Investment as of 9/30/09	Cumulative Valuation Gain/(Loss)	9/30/09 Fair Value
Fannie Mae Senior Preferred Stock	$ 45,740	$ (20,658)	$ 25,082
Freddie Mac Senior Preferred Stock	51,524	(23,273)	28,251
Fannie Mae Warrants Common Stock	3,104	3,603	6,707
Freddie Mac Warrants Common Stock	2,264	2,375	4,639
Total GSEs Investment	**$ 102,632**	**$ (37,953)**	**$ 64,679**

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, monthly summaries, quarterly credit supplements, independent research regarding high yield bond and preferred stock trading, independent research regarding the GSEs' common stock trading, and other information pertinent to the valuations.

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 the commitment fee payment that if agreed upon by the Department and FHFA could begin on March 31, 2011. 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 exercise 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 2031 to determine what the implied amount of the contingent liability to the GSEs under the SPSPAs would be and as a result has estimated the contingent liability to be $359,900 million as of September 30, 2010 as a result of their projected equity deficits stemming from near term losses and contractual dividend requirements. The valuation analysis resulted in total SPSPA estimates ranging from a "baseline" scenario of $508,100 million to an "extreme case" scenario of $610,000 million, as of September 30, 2010 ($91,937 million to $206,700 as of September 30, 2009 of which $76,937 million was recorded as contingent). As future payments under the SPSPA are deemed to be probable, the baseline scenario was used to record the contingent liability as of September 30, 2010. SFFAS 5 provides that when a probable contingent liability is a range of amounts and no amount within the range is a better estimate than any other amount, the estimated contingent liability should be based on the minimum value in the range, as was done for FY 2009. 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 2010 Forecast for the years 2010 through 2013 (as released by FHFA on October 21, 2010), and interviews with the GSEs' management. The GSE managers were not able to provide the Department with a forecast of needed draws under the SPSPAs after December 31, 2013; however, they did provide the Department with general guidance as to the key assumptions that were used for subsequent periods. The forecasts after 2013 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 2022, as directed under the provisions of the SPSPAs for the GSEs to reduce the investment portfolios by 10 percent per annum.

As of September 30, 2010 the summarized aggregated financial condition of the GSEs was as follows:

	(in millions) Combined	
As of September 30, 2010		
Combined total assets	$	5,518,352
of which are:		
- investment securities		474,437
- mortgage loans		4,782,405
Combined total liabilities	$	5,520,857
of which is:		
- long term debt		5,248,221
Combined net deficit	**$**	**(2,505)**
For the nine months ended September 30, 2010		
Combined net interest income	$	24,312
Combined provision for loan losses		(35,082)
Net interest income (loss) after provision for loan losses	**$**	**(10,770)**
Financial Guarantees not consolidated on GSE balance sheets September 30, 2010	$	116,091
Regulatory Capital - minimum capital surplus (deficit) as of September 30, 2010	$	(198,999)

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

The Department also relied upon economic and demographic data from The 2010 Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Federal Disability Insurance Trust Funds, the Standard and Poor's (S&P)/Case-Shiller June 2010 Housing Price Index, and the Federal Housing Finance Agency's House Price Index. The following paragraph summarizes information obtained from these sources.

In the near term, the price of U.S single-family homes is the predominant variable affecting the value of the SPSPAs in determining delinquencies, default rates, and severity rates. The prices of U.S. homes depend on numerous factors, including tax incentives, interest rates, vacant homes, new construction, and unemployment rates. Although housing prices have risen recently, they are still significantly down from the peak experienced in prior years.

Both GSEs reported very low early delinquencies on additions to their credit books in 2009 and the first half of 2010. 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 payments required under the SPSPAs exceed the net income of the GSEs and incremental draws under the SPSPAs are needed to meet dividend payment requirements. The GSEs expect their net worth will also be impacted negatively by dividend payments on the SPSPAs.

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 cap. Adverse changes in home prices would have a material and adverse impact on the SPSPAs.

GSEs Non-Entity Revenue

As of September 30, 2010 and September 30, 2009, GSEs Non-Entity Revenue consisted of the following (in millions):

Summary of GSEs Non-Entity Revenue	2010	2009
General Fund Revenue from Increase in Liquidity Preference of GSEs Preferred Stock	$ (52,600)	$ (95,600)
Current Valuation Loss on GSEs Warrants/Preferred Stock	8,064	37,953
GSEs Preferred Stock Dividends	(12,142)	(4,336)
Total GSEs Non-Entity Revenue	**$ (56,678)**	**$ (61,983)**

Changing Regulatory Environment

On July 9, 2010, FHFA published, in the Federal Register, a proposed rule to clarify certain terms of 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 Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law. The Dodd-Frank Act will significantly change 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. The Dodd-Frank Act may result in the GSEs being subjected to new and additional regulatory oversight and standards, which would lead to increased restrictions on their day-to-day business and operations. Also, it contains a provision requiring the Secretary of the Treasury to conduct a study and develop recommendations regarding the options for ending the conservatorship. The Secretary's report and recommendations are required to be submitted to Congress by January 31, 2011.

10. Investments in International Financial Institutions

The Multilateral Development Banks (MDB) consist of 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, 2010 and September 30, 2009, investments in international financial institutions consisted of the following (in millions):

	2010	2009
African Development Bank	$ 175	$ 175
Asian Development Bank	458	458
European Bank for Reconstruction and Development	636	636
Inter-American Development Bank	1,487	1,482
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	**$ 5,580**	**$ 5,575**

Refer to Note 31 for a description of the additional commitments related to these institutions.

11. 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 6). The $1,100 million of Other Investments in GSEs Securities held by the ESF at September 30, 2009 matured in November 2009.

As of September 30, 2010 and September 30, 2009, 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	Net Investment at 9/30/10	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 Investments	32	(2)	0	30	(8)	22
Total Non-Federal	**$ 12,239**	**$ 84**	**$ 111**	**$ 12,434**	**$ 205**	**$ 12,639**

Type of Investment	Cost/Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/09 Investment Balance	Unrealized Gain/ (Loss)	9/30/09 Fair Value
Foreign Investments:						
Euro Bonds & Notes	$ 4,827	$ 52	$ 116	$ 4,995	$ 184	$ 5,179
Japanese Government Bonds	7,192	9	12	7,213	43	7,256
Other Investments	1,137	(7)	0	1,130	0	1,130
Total Non-Federal	**$ 13,156**	**$ 54**	**$ 128**	**$ 13,338**	**$ 227**	**$ 13,565**

12. Credit Program Receivables and Direct Loans, Net

As of September 30, 2010 and September 30, 2009, Credit Program Receivables and Direct Loans consisted of the following (in millions):

	2010	2009
GSEs MBS Purchase Program Receivables	$ 172,234	$ 184,419
CDFI Direct Loans	41	41
State and Local Housing Finance Agency Initiative Program Receivables	14,121	0
Total	**$ 186,396**	**$ 184,460**

Government Sponsored Enterprise (GSE) Mortgage-Backed Securities (MBS) Purchase Program:

The *Housing and Economic Recovery Act* (HERA) (Public Law No. 110-289), authorized the Department to enter into the GSE MBS Purchase Program. Under this program, the Department, using private sector asset managers, purchased on the open market a portfolio of mortgage-backed securities issued by the GSEs. 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 asset managers were also authorized to enter into other trade/sell transactions such as pair offs, turns, assignments, and dollar rolls to further support the market under the HERA provisions/mandate. The authority granted by Congress to purchase MBS expired on December 31, 2009 at which point the purchase of new securities ended, though the Department still retains its portfolio of previously purchased securities.

The Department's GSE MBS Purchase Program portfolio consists of mortgage pass-through securities issued by Freddie Mac and Fannie Mae. As of September 30, 2010, the Department held $164,340 million ($173,326 million as of September 30, 2009) in outstanding MBS principal and estimated the net present value of future cash flows on these holdings to be $172,234 million ($184,419 million as of September 30, 2009). The difference between the Department's cost of purchasing the MBS Portfolio and the expected value of repayments to the Department is the negative subsidy allowance.

Community Development Financial Institution (CDFI) Direct Loans:

The Community Development Financial Institutions Fund (the Fund) was created as a bipartisan initiative in the Riegle Community Development and Regulatory Improvement Act of 1994 (Public Law No. 103-325). The 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 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 Program provides financial and technical assistance awards to certified community development financial institutions (CDFIs) which in turn provide services to create community development impact in underserved markets. Some of the financial assistance awards take the form of direct loans.

State and Local Housing Finance Agency (HFA) Initiative (Accounted for Under the FCRA):

Under HERA, the Department, together with the Federal Housing Finance Agency, Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development announced in October 2009 an initiative to provide support to state and local housing finance agencies (HFAs). HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families in all 50 states and many localities across the country. This initiative is 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 closed as part of the HFA Initiative's two separate programs: (1) the Temporary Credit and Liquidity Program (TCLP) and (2) the New Issue Bond Program (NIBP). As part of the TCLP, the Department has entered into participation interests with Fannie Mae and Freddie Mac, supporting credit and liquidity facilities that the GSEs are providing to 11 states as part of the program. As of September 30, 2010, the liquidity facilities cover $7,572 million of single-family and multi-family variable-rate demand obligations. As of September 30, 2010, none of these bonds have been tendered to the GSEs, and the Department accordingly has not disbursed any funds. As part of the NIBP, as of September 30, 2010, the Department held $15,307 million of gross GSEs obligations backed by a combination of mortgage revenue bonds and escrowed funds from over 92 HFAs in 49 states plus the District of Columbia.

	2010			
(in millions)	GSE MBS	CDFI	HFA	TOTAL
Net Credit Program Receivables:				
Credit Program Receivables, Gross	$ 164,340	$ 56	$ 15,307	$ 179,703
Subsidy Cost Allowance	7,894	(15)	(1,186)	6,693
Net Credit Program Receivables	$ 172,234	$ 41	$ 14,121	$ 186,396
New Credit Program and Loan Disbursed	$ 29,878	$ 0	$ 15,308	$ 45,186
Budget Subsidy Rate, excluding Modifications and Reestimates:				
Interest Differential	-3.73%	0.00%	-0.52%	
Defaults	0.00%	0.00%	0.00%	
Other	0.00%	0.00%	0.00%	
Total Budget Subsidy Rate	-3.73%	0.00%	-0.52%	
Subsidy Cost by Component:				
Interest Differential	$ (1,115)	$ 0	$ (79)	$ (1,194)
Total Subsidy Cost, Excluding Modifications and Reestimates	$ (1,115)	$ 0	$ (79)	$ (1,194)
Reconciliation of Subsidy Cost Allowance:				
Balance, 10/1/2009	$ (11,093)	$ 20	$ 0	$ (11,073)
Subsidy Cost for Disbursements	(1,115)	0	(79)	(1,194)
Subsidy Cost for Modifications	0	0	(20)	(20)
Subsidy Allowance Amortized	3,831	(1)	(537)	3,293
Balance, 9/30/2010, Before Reestimates	(8,377)	19	(636)	(8,994)
Subsidy Reestimates	483	(4)	1,822	2,301
Balance, 9/30/2010	$ (7,894)	$ 15	$ 1,186	$ (6,693)
Reestimates:				
Interest Rate Reestimate	$ (157)	$ 0	$ 847	$ 690
Technical/Default Reestimate	640	(4)	975	1611
Total Reestimates – (Decrease) in Subsidy Cost	$ 483	$ (4)	$ 1,822	$ 2,301

	GSE MBS	CDFI	HFA	TOTAL
Reconciliation of Subsidy Costs:				
Subsidy Cost for Disbursements	$ (1,115)	$ 0	$ (79)	$ (1,194)
Subsidy Cost for Modifications	0	0	(20)	(20)
Subsidy Reestimates	483	(4)	1,822	2,301
Total Credit Program Receivables Subsidy Costs	$ (632)	$ (4)	$ 1,723	$ 1,087
Administrative Expense	$ 6	$ 0	$ 0	$ 6

	2009			
(in millions)	GSE MBS	CDFI	HFA	TOTAL
Credit Program Receivables, Gross	$ 173,326	$ 61	$ 0	$ 173,387
Subsidy Cost Allowance	11,093	(20)	0	11,073
Net Credit Program Receivables	**$ 184,419**	**$ 41**	**$ 0**	**$ 184,460**
New Credit Program and Loan Disbursed	**$ 192,263**	**$ 0**	**$ 0**	**$ 192,263**
Budget Subsidy Rate, Excluding Modifications and Reestimates:				
Interest Differential	-2.61%	0.00%	0.00%	
Defaults	0.25%	0.00%	0.00%	
Other	0.00%	0.00%	0.00%	
Total Budget Subsidy Rate	**-2.36%**	**0.00%**	**0.00%**	
Subsidy Cost by Component:				
Interest Differential	$ (4,977)	$ 0	$ 0	$ (4,977)
Defaults	477	0	0	477
Other	0	0	0	0
Total Subsidy Cost, Excluding Modifications and Reestimates	**$ (4,500)**	**$ 0**	**$ 0**	**$ (4,500)**
Reconciliation of Subsidy Cost Allowance:				
Balance, 10/1/2008	$ (74)	$ 20	$ 0	$ (54)
Subsidy Cost for Disbursements	(4,500)	0	0	(4,500)
Subsidy Cost for Modifications	0	0	0	0
Subsidy Allowance Amortization	1,873	0	0	1,873
Balance, 9/30/2009, Before Reestimates	(2,701)	20	0	(2,681)
Subsidy Reestimates	(8,392)	0	0	(8,392)
Balance, 9/30/2009	**$ (11,093)**	**$ 20**	**$ 0**	**$ (11,073)**

	GSE MBS	CDFI	HFA	TOTAL
Reestimates				
Interest Rate Reestimate	$ 0	$ 0	$ 0	$ 0
Technical/Default Reestimate	(8,392)	0	0	(8,392)
Total Reestimates – (Decreased) in Subsidy Cost	**$ (8,392)**	**$ 0**	**$ 0**	**$ (8,392)**
Reconciliation of Subsidy Costs:				
Subsidy Cost for Disbursements	$ (4,500)	$ 0	$ 0	$ (4,500)
Subsidy Cost for Modifications	0	0	0	0
Subsidy Reestimates	(8,392)	0	0	(8,392)
Total Credit Program Receivables Subsidy Costs	**$ (12,892)**	**$ 0**	**$ 0**	**$ (12,892)**
Administrative Expense	**$ 12**	**$ 0**	**$ 0**	**$ 12**

13. Loans and Interest Receivable

Non-Entity Non-Federal

As of September 30, 2010 and September 30, 2009, loans and interest receivable from non-federal entities consisted of the following (in millions):

	2010 Total	2009 Total
Direct Loans	$ 123	$ 125
Interest Receivable	1	2
Total Non-Federal Loans and Related Interest Receivable	**$ 124**	**$ 127**

Loans and Interest Receivable amounts include certain loans and credits issued by the United States to various foreign governments and other entities. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, other entities, and the U.S. Government has not waived or renounced its rights with respect to any of them. The loans are due and payable in U.S. denominations.

14. 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 SDRs, which are international reserve currency 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 one quarter of 1 percent of the U.S. quota is held in cash in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, 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 can be drawn at any time for balance of payments 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, 2010, the U.S. quota in the IMF was 37,149 million SDRs, valued at approximately $58,327 million. (The quota as of September 30, 2009, was 37,149 million SDRs, valued at approximately $66,569 million.) The quota consisted of the following (in millions):

	2010	2009
Letter of Credit /1	$ 45,245	$ 53,056
U.S. Dollars Held in Cash by the IMF /1	144	44
Reserve Position /2	12,938	13,469
U.S. Quota in the IMF	**$ 58,327**	**$ 66,569**

1/ This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations – Obligations/ Undelivered orders.
2/ This amount is included in the Cumulative Results of Operations.

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. Such adjustments do not involve a flow of funds. At April 30, 2010, the annual settlement with the IMF resulting from 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 on the Statement of Changes in Net Position. At April 30, 2009, the appreciation of the dollar against the SDR since April 30, 2008, called for a downward adjustment of the U.S. quota by $4,308 million and a corresponding increase to Unexpended Appropriations. The dollar balances shown above for the U.S. quota includes accrued valuation adjustments. On September 30, 2010, the Department recorded a net deferred valuation loss in the amount of $168 million for deferred maintenance of value adjustments needed at year end ($498 million gain at September 30, 2009).

The United States earns "remuneration" (interest) on its reserve position in the IMF except for the portion of the reserve position 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. Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines to pay the remuneration. There was no deduction in the remuneration paid by the IMF as a result of burden-sharing during fiscal years 2010 or 2009. For fiscal years 2010 and 2009, the Department received $23 million and $40 million as remuneration, respectively. (See Note 6).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in fiscal year 2010 and fiscal year 2009. The dollar equivalent of SDR $6,712 million has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2010 and September 30, 2009, this amounted to $10,445 million and $10,634 million, respectively, in standing appropriations available for lending through the GAB or NAB, as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

Refer to Note 31 for a description of NAB commitment related to IMF for a description of the new portion of quota shares and NAB subject to FCRA.

15. Tax, Other, and Related Interest Receivables, Net

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. In addition to amounts attributed to taxes, interest income due on monies deposited in Federal Reserve Banks is also included in this line item.

As of September 30, 2010 and September 30, 2009, Tax, Other, and Related Interest Receivables, and Net, consisted of the following (in millions):

NON-ENTITY:	2010	2009
IRS Federal Tax Receivable, Gross	$ 138,111	$ 128,115
Less: Allowance on Taxes Receivable	(103,091)	(99,027)
Receivable, Deposit of Earnings, Federal Reserve Banks	1,910	1,254
Other Receivables and Interest	25	33
Less: Allowance on Other and Related Interest Receivable	(24)	(15)
Total Tax, and Other Non-Entity Receivables, Net	**36,931**	**30,360**
ENTITY:		
Miscellaneous Entity Receivables and Related Interest	45	48
Total Tax, Other, and Related Interest Receivables, Net	**$ 36,976**	**$ 30,408**

IRS federal taxes receivable constitute the largest portion of the receivables. 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. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. 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. The Department does not establish an allowance for the receivable on deposits of Federal Reserve Bank earnings.

16. Inventory and Related Property, Net

The Department's operating materials and supplies are maintained for the production of bureau products. The Department maintains inventory accounts or balances (e.g., paper, metals, etc.) for use in manufacturing currency and coin. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained. As of September 30, 2010 and September 30, 2009, inventory and related property consisted of the following (in millions):

	2010	2009
Operating materials and supplies held for use	$ 17	$ 17
Operating materials and supplies held in reserve for future use	25	24
Forfeited property	69	62
Inventory – raw materials	299	239
Inventory – work in process	158	128
Inventory – finished goods	139	142
Allowance for inventories and related property	(10)	(14)
Total Inventories and Related Property, Net	**$ 697**	**$ 598**

17. Property, Plant, and Equipment, Net

As of September 30, 2010 and September 30, 2009, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2010 Net Book 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	0	15
Land and land improvements	N/A	N/A	13	0	13
Internal use software	S/L	2 -10 years	1,510	(1,003)	507
Internal use software in development	N/A	N/A	102	0	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**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2009 Net Book Value
Buildings, structures, and facilities	S/L	3 - 50 years	$ 676	$ (308)	$ 368
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,048	(2,268)	780
Construction in progress	N/A	N/A	38	0	38
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2-10 years	1,352	(807)	545
Internal use software in development	N/A	N/A	112	0	112
Assets under capital lease	S/L	2 - 25 years	25	(23)	2
Leasehold improvements	S/L	2 - 25 years	482	(303)	179
Total			**$ 5,745**	**$ (3,709)**	**$ 2,036**

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 housing the United States Mint in Denver, San Francisco, and West Point are also considered multi-use heritage assets. Multi-use heritage assets are recognized and presented with general property, plant and, equipment in the balance sheet.

18. Non-Entity Assets

Non-entity assets are those that are held by the Department but are not available for use by the Department. For example non-entity Fund Balance with Treasury represents unused balances of appropriations received by various Treasury's entities to conduct custodial operations such as the payment of interest on the federal debt and refunds of taxes and fees. Non-entity loans and interest receivable represents loans managed by the Department on behalf of the U.S. Government. These loans are provided to federal agencies, and the Department is responsible for collecting these loans and transferring the proceeds to the General Fund of the U.S. Government. 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. 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.

As of September 30, 2010 and September 30, 2009, non-entity assets consisted of the following (in millions):

	2010	2009
Intra-governmental Assets:		
Fund Balance (Note 2)	$ 542	$ 513
Loans and Interest Receivable (Note 3)	493,389	348,800
Accounts Receivable and Related Interest (Note 5)	350	285
Advances to the Unemployment Trust Fund (Note 1)	34,111	7,981
Due from the General Fund (Note 4)	13,655,637	11,992,719
Total Non-Entity Intra-governmental Assets	**14,184,029**	**12,350,298**
Cash, Foreign Currency, and Other Monetary Assets (Note 6)	304,244	269,579
Gold and Silver Reserves (Note 7)	11,062	11,062
Loans and Interest Receivable (Note 13)	124	127
Investments in GSEs (Note 9)	109,216	64,679
Tax, Other, and Related Interest Receivable, Net (Note 15)	36,931	30,360
Beneficial Interest in AIG Trust	20,805	23,472
Miscellaneous Assets	5	3
Total Non-Entity Assets	**14,666,416**	**12,749,580**
Total Entity Assets	**932,841**	**1,097,021**
Total Assets	**$ 15,599,257**	**$ 13,846,601**

19. 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 managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

The federal debt as of September 30, 2010 and September 30, 2009 was as follows (in millions):

Intra-governmental	2010	2009
Beginning Balance	$ 4,319,892	$ 4,179,570
New Borrowings/Repayments	181,136	140,322
Subtotal at Par Value	**4,501,028**	**4,319,892**
Premium/(Discount)	38,228	33,779
Interest Payable Covered by Budgetary Resources	48,546	49,409
Total	**$ 4,587,802**	**$ 4,403,080**

Owed to the Public	2010	2009
Beginning Balance	$ 7,551,862	$ 5,808,691
New Borrowings/Repayments	1,470,946	1,743,171
Subtotal at Par Value	**9,022,808**	**7,551,862**
Premium/(Discount)	(33,870)	(33,906)
Interest Payable Covered by Budgetary Resources	46,991	41,349
Total	**$ 9,035,929**	**$ 7,559,305**

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 entities, 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 is non-marketable securities issued at par value, but some are issued at market prices and interest rates that reflect market terms. The average interest rate for debt held by the federal entities, excluding TIPS, for fiscal year 2010 was 4.3 percent (4.6 percent in fiscal year 2009). The average interest rate on TIPS for fiscal year 2010 was 1.9 percent (2.0 percent in fiscal year 2009). The average interest rate represents the original issue weighted effective yield on securities outstanding at year end.

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, at par value (not including interest receivable), owed to federal agencies as of September 30, 2010 and September 30, 2009 was as follows (in millions):

	2010	2009
Social Security Administration	$ 2,586,333	$ 2,504,248
Office of Personnel Management	866,090	828,952
Department of Defense Agencies	433,203	375,519
Department of Health and Human Services	355,554	376,512
All Other Federal Agencies - Consolidated	259,848	234,661
Total Federal Debt Held by Other Federal Agencies	**$ 4,501,028**	**$ 4,319,892**

The above balances do not include premium/discount and interest payable.

Federal Debt Held by the Public

As of September 30, 2010 and September 30, 2009, Federal Debt held by the Public consisted of the following (in millions):

(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 Securities (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

(at par value)	Term	Average Interest Rates	2009
Marketable:			
Treasury Bills	1 Year or Less	0.3%	$ 1,986,174
Treasury Notes	2 - 10 Years	3.0%	3,772,964
Treasury Bonds	Over 10 Years	6.5%	677,491
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	2.1%	551,308
Total Marketable			6,987,937
Non-Marketable	On Demand to Over 10 Years	3.7%	563,925
Total Federal Debt Held by the Public			$ 7,551,862

The above balances do not include premium/discount and interest payable.

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 2 to 10 years and Treasury bonds are issued with a term of more than 10 years. The Department also issues Treasury Inflation-Protected Securities (TIPS) that have interest and redemption payments, which are 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 September 30, 2010 and September 30, 2009. The TIPS Federal Debt Held by the Public inflation-adjusted principal balance includes inflation of $57,481 million and $57,552 million as of September 30, 2010 and 2009, respectively.

Debt held by the public primarily represents the amount the Federal Government has borrowed to finance cumulative cash deficits. During fiscal year 2010, the Department implemented several important components as a debt management strategy, which affected the mix of outstanding Treasury securities. Treasury bills decreased by $202,000 million; whereas, Treasury notes and bonds increased by $1,480,000 million and $169,000 million, respectively, in fiscal year 2010. As of September 30, 2010 and 2009, gross debt held by the public totaled $9,023,000 million and $7,552,000 million, respectively an increase of $1,471,000 million. This increase was primarily the result of borrowings needed to finance the government's fiscal year 2010 deficit. However, as a result of most of the increase in outstanding gross debt held by the public being in the form of longer term securities, the total dollar amount of activity for both borrowings and repayments of debt held by the public decreased for fiscal year 2010.

Federal Debt Held by the Public includes federal debt held outside of the U. S. Government by individuals, corporations, Federal Reserve Banks (FRB), state and local governments, foreign governments, and central banks. As of September 30, 2010, the FRB had total holdings of $813,550 million, including a net of $1,880 million in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2009, the FRB had total holdings of $769,144 million, excluding a very small net amount in Treasury securities lent by the FRB to dealers. These securities are held in the FRB System Open Market Account (SOMA) for the purpose of conducting monetary policy.

20. Other Debt and Interest Payable

Borrowings outstanding and related accrued interest are with the Civil Service Retirement and Disability Fund (CSR&DF), which is administered by the Office of Personnel Management (OPM). At September 30, 2010 and September 30, 2009, FFB had borrowings and related accrued interest of $10,358 millions and $12,060 million, respectively. These borrowings have stated interest rates ranging from 4.63 percent to 5.25 percent, an effective interest rate of 4.13 percent, and with maturity dates range from June 30, 2011 to June 30, 2019.

21. 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 retirement plans. The Act was intended to relieve the District of Columbia 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 of the U.S. Government 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 Department is also responsible for other smaller pension plans administered by the Office of Thrift Supervision and Office of the Comptroller of the Currency. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

Effective in fiscal year 2010 FASAB issued SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which requires disclosure of the components of the expense associated with federal employee pension, ORB, and OPEB liabilities in the notes to the financial statement. SFFAS 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities.

As of September 30, 2010, pension expense actuarial liabilities consisted of the following (in millions):

PENSION EXPENSE ACTUARIAL LIABILITIES - BY FUND

For the Year Ended September 30, 2010

	D.C. Federal Pension Fund	Judicial Retirement Fund	2010 Total
Beginning Liability Balance	$ 8,892	$ 157	$ 9,049
Pension Expense:			
Normal Cost	0	4	4
Interest on Pension Liability During the Year	391	8	399
Actuarial (Gains) Losses During the Year:			
From Experience	(60)	(2)	(62)
From Discount Rate Assumption Change	1,845	34	1,879
From Other Assumption Changes	(991)	(8)	(999)
Prior Service Costs	0	0	0
Total Pension Expense	1,185	36	1,221
Less Amounts Paid	(519)	(8)	(527)
Ending Liability Balance	**$ 9,558**	**$ 185**	**$ 9,743**

ADDITIONAL INFORMATION

	DC Federal Pension Fund	Judicial Retirement Fund	2010 Total
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%	

	DC Federal Pension Fund	Judicial Retirement Fund	2009 Total
Actuarial Liability	$ 8,893	$ 156	$ 9,049
Unobligated Budgetary Resources	(3,558)	(122)	(3,680)
Unfunded Liability	**$ 5,335**	**$ 34**	**$ 5,369**
Amount Received from the General Fund	$ 400	$ 7	$ 407
Annual Rate of Investment Return Assumption	4.5% - 6.0%	5.2% - 6.0%	
Future Annual Rate of Inflation and Cost-of-Living Adjustment	3.5%	3.5%	
Future Annual Rate of Salary Increases:			
Police Officers & Firefighters	3.5% - 6.5%	N/A	
Teachers	3.5% - 5.5%	N/A	
Judicial	N/A	3.5%	

22. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2010 and September 30, 2009, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2010	2009
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt Principal, Premium/Discount (Note 19)	$ 4,539,256	$ 4,353,671
Other Intra-governmental Liabilities	123	105
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	**4,539,379**	**4,353,776**
Federal Debt Principal, Premium/Discount (Note 19)	8,988,938	7,517,956
Gold and Silver Reserves held by the U.S. Mint	10,494	10,494
Pensions and Other Actuarial Liability (Note 21)	6,016	5,369
Liabilities to GSEs (Note 9)	359,900	91,937
Other Liabilities	1,990	1,057
Total Liabilities Not Covered by Budgetary and Other Resources	**13,906,717**	**11,980,589**
Total Liabilities Covered by Budgetary and Other Resources	**1,591,444**	**1,437,956**
Total Liabilities	**$ 15,498,161**	**$ 13,418,545**

Other Liabilities

Total "Other Liabilities" displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources.

Other liabilities at September 30, 2010 and September 30, 2009 consisted of the following (in millions):

	2010		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 46	$ 57	$ 103
Accounts Payable	59	0	59
Accrued Interest Payable	0	0	0
Other Accrued Liabilities	203	1	204
Total Intra-governmental	**$ 308**	**$ 58**	**$ 366**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 0	$ 553	$ 553
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	724	0	724
Accrued Funded Payroll and Benefits	533	0	533
Capital Lease Liabilities	0	0	0
Accounts Payable and Other Accrued Liabilities	2,607	53	2,660
Total with the Public	**$ 3,864**	**$ 606**	**$ 4,470**

	2009		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 46	$ 57	$ 103
Accounts Payable	61	0	61
Accrued Interest Payable	(3)	0	(3)
Other Accrued Liabilities	263	1	264
Total Intra-governmental	**367**	**58**	**425**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 0	$ 533	$ 533
Liability for Deposit Funds (Held by the Federal Government for Others) and Suspense Accounts	71	0	71
Accrued Funded Payroll and Benefits	488	0	488
Capital Lease Liabilities	1	0	1
Accounts Payable and Other Accrued Liabilities	2,194	44	2,238
Total with the Public	**$ 2,754**	**$ 577**	**$ 3,331**

23. 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 workers compensation, (c) credit reform cost reestimates, and (d) expenses for contingent liabilities.

The amount reported as "appropriations received" are appropriated from the Treasury General Fund of the U.S. Government 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 Statement of Budgetary Resources (SBR) 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 SBR, 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 Statement of Federal Financial Accounting Standards (SFFAS No. 7).

Transfers to the General Fund and Other

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statements of Changes in Net Position under "Other Financing Sources" includes the following as of September 30, 2010 and September 30, 2009 (in millions):

Categories of Transfers to the General Fund and Other:	2010	2009
Downward Reestimates of Credit Reform Subsidies	$ 35,906	$ 125,359
Increase in Liquidity Preference of GSEs Preferred Stock, GSEs PS Dividends and Valuation Changes (Note 9)	56,678	61,983
Interest Revenue/Distribution of Income	35,993	30,124
Other	368	238
TOTAL	**$ 128,945**	**$ 217,704**

The credit reform downward reestimate subsidies are transferred to the General Fund due to a change in forecasts of future cash flows (See Notes 8 and 12). Also included in "Transfers to the General Fund and Other" are the GSEs Senior Preferred Stock investments and related dividends as well as the annual valuation adjustment to those investments (See Note 9). In addition, these transfers also include distribution of interest revenue to the General Fund of the U.S. Government 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 Statement of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

The Department also includes seigniorage in "Transfers to the General Fund and Other." Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. Government. The distribution is also included in "Transfers to the General Fund and Other." In any given year, the amount recognized as seigniorage may differ for the amount distributed to the General Fund by an insignificant amount due to timing differences.

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-Organizations

The Department's Consolidated Statement of Net Cost displays 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 (Departmental Offices and each operating bureau). In addition, a separate supporting schedule for fiscal year 2010 provides net cost information for the significant programs within the Departmental Offices.

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 Government*" 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 Treasury-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 cost

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 4, Managerial Cost Accounting Standards and Concepts*, the Department recognizes identified cost paid for the Department by other agencies as 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. Cost paid by other agencies on behalf of the Department were $1,008 million and $793 million for the years ended September 30, 2010 and September 30, 2009, respectively.

Statement of Net Cost

OMB Circular No. A-136, *Financial Reporting Requirements*, as amended, requires that the presentation of the 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 2008 - 2013 Strategic Plan. The majority of Treasury bureaus' and reporting entities' net cost information falls within one strategic goal in the Statement 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 earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

FASAB issued SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, which requires gains and losses from changes in long-term assumptions used to estimate federal employee pensions, ORB and OPEB liabilities to be displayed on the Statement of Net Cost separately from other costs.

The Department's SNC also presents 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 for the years ended September 30, 2010 and September 30, 2009 consisted of the following (in millions):

	2010	2009
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ 8,192	$ 6,534
Resolution Funding Corporation	2,276	2,120
Judgment Claims and Contract Disputes	1,119	2,305
Corporation for Public Broadcasting	506	461
Legal Services Corporation	418	388
All Other Payments	242	323
Total	**$ 12,753**	**$ 12,131**

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices*	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 120	$ 1,712	$ 0	$ 189	$ 4,577	$ 0
Less: Earned Revenue	0	(21)	(2,234)	0	(168)	(68)	0
Intra-governmental Net Costs	0	99	(522)	0	21	4,509	0
Gross Costs with the public	0	221	459	0	1,185	9,323	0
Less: Earned Revenue	0	(6)	(1)	0	0	(386)	0
Net Costs with the public	0	215	458	0	1,185	8,937	0
Net Cost: Financial Program	**0**	**314**	**(64)**	**0**	**1,206**	**13,446**	**0**
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	90	0	12,727	0	0	0	75
Less: Earned Revenue	(4)	0	(2,260)	0	0	0	(11)
Intra-governmental Net Costs	86	0	10,467	0	0	0	64
Gross Costs with the public	515	0	308,859	0	0	0	3,451
Less: Earned Revenue	(627)	0	(11,698)	0	0	0	(3,566)
Net Costs with the public	(112)	0	297,161	0	0	0	(115)
Net Cost: Economic Program	**(26)**	**0**	**307,628**	**0**	**0**	**0**	**(51)**
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	141	71	0	0	0
Less: Earned Revenue	0	0	(19)	(3)	0	0	0
Intra-governmental Net Costs	0	0	122	68	0	0	0
Gross Costs with the public	0	0	156	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	156	57	0	0	0
Net Cost: Security Program	**0**	**0**	**278**	**125**	**0**	**0**	**0**
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	65	160	0	0	0	0
Less: Earned Revenue	0	(180)	(206)	0	0	0	0
Intra-governmental Net Costs	0	(115)	(46)	0	0	0	0
Gross Costs with the public	0	102	337	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	102	337	0	0	0	0
Net Cost: Management Program	**0**	**(13)**	**291**	**0**	**0**	**0**	**0**
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	0	0	818	0	0	0	0
Net Cost of Operations	**$ (26)**	**$ 301**	**$ 308,951**	**$ 125**	**$ 1,206**	**$ 13,446**	**$ (51)**

* Additional information by DO components are provided on subsequent page

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations & Adjustments	9/30/2010 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 15	$ 6,613	$ (1,985)	$ 4,628
Less: Earned Revenue	0	0	0	(2,491)	276	(2,215)
Intra-governmental Net Costs	0	0	15	4,122	(1,709)	2,413
Gross Costs with the public	0	0	38	11,226	0	11,226
Less: Earned Revenue	0	0	(3)	(396)	0	(396)
Net Costs with the public	0	0	35	10,830	0	10,830
Net Cost: Financial Program	**0**	**0**	**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)	0	(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	0	313,742
Less: Earned Revenue	(766)	(220)	0	(16,877)	0	(16,877)
Net Costs with the public	(90)	(18)	39	296,865	0	296,865
Net Cost: Economic Program	**0**	**11**	**54**	**307,616**	**(10,382)**	**297,234**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	212	(81)	131
Less: Earned Revenue	0	0	0	(22)	18	(4)
Intra-governmental Net Costs	0	0	0	190	(63)	127
Gross Costs with the public	0	0	0	213	0	213
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	213	0	213
Net Cost: Security Program	**0**	**0**	**0**	**403**	**(63)**	**340**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	225	(82)	143
Less: Earned Revenue	0	0	0	(386)	330	(56)
Intra-governmental Net Costs	0	0	0	(161)	248	87
Gross Costs with the public	0	0	0	439	0	439
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	439	0	439
Net Cost: Management Program	**0**	**0**	**0**	**278**	**248**	**526**
Total Program Cost Before Assumption Changes	0	11	104	323,249	(11,906)	311,343
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	2	0	0	820	0	820
Net Cost of Operations	**$ 2**	**$ 11**	**$ 104**	**$ 324,069**	**$ (11,906)**	**$ 312,163**

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2009 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM:							
Intra-governmental Gross Costs	$ 0	$ 111	$ 1,440	$ 0	$ 184	$ 4,145	$ 0
Less: Earned Revenue	0	(22)	(1,948)	0	(167)	(55)	0
Intra-governmental Net Costs	0	89	(508)	0	17	4,090	0
Gross Costs with the public	0	221	829	0	1,153	8,725	0
Less: Earned Revenue	0	(8)	(1)	0	0	(313)	0
Net Costs with the public	0	213	828	0	1,153	8,412	0
Net Cost: Financial Program	0	302	320	0	1,170	12,502	0
ECONOMIC PROGRAM:							
Intra-governmental Gross Costs	83	0	12,151	0	0	0	73
Less: Earned Revenue	(3)	0	(6,146)	0	0	0	(10)
Intra-governmental Net Costs	80	0	6,005	0	0	0	63
Gross Costs with the public	392	0	206,456	0	0	0	2,380
Less: Earned Revenue	(481)	0	(10,824)	0	0	0	(2,456)
Net Costs with the public	(89)	0	195,632	0	0	0	(76)
Net Cost: Economic Program	(9)	0	201,637	0	0	0	(13)
SECURITY PROGRAM:							
Intra-governmental Gross Costs	0	0	121	68	0	0	0
Less: Earned Revenue	0	0	(16)	(1)	0	0	0
Intra-governmental Net Costs	0	0	105	67	0	0	0
Gross Costs with the public	0	0	147	55	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	147	55	0	0	0
Net Cost: Security Program	0	0	252	122	0	0	0
MANAGEMENT PROGRAM:							
Intra-governmental Gross Costs	0	56	145	0	0	0	0
Less: Earned Revenue	0	(159)	(222)	0	0	0	0
Intra-governmental Net Costs	0	(103)	(77)	0	0	0	0
Gross Costs with the public	0	104	329	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	104	329	0	0	0	0
Net Cost: Management Program	0	1	252	0	0	0	0
Total Program Cost Before Assumption Changes	(9)	303	202,461	122	1,170	12,502	(13)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	0	0	0	0	0	0	0
Net Cost of Operations	$ (9)	$ 303	$ 202,461	$ 122	$ 1,170	$ 12,502	$ (13)

24. Consolidated Statement of Net Cost and Net Costs of Treasury Sub-organizations (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2009 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations & Adjustments	9/30/2009 Consolidated
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 14	$ 5,894	$ (1,548)	$ 4,346
Less: Earned Revenue	0	0	0	(2,192)	258	(1,934)
Intra-governmental Net Costs	0	0	14	3,702	(1,290)	2,412
Gross Costs with the public	0	0	39	10,967	0	10,967
Less: Earned Revenue	0	0	(2)	(324)	0	(324)
Net Costs with the public	0	0	37	10,643	0	10,643
Net Cost: Financial Program	**0**	**0**	**51**	**14,345**	**(1,290)**	**13,055**
ECONOMIC PROGRAM:						
Intra-governmental Gross Costs	100	37	13	12,457	(12,066)	391
Less: Earned Revenue	(22)	(11)	0	(6,192)	6,166	(26)
Intra-governmental Net Costs	78	26	13	6,265	(5,900)	365
Gross Costs with the public	632	202	37	210,099	0	210,099
Less: Earned Revenue	(752)	(245)	(0)	(14,758)	(1)	(14,759)
Net Costs with the public	(120)	(43)	37	195,341	(1)	195,340
Net Cost: Economic Program	**(42)**	**(17)**	**50**	**201,606**	**(5,901)**	**195,705**
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	189	(66)	123
Less: Earned Revenue	0	0	0	(17)	14	(3)
Intra-governmental Net Costs	0	0	0	172	(52)	120
Gross Costs with the public	0	0	0	202	0	202
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	202	0	202
Net Cost: Security Program	**0**	**0**	**0**	**374**	**(52)**	**322**
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	201	(65)	136
Less: Earned Revenue	0	0	0	(381)	321	(60)
Intra-governmental Net Costs	0	0	0	(180)	256	76
Gross Costs with the public	0	0	0	433	0	433
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	433	0	433
Net Cost: Management Program	**0**	**0**	**0**	**253**	**256**	**509**
Total Program Cost Before Assumption Changes	(42)	(17)	101	216,578	(6,987)	209,591
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	0	0	0	0	0	0
Net Cost of Operations	**$ (42)**	**$ (17)**	**$ 101**	**$ 216,578**	**$ (6,987)**	**$ 209,591**

24. Consolidated Statement of Net Cost and Net Costs of Departmental Offices Accounts (in millions):

FOR YEAR ENDED SEPTEMBER 30, 2010 Program Costs:	Exchange Stabilization Fund	Government Sponsored Enterprises	Office of International Affairs	Office of Financial Stability	All Others	DO Combined Total
FINANCIAL PROGRAM:						
Intra-governmental Gross Costs	$ -	$ -	$ -	$ -	$ 1,712	$ 1,712
Less: Earned Revenue	0	0			(2,234)	(2,234)
Intra-governmental Net Costs	0	0	0	0	(522)	(522)
Gross Costs with the public	0	0			459	459
Less: Earned Revenue	0	0			(1)	(1)
Net Costs with the public	0	0	0	0	458	458
Net Cost: Financial Program	0	0	0	0	(64)	(64)
ECONOMIC PROGRAM:					0	
Intra-governmental Gross Costs	0	6,666	47	5,957	57	12,727
Less: Earned Revenue	(19)	(1,035)		(1,173)	(33)	(2,260)
Intra-governmental Net Costs	(19)	5,631	47	4,784	24	10,467
Gross Costs with the public	1,476	321,679	2,348	(23,176)	6,532	308,859
Less: Earned Revenue	(1,373)	(5,631)		(4,691)	(3)	(11,698)
Net Costs with the public	103	316,048	2,348	(27,867)	6,529	297,161
Net Cost: Economic Program	84	321,679	2,395	(23,083)	6,553	307,628
SECURITY PROGRAM:						
Intra-governmental Gross Costs	0	0	0	0	141	141
Less: Earned Revenue	0	0	0	0	(19)	(19)
Intra-governmental Net Costs	0	0	0	0	122	122
Gross Costs with the public	0	0	0	0	156	156
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	0	156	156
Net Cost: Security Program	0	0	0	0	278	278
MANAGEMENT PROGRAM:						
Intra-governmental Gross Costs	0	0	0	0	160	160
Less: Earned Revenue	0	0	0	0	(206)	(206)
Intra-governmental Net Costs	0	0	0	0	(46)	(46)
Gross Costs with the public	0	0	0	0	337	337
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	0	337	337
Net Cost: Management Program	0	0	0	0	291	291
Total Program Cost Before Assumption Changes	84	321,679	2,395	(23,083)	7,058	308,133
(Gains)/Losses on Pension, ORB, or OPEB Assumption	0	0	0	0	818	818
Net Cost of Operations	$ 84	$ 321,679	$ 2,395	$ (23,083)	$ 7,876	$ 308,951

25. 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, 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, 2010 and September 30, 2009 is as follows (in millions):

Undelivered Orders

	2010	2009
Undelivered orders:		
Paid	$ 126	$ 171
Unpaid	169,305	185,641
Undelivered orders at the end of the year	$ 169,431	$ 185,812
Contributed Capital	$ 20	$ 40

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. Category A represents resources apportioned for calendar quarters. 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:	2010	2009
Direct - Category A	$ 2,849	$ 14,715
Direct - Category B	330,068	977,506
Direct - Exempt from Apportionment	481,785	390,305
Total Direct	814,702	1,382,526
Reimbursable - Category A	11	1
Reimbursable - Category B	4,883	3,386
Reimbursable - Exempt from Apportionment	1,242	1,282
Total Reimbursable	6,136	4,669
Total Direct and Reimbursable Obligations Incurred	$ 820,838	$ 1,387,195

Terms of Borrowing Authority Used

Several Department's programs have authority to borrow under the *Federal Credit Reform Act of 1990* (FCRA), as amended. The FFB and IAP also have borrowing authority. 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 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 Treasury 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 the last day of the fiscal year, on September 30, 2010. Interest rates on FCRA borrowings range from 0.08 percent to 9.38 percent.

Available Borrowing, End of Year:

	2010	2009
Beginning Balance	$ 51,510	$ 29,810
Current Authority	151,473	548,734
Decreases	(19,274)	(107,475)
Borrowing Authority Withdrawn	(37,982)	0
Borrowing Authority Converted to Cash	(122,250)	(419,559)
Ending Balance	**$ 23,477**	**$ 51,510**

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 2010, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2011, and can be located at the OMB website *http://www.whitehouse.gov/omb*. It 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 2009 *Agency Financial Report* and the actual fiscal year 2009 balances included in the fiscal year 2011 President's Budget (PB).

RECONCILIATION OF FISCAL YEAR 2009 COMBINED STATEMENT OF BUDGETARY RESOURCES TO THE FISCAL YEAR 2011 PRESIDENT'S BUDGET (IN MILLIONS)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	$ 1,835,034	$ 966,779	$ (44,614)	$ 922,165	$ 1,387,195
Included in the Treasury Department Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	82,378	82,378	(5)	82,373	82,378
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	473	473	0	473	473
Non-Treasury offsetting receipts included in Treasury chapter of PB	0	0	(40)	(40)	0
Treasury offsetting receipts considered to be "General Fund" transactions for reporting purposes (2)	0	0	128	128	0
Continued dumping subsidy – CBP	217	226	0	226	226
SIG for TARP Appropriations not recorded	35	0	0	0	0
Other	21	0	3	3	1
Subtotal	**83,124**	**83,077**	**86**	**83,163**	**83,078**
Included in the SBR but not in the Treasury Department chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(38,760)	(3,281)	0	(3,281)	(4,423)
Offsetting collections net of collections shown in PB	(8,013)	0	59	59	(1)
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR	0	0	531	531	0
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(201,406)	0	0	0	(73)
Exchange Stabilization Fund resources not shown in PB (4)	(34,317)	0	0	0	(64)
Treasury Financing Accounts (CDFI, OFS and GSEs)	(694,656)	(300,862)	0	(300,862)	(652,828)
Enacted reduction, 50% Transfer Accounts, and Capital Transfers to General Fund not included in PB	(17)	0	0	0	0
Other	(5)	0	0	0	0
Subtotal	**(977,174)**	**(304,143)**	**590**	**(303,553)**	**(657,389)**
Trust Fund – Comptroller of the Currency (OCC) (5)	(71)	71	0	71	0
President's Budget Amounts*	**$ 940,913**	**$ 745,784**	**$ (43,938)**	**$ 701,846**	**$ 812,884**

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. Exchange Stabilization Fund (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.

* Per the President's Budget for fiscal year 2011 – 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

Beginning 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 allows 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 (See Note1 AD for Change in Accounting Policy).

In order to facilitate this change in accounting, an adjustment for $14,135 million to the SBR line, *Unobligated balances, brought forward, October 1, 2009* was required. This adjustment primarily included additions of prior year accumulated FCDA investment balances now permitted by Office of Management and Budget to be reported on the SBR through the use of the new USSGL. These budgetary adjustments have no impact on ESF proprietary account balances in fiscal year 2010 or previous years.

In order to maintain appropriate budgetary relationships on the SBR between Budgetary Resources, Status of Budgetary Resources, and Relationship of Obligations to Outlays, an adjustment corresponding to the FCDA investment balance of net $14,135 million was made to *Obligations Incurred, Unpaid Obligations Brought Forward*, and *Obligations Incurred, net*.

26. 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, 2010 and September 30, 2009 (in millions):

	Tax Year				2010
	2010	2009	2008	Pre-2008	Collections
Individual Income and FICA Taxes	$ 1,315,876	$ 635,920	$ 20,182	$ 16,782	$ 1,988,760
Corporate Income Taxes	55,035	221,235	716	951	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	0	0	245
Tax Related Cash Revenue Received	**1,431,515**	**886,405**	**21,915**	**28,995**	**2,368,830**
Federal Reserve Earnings	56,582	19,263	0	0	75,845
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	1,613	22	0	0	1,635
Non-Tax Related Cash Revenue Received	**58,195**	**19,285**	**0**	**0**	**77,480**
Total Cash Revenue Received	**1,489,710**	**905,690**	**21,915**	**28,995**	**2,446,310**
Less Amounts Collected for Non-Federal Entities					(387)
Total					**$ 2,445,923**

	Tax Year				2009
	2009	2008	2007	Pre-2007	Collections
Individual Income and FICA Taxes	$ 1,296,427	$ 702,557	$22,250	$15,323	$ 2,036,557
Corporate Income Taxes	138,144	69,016	1,692	16,630	225,482
Estate and Gift Taxes	92	3,979	796	19,810	24,677
Excise Taxes	54,502	12,512	102	132	67,248
Railroad Retirement Taxes	3,559	1,148	3	1	4,711
Unemployment Taxes	4,772	1,859	36	98	6,765
Fines, Penalties, Interest & Other Revenue - Tax Related	516	0	0	0	516
Tax Related Cash Revenue Received	**1,498,012**	**791,071**	**24,879**	**51,994**	**2,365,956**
Federal Reserve Earnings	24,552	9,766	0		34,318
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	1,376	37	0	0	1,413
Non-Tax Related Cash Revenue Received	**25,928**	**9,803**	**0**	**0**	**35,731**
Total Cash Revenue Received	**1,523,940**	**800,874**	**24,879**	**51,994**	**2,401,687**
Less Amounts Collected for Non-Federal Entities					(487)
Total					**$ 2,401,200**

Amounts reported for Corporate Income Taxes collected in fiscal year 2010 include corporate taxes of $13,179 million for tax year 2011 (similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2009 include corporate taxes of $9,000 million for tax year 2010).

Amounts Provided to Fund the Federal Government

For the years ended September 30, 2010 and September 30, 2009, collections of custodial revenue transferred to other entities were as follows (in millions):

	2010	2009
Department of the Interior	$ 361	$ 453
General Fund	1,975,625	1,962,775
Total	**$ 1,975,986**	**$ 1,963,228**

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the years ended September 30, 2010 and September 30, 2009 (in millions):

	Tax Year				
	2010	2009	2008	Pre-2008	2010 Refunds
Individual Income and FICA Taxes	$ 113,577	$ 179,159	$ 48,846	$ 29,724	$ 371,306
Corporate Income Taxes	2,630	15,913	16,414	61,229	96,186
Estate and Gift Taxes	0	209	439	277	925
Excise Taxes	429	611	171	215	1,426
Railroad Retirement Taxes	0	1	0	0	1
Unemployment Taxes	1	56	13	23	93
Total	**$ 116,637**	**$ 195,949**	**$ 65,883**	**$ 91,468**	**$ 469,937**

	Tax Year				
	2009	2008	2007	Pre-2007	2009 Refunds
Individual Income and FICA Taxes	$ 1,075	$ 293,971	$ 30,361	$ 14,222	$ 339,629
Corporate Income Taxes	6,626	32,646	17,370	38,558	95,200
Estate and Gift Taxes	0	324	566	358	1,248
Excise Taxes	535	541	81	626	1,783
Railroad Retirement Taxes	0	2	0	1	3
Unemployment Taxes	1	66	13	29	109
Total	**$ 8,237**	**$ 327,550**	**$ 48,391**	**$ 53,794**	**$ 437,972**

Federal Tax Refunds Payable

As of September 30, 2010 and September 30, 2009, refunds payable to taxpayers consisted of the following (in millions):

	2010	2009
Alcohol, Tobacco Tax and Trade Bureau	$ 13	$ 9
Internal Revenue Service	4,133	4,031
Total	**$ 4,146**	**$ 4,040**

27. 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 DCP. In addition, several Department bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are BEP, U.S. Mint, OCC, and OTS. Other miscellaneous earmarked funds are managed by BPD, DO, FMS, IRS, and TFF.

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

Exchange Stabilization Fund (ESF)

ESF	20X4274	ESF Money Market Guaranty Facility
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 Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund
IRS	20X4413	Federal Tax Lien Revolving Fund

Other Earmarked Funds

BPD	20X5080	Gifts to Reduce Public Debt
DO	20X5407	Sallie Mae Assessments
DO	20X5590	Financial Research Fund
DO	20X5816	Confiscated and Vested Iraqi Property and Assets
DO	20X8790	Gifts and Bequests Trust Fund
FMD	205445	Debt Collection
FMD	20X5081	Presidential Election Campaign
FMD	20X8902	Esther Cattell Schmitt Gift Fund
FMS	204/55445	Debt Collection Special Fund
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
IRS	20X5510	Private Collection Agency Program
IRR	20X5433	Informant Reimbursement
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase or sell foreign currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and the Department's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDRs in the IMF, Investments in U.S. Securities (BPD), and

Investments in Foreign Currency Assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency assets represent inflows of resources to the government, and the revenues earned are the result of intra-governmental inflows.

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 21 provides detailed information on various funds managed by the Office of DCP.

The Department's four non-appropriated bureaus, Mint, BEP, OCC, and OTS, operate "public enterprise funds" that account for the revenue and expenses related to the production and sale of numismatic products and circulating coinage (Mint), the currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC § 5142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. Public Law 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 coins, and the sale of circulating coins to the Federal Reserve Bank system. 12 USC § 481 established the Assessment Funds for OCC, and 12 U.S.C. § 1467 governs the collection and use of assessments and other funds by OTS. Revenue and financing sources are from the bank examination 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, statutory laws, 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 Federal 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. The funds are invested in securities issued by the Department's Bureau of the Public Debt (BPD). The cash collected by BPD is deposited in the General Fund of the U.S. Government, 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 of the U.S. Government 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 expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to the Department bureaus and other federal agencies and a liability of the BPD. The General Fund of the U.S. Government 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 of the U.S. Government 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 Year ended September 30, 2010 (in millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations	9/30/2010 Total
ASSETS							
Fund Balance	$ 0	$ 7	$ 490	$ 362	$ 859	$ 0	$ 859
Investments and Related Interest - Intra-governmental	20,436	3,980	1,398	1,385	27,199	27,199	0
Cash, Foreign Currency and Other Monetary Assets	70,878	0	0	12	70,890	0	70,890
Investments and Related Interest	12,616	0	0	0	12,616	0	12,616
Other Assets	0	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	0	0	38	260	298	55	243
Certificates Issued to Federal Reserve Banks	5,200	0	0	0	5,200	0	5,200
Allocation of Special Drawing Rights	54,958	0	0	0	54,958	0	54,958
Other Liabilities	27	9,797	628	455	10,907	0	10,907
Total Liabilities	**60,185**	**9,797**	**666**	**715**	**71,363**	**55**	**71,308**
Net Position							
Unexpended Appropriations-Earmarked Funds	200	0	0	0	200	0	200
Cumulative Results of Operations-Earmarked Funds	43,545	(5,805)	2,528	1,158	41,426	0	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)	$ 0	$ (6,745)	$ (177)	$ (6,568)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	$ 0	$ 818	$ 2	$ 0	$ 820	$ 0	$ 820
Total Net Cost of Operations	**$ 84**	**$ 1,107**	**$ (64)**	**$ 229**	**$ 1,356**	**$ (97)**	**$ 1,453**
Statement of Changes in Net Position							
Cumulative Results of Operations:							
Beginning Balance, as Adjusted	$ 43,647	$ (5,225)	$ 2,465	$ 766	$ 41,653	$ 0	$ 41,653
Budgetary Financing Sources	(18)	527	(13)	384	880	(12)	892
Other Financing Sources	0	0	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)
Change in Net Position	(102)	(580)	63	392	(227)	47	(274)
Ending Balance	**$ 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.

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2009 (in millions):

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	9/30/2009 Total
ASSETS							
Fund Balance	$ 0	$ 0	$ 573	$ 312	$ 885	$ 0	$ 885
Investments and Related Interest - Intra-governmental	19,816	3,866	1,346	707	25,735	25,735	0
Cash, Foreign Currency and Other Monetary Assets	71,662	0	0	18	71,680	0	71,680
Investments and Related Interest	13,537	0	0	0	13,537	0	13,537
Other Assets	0	13	1,207	104	1,324	10	1,314
Total Assets	**$ 105,015**	**$ 3,879**	**$ 3,126**	**$ 1,141**	**$ 113,161**	**$ 25,745**	**$ 87,416**
LIABILITIES							
Intra-governmental Liabilities	$ 0	$ 0	$ 37	$ 194	$ 231	$ 28	$ 203
Certificates Issued to Federal Reserve Banks	5,200	0	0	0	5,200	0	5,200
Allocation of Special Drawing Rights	55,953	0	0	0	55,953	0	55,953
Other Liabilities	16	9,104	623	181	9,924	0	9,924
Total Liabilities	61,169	9,104	660	375	71,308	28	71,280
Net Position							
Unexpended Appropriations-Earmarked Funds	200	0	0	0	200	0	200
Cumulative Results of Operations-Earmarked Funds	43,646	(5,225)	2,466	766	41,653	0	41,653
Total Liabilities and Net Position	**$ 105,015**	**$ 3,879**	**$ 3,126**	**$ 1,141**	**$ 113,161**	**$ 28**	**$ 113,133**
Statement of Net Cost							
Gross Cost	$ 1,117	$ 785	$ 3,899	$ 214	$ 6,015	$ 60	$ 5,955
Less: Earned Revenue	(4,951)	(134)	(3,981)	0	(9,066)	(187)	(8,879)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Total Net Cost of Operations	**$ (3,834)**	**$ 651**	**$ (82)**	**$ 214**	**$ (3,051)**	**$ (127)**	**$ (2,924)**
Cumulative Results of Operations:							
Beginning Balance, as Adjusted	$ 39,618	$ (4,982)	$ 2,350	$ 575	$ 37,561	$ 0	$ 37,561
Budgetary Financing Sources	194	408	0	345	947	1	946
Other Financing Sources	0	0	34	60	94	(27)	121
Total Financing Sources	194	408	34	405	1,041	(26)	1,067
Net Cost of Operations	3,834	(651)	82	(214)	3,051	127	2,924
Net Changes	4,028	(243)	116	191	4,092	101	3,991
Total Cumulative Results of Operations	**$ 43,646**	**$ (5,225)**	**$ 2,466**	**$ 766**	**$ 41,653**	**$ 101**	**$ 41,552**

* 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.

28. 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. For fiscal years 2010 and 2009, OMB did not prescribe a format for this reconciliation in OMB Circular No. A-136, *Financial Reporting Requirements*, as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2010 and September 30, 2009, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2010	2009
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 820,838	$ 1,387,195
Less: Spending Authority from Offsetting Collections and Recoveries	(251,553)	(321,262)
Obligations Net of Offsetting Collections and Recoveries	569,285	1,065,933
Less: Offsetting Receipts	(178,909)	(44,614)
Net Obligations	**390,376**	**1,021,319**
Other Resources:		
Donations and Forfeiture of Property	319	127
Financing Sources for Accrued Interest and Discount on the Debt	11,086	6,027
Transfers In/Out Without Reimbursement	(42)	(36)
Imputed Financing from Cost Absorbed by Others	1,008	793
Transfers to the General Fund and Other (Note 23)	(128,945)	(217,704)
Net Other Resources Used to Finance Activities	(116,574)	(210,793)
Total Resources Used to Finance Activities	**273,802**	**810,526**
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	20,955	49,063
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(40,146)	(6)
Adjustment to Accrued Interest and Discount on the Debt	12,011	8,687
Other (Primarily offset to offsetting receipts)	(98,559)	320,755
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(105,739)	378,499
Total Resources Used to Finance the Net Cost of Operations	**379,541**	**432,027**
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	307,422	87,673
Total Components of Net Cost of Operations that will not Require or Generate Resources	(28,122)	3,232
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**279,300**	**90,905**
Net Cost of Operations	**$ 658,841**	**$ 522,932**

29. Financial Stability and Stimulus Activities

Government Sponsored Enterprises (GSEs)

The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are stockholder-owned GSEs. Congress established these GSEs to increase the supply of mortgage loans and to reduce the accompanying costs. Starting in early fiscal year 2008, increasingly difficult conditions in the housing market challenged the soundness and profitability of GSEs, thereby undermining the entire housing market. Several actions have been taken by the Department that are intended to provide financial stability to the GSEs (Note 9 and 12 disclosures further describes these actions).

Temporary Guarantee Program Money Market Funds

In September 2008, the Department established a Temporary Guarantee Program for Money Market Funds. Under this Program, the Department guaranteed to investors that they would receive the stable share price (SSP) for shares held in participating money market funds up to the number of shares held as of the close of business on September 19, 2008. To participate in the Program, eligible money market funds had to submit an application and pay a premium of 1 basis point if the fund's net asset value (NAV) is greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV is less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP.

Under this program, any outlays would have been paid out initially from the ESF, and then under the provisions of Section 131 of the Emergency Economic Stabilization Act of 2008. Such outlays would then be reimbursed from funds available under the Troubled Asset Relief Program. The temporary guarantee program was extended and continued to provide coverage through September 19, 2009 to shareholders up to amounts that they held in participating money market funds as of the close of business on September 19, 2008. As of September 30, 2009, the program had expired. The Department did not receive any claims for payment. As of September 30, 2009, the Department had collected a total of approximately $1,200 million in program participation payments. All participant payments are invested into U.S. Government securities.

Home Ownership Preservation Entity (HOPE Bond)

The Home Ownership Preservation Entity (HOPE) Fund for Homeowners Act of 2008, of the Housing and Recovery Act of 2008, authorizes the Secretary of the Treasury to issue HOPE bonds without any limitations as to the purchaser of the issuance. Due to the cost of issuing special purpose bonds to the public, the Secretary of the Treasury has decided to issue the HOPE bonds to the Federal Financing Bank (FFB). The total outstanding HOPE bonds may not exceed $300,000 million. The FFB's purchase of HOPE bonds issued by the Secretary is consistent with the core mission of the FFB. FFB purchased $0.577 million and $462.5 million in bonds at par value in fiscal year 2010 and 2009, respectively, with a floating interest rate to be reset quarterly. The interest rate is 0.153 percent and 0.183 percent as of September 30, 2010 and September 30, 2009, respectively. The bonds have 30 year maturity dates starting on August 27, 2038 and ending on July 16, 2040. The HOPE bonds are reported as investments held-to-maturity and the related interest receivable is reported as accrued interest receivable in FFB's stand-alone financial statements. The HOPE bond transactions are subsequently eliminated at the Departmental level.

Troubled Asset Relief Program (TARP)

The Emergency Economic Stabilization Act of 2008 (EESA) established the Troubled Asset Relief Program (TARP) on October 3, 2008 to be administered by the Department and established the Office of Financial Stability within the Department's Office of Domestic Finance. The Act gave the Treasury Secretary broad and flexible authority to purchase and insure mortgages and other troubled assets, as well as to inject capital into banks and other commercial companies by taking equity positions in those entities, if needed, to stabilize the financial markets. The actions taken by TARP are intended to promote market stability and protect the U.S. economy and are disclosed further in Note 8.

Small Business Lending Initiatives

On September 27, 2010, the Small Business Jobs and Credit Act of 2010 (Public law 111-240) was enacted to create the Small Business Lending Fund Program to direct the Secretary of the Treasury to make capital investments in eligible institutions in order to increase the availability of credit for small businesses, to amend the Internal Revenue Code of 1986 to provide tax incentives for small business job creation, and for other purposes.

Two small business lending initiatives were created:

Small Business Lending Fund (SBLF)

The primary purposes of the $30,000 million SBLF is to support lending among small and medium sized banks (with assets under $10,000 million). The new lending fund is an initiative to invest in smaller banks under terms that provide strong incentives to increase lending to small businesses. As participating banks increase lending to small firms compared to 2009 levels, the dividend paid to Treasury on that capital investment would be reduced.

As of September 30, 2010, no disbursements were made under the SBLF program.

State Small Business Credit Initiative (SSBCI)

A $1,500 million initiative that allocates funds to participating states to establish or maintain approved state small business programs that include capital access programs. The initiative provides portfolio insurance for business loans and provides for contributions to be made by the state to the reserve fund in amounts at least equal to the sum of the amount of the insurance premium charges paid by the borrower and the financial institution to the reserve fund for any newly enrolled loan.

As of September 30, 2010 no disbursements were made under the SSBCI program.

Establishment of the Consumer Financial Protection Bureau

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (CFPB) within the Federal Reserve System. The CFPB is charged with protecting consumers against deceptive and unscrupulous practices and ensuring that consumers have the information they need to choose consumer financial products and services that best meet their needs. The CFPB will implement rules for consumer financial products and services, develop supervision programs to regularly examine the most critical bank and nonbank financial services providers, and develop programs to promote greater financial literacy of consumers. Funding for the CFPB is to be provided by the Board of Governors of the Federal Reserve System.

The Department is working to start up the CFPB by defining the organizational structure, establishing program and administrative support offices, and recruiting staff. In 2010, CFPB entered into a reimbursable agreement with the Department to provide services before the designated transfer date of July 21, 2011.

American International Group (AIG)

As described in Note 8, in fiscal year 2009 the Department ultimately invested $41,600 million in Series E perpetual, non-cumulative 10 percent preferred shares of AIG through the AIG Investment Program. The Department also received warrants for the purchase of approximately 2.7 million shares of AIG common stock. And, to further assist the stability and restructuring of AIG, the Department agreed to make an additional $29,800 million available to AIG under the Department's credit facility. In return, the Department received $29,800 million of AIG series F perpetual, non-cumulative 10 percent preferred stock (300,000 shares). The initial liquidation preference of the Series F preferred shares was zero and increases pro rata by the amount of each drawdown by AIG. As of September 30, 2010 and September 30, 2009, AIG had drawn a cumulative $7,544 million and $3,206 million through the credit facility, leaving an outstanding commitment to AIG of $22,256 million and $26,594 million, respectively.

Under the initial terms of the credit facility agreement with AIG and the Federal Reserve Bank of New York (FRBNY), 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 common stock) was issued to a trust established by the FRBNY. Subsequent to the initial agreement, a reverse stock split of AIG's common stock increased this to 79.8 percent. The U.S. Government is the sole beneficiary of that trust, so that when the stock is ultimately liquidated the proceeds will be deposited into the General Fund of the U.S. Government. The U.S. Government will be the ultimate recipient of any dividends on the stock and any proceeds from the liquidation of the stock. The accounting and reporting for any activities related to the government's beneficial interest in the stock held by the trust is done by the Department. The trustees of the trust are independent of both the Department and the FRBNY, and are not involved in day-to-day management of AIG.

As the U.S. Government is the sole beneficiary of the trust, and as it is anticipated that the U.S. Government will ultimately realize an economic benefit from its beneficial interest in the trust, the Department recorded a non-entity asset of $23,472 million as of September 30, 2009, and corresponding custodial revenue for the same amount. The value recorded was based on the market value of the trust's AIG holdings at September 30, 2009; as the underlying AIG common stock is actively traded on the New York Stock Exchange, this represents the best independent valuation available for the government's beneficial interest. As of September 30, 2010, the underlying market value of the trust's AIG holdings had declined by approximately $2,666 million. The carrying value of the beneficial interest in the trust was reduced by this amount, and a corresponding expense recorded on the Statement of Custodial Activity.

Under the terms of the existing trust agreement, the U.S. Government's proceeds will be received when AIG's credit line with the FRBNY is terminated, AIG has redeemed the preferred stock owned by the Department through TARP, and the trustees sell the stock held by the trust. The Department will re-value its beneficial interest in the trust each year until the trust is liquidated. Like any asset, future events may increase or decrease the value of the U.S. Government's interest in the trust.

The Department's participation in enhancing AIG's capital and liquidity in order to facilitate an orderly restructuring of the company are in addition to the FRBNY activities in this regard.

As noted in Note 8, on September 30, 2010, the Department, the FRBNY, and AIG announced plans for a restructuring of the Federal Government's investments in AIG. The AIG Recapitalization agreement is intended to convert the trust's preferred stock into common stock that will be transferred to the Department, as custodian for the U.S. Government, in the second quarter of fiscal year 2011. Under this agreement, it is anticipated that the Department would sell its shares in the open market over time. This planned conversion of the trust's preferred stock into common stock, in conjunction with the conversion of TARP's AIG preferred stock into AIG common stock, would reduce the trust's common stock ownership percentage from 79.8 percent to approximately 31 percent, with the TARP holding approximately 61 percent of AIG's common stock. Actual execution of the recapitalization agreement is contingent on numerous material conditions being satisfied prior to the closing of the agreement. If the closing does not occur on or prior to March 15, 2011, any of AIG, the FRBNY, or the Department may terminate the agreement.

The American Recovery and Reinvestment Act of 2009 (Recovery Act)

The President of the United States signed the Recovery Act into law on February 17, 2009. The Recovery Act is an extraordinary response to a crisis unlike any since the Great Depression, and includes measures to modernize the nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. By providing targeted investments and implementing tax provisions to benefit both businesses and individuals, the Department of the Treasury continued to stimulate the U.S. economy, create and sustain jobs, and build the foundation for long-term economic growth.

The Department has various responsibilities related to Recovery Act programs, including the implementation of some 60 tax incentives for households and businesses; local and state government support; and investments in renewable energy, low-income housing, and health care. The Department's work on these programs continued in fiscal year 2010. From the beginning, the Department has taken a risk-based approach and focused on balancing the requirements of speed, quality, and accountability to ensure the timely, accurate, and transparent distribution of Recovery Act funds. To achieve these objectives, Treasury established a Recovery Act implementation team housed within the purview of the Assistance Secretary for Management and Chief Financial Officer responsible for working with the program offices across the Department. The Recovery Act team facilitates all Recovery Act implementation department-wide and interfaces with the broader Recovery Act community. As part of this broad responsibility, the team establishes internal processes; addresses external data requirements; manages risk inherent in Recovery Act implementation, in conjunction with the DCFO's Treasury Recovery Act Risk Management Council; and coordinates the Department's Recovery Act audits.

The Department administers nine Recovery Act programs:

- Community Development Financial Institutions (CDFI) Program
- Native American CDFI Assistance Program
- New Markets Tax Credit Program
- Economic Recovery Act Payments
- Tax Provision Implementation Program
- Cash Assistance in Lieu of Tax Credits to States for Low-Income Housing Projects
- Cash Assistance in Lieu of Tax Credits for Specified Energy Property
- Health Insurance Tax Credit Administration Program
- Tax Provision Oversight Program

The Qualified Therapeutic Discovery Project (QTDP) Program

The Qualified Therapeutic Discovery Project (QTDP) program, created in Section 9023 of the *Affordable Care Act* (ACA), provides tax credits, or grants in lieu of credits, to small firms that demonstrate potential to produce new and cost-saving therapies, support job creation, and increase U.S. competitiveness in the healthcare field. The credit covers up to 50 percent of the cost of qualifying biomedical research, with a maximum of $5 million per firm and $1 billion overall. It is available only to firms with no more than 250 employees and only for investments made in 2009 and 2010. Qualifying firms must have current taxable income. Additionally, firms may opt to receive a grant in lieu of the tax credit.

30. Schedule of Fiduciary Activity

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

Bureau	Fund Code	Authority	Fund Title
BEP	20X6513.013	31 USC 5119	Mutilated Currency Claims Funds
BPD	20X6008	31 USC 3513	Payment Prin. & Interest Govt. Agencies
FMD	20X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
FMD	20X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Check
FMD	2015X6078	50 APP. USC 2012	War Claims FD, FCSC
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
IRR	20X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRR	20X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRR	20X6740	31 USC 3515	Coverover Withholdings-Guam
IRR	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
OTS	20X6501.76	31 USC 3513	Small Escrow Amounts

Unclaimed monies were authorized by 31 U.S.C. 5119, which authorized Financial Management Service, Department of the Treasury, 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)

	2010			2009		
	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	$ 390	$ 208	$ 598	$ 366	$ 43	$ 409
Increases						
Contributions to Fiduciary Net Assets	103	1,004	1,107	28	1,063	1,091
Investment earnings	0	1	1	0	1	1
Total Increases	103	1,005	1,108	28	1,064	1,092
Decreases						
Disbursements to and on behalf of beneficiaries	(73)	(1,057)	(1,130)	(4)	(899)	(903)
Total Decreases	(73)	(1,057)	(1,130)	(4)	(899)	(903)
Net Increase (Decrease) in fiduciary assets	30	(52)	(22)	24	165	189
Fiduciary Net Assets, End of Year	$ 420	$ 156	$ 576	$ 390	$ 208	$ 598

SCHEDULE OF FIDUCIARY NET ASSETS (in millions)

	Unclaimed Monies-FMD	All Other Fiduciary Funds	2010 Total Fiduciary Funds	Unclaimed Monies-FMD	All Other Fiduciary Funds	2009 Total Fiduciary Funds
Fiduciary Assets						
Cash and cash equivalents	$ 420	$ 57	$ 477	$ 390	$ 193	$ 583
Investments	0	99	99	0	15	15
Total Fiduciary Assets	$ 420	$ 156	$ 576	$ 390	$ 208	$ 598

31. 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 has one contingent liability in fiscal year 2010 related to legal action taken in the case *American Council of the Blind and Others* where losses are determined to be probable and amount of loss cannot be estimated. 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 financial statements, except for the pending legal actions described below which may have a materially adverse impact on the financial statements depending on the outcomes of the cases.

Pending Legal Actions

- *American Council of the Blind and Others, et. al. v. Paulson:* 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 United States 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 United States 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, 2010 and September 30, 2009.

  The Court of Appeals in the above mentioned case ordered the parties to confer and attempt to negotiate attorney fees and costs to be awarded the plaintiffs. In December 2008, the parties filed a joint stipulation agreeing to the payment of $672,675 in attorney fees and costs that was paid from the Judgment Fund in February 2009.

  On May 20, 2010, the Bureau of Engraving and Printing 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. The BEP is currently evaluating the comments received and is considering various options to comply with the court's order.

- *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 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. The transaction confirmation received by the complainant from Pay.gov 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.

- *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 on appeal in July 2009. The Appellate Court found that the government owes a cost-effective accounting, in scale with available funds.

  On December 8, 2009, a settlement was announced between the parties related to the claims raised in this lawsuit, as well as other claims for the mismanagement of assets and land. The settlement is contingent on the passage of new legislation to authorize the settlement terms and court approval. If the court approves the settlement after notice to the class, the government will pay $1.4 billion from the Judgment Fund to settle the claims for an historical accounting and for mismanagement of assets and land. The Government will also make available an additional sum of $2.0 billion from the Judgment Fund to purchase numerous small interests in land from Native Americans, as well as for other purposes. It has not been determined which federal agency will be assigned responsibility for the payment through the Judgment Fund. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time. The case was appealed to the U.S. Supreme Court however, the appeal was denied in June 2010. Legislation authorizing settlement is pending in Congress.

  Tribal Trust Fund Cases: Numerous cases have been filed in U.S. District Courts in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the United States Court of Federal Claims which do not name the Department as a defendant. The Government is currently in the early stages of a 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.

  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.

There are other legal actions pending for which the possibility of loss could not be determined, and where the ultimate resolution of the legal action may materially affect the Department's financial position or results. As of September 30, 2010, one legal claim existed for which the possibility of loss could not be determined.

Other Commitments and Contingencies

Treaties and International Agreements

The Department does not have any treaties or international agreements to report for fiscal year 2010.

Multilateral Development Banks (MDB)

The Department has subscribed to capital for certain MDB, 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 Department's commitment for these subscriptions. As of September 30, 2010 and September 30, 2009, U.S. callable capital in MDB was as follows (in millions):

	2010	2009
African Development Bank	$ 1,634	$ 1,634
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,805
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	24,251	22,641
Multilateral Investment Guarantee Agency	301	301
North American Development Bank	1,275	1,275
Total	**$ 63,864**	**$ 62,254**

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA or the Act) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The Act 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 is activated upon the certification of an "act of terrorism" by the Secretary of the Department 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. The Act also gives the Treasury Department authority to recoup federal payments made under the Program through policyholder surcharges under certain circumstances and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism.

The original TRIA program was to expire on December 31, 2005, but the Program was extended through December 31, 2007 by the *Terrorism Risk Insurance Extension Act of 2005* (Extension Act). This law included the following significant changes: it reduced the federal role in terrorism risk insurance markets by increasing insurer deductibles and excluding certain types of previously covered insurance. The Extension Act also reduced the U.S. Government's share of insured losses and added a "Program Trigger" provision which precludes federal payments unless insured losses from a certified act of terrorism exceed $ 100 million.

On December 26, 2007, the *Terrorism Risk Insurance Program Reauthorization Act of 2007* (Reauthorization Act) was enacted extending the Program through December 31, 2014. The Reauthorization Act, among other Program changes, revised the definition of "Act of Terrorism" to remove the certification requirement that the act be committed by an individual acting on behalf of a foreign

person or foreign interest; revised the provisions of the Act with regard to the cap on annual liability for insured losses of $100 billion; and established deadlines by which recoupment of federal payments made under the Program would have to be accomplished.

In September 2008, the Department issued two notices of proposed rulemaking with requests for comment. One proposed rule incorporated and clarified statutory requirements of the Reauthorization Act for capping the annual liability for insured losses at $100 billion. The proposed rule described how the Department will determine the pro rata share of insured losses to be paid by each insurer that incurs losses under the Program when insured losses would otherwise exceed the cap and how the Federal share of compensation will be calculated. The Department issued a final rule on December 14, 2009.

The other proposed rule set forth the requirements for recoupment of the Federal share of compensation for insured losses. The rule described how the Department will determine the amounts to be recouped and the requirements for insurers to collect, report, and remit surcharges to the Department. The Department issued a final rule on December 14, 2009. There were no claims under TRIA as of September 30, 2010, or September 30, 2009.

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 Program Year. The Department expects to issue a final rule incorporating public comments early in fiscal year 2011.

Exchange Stabilization Agreement (ESA)

In April 1994, Treasury signed the North American Framework Agreement (NAFA), which includes the ESA with Mexico. The Department has a standing swap line for $3 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, 2010 and September 30, 2009. On December 10, 2008, the Department renewed its participation in the agreement until December 2010.

New Arrangements to Borrow (NAB)

Public Law 111-32 also provided the authorization and appropriations for an increase in the United States participation in the NAB by the dollar equivalent of SDR 75,000 million which at the SDR/dollar exchange rate applicable on September 30, 2010 is equivalent to $116,714 million. However, this increase in the United States participation in the NAB is not effective as of September 30, 2010 and will not come into effect until all IMF member countries participating in the NAB submit notification of their consent to modifications to the decision governing the NAB and to their new SDR commitments to the NAB. Although $119,000 million was appropriated under Public Law 111-32, the United States publicly stated that it would limit its commitment to $100,000 million and agreed to a final commitment – which has not yet come into effect - of SDR 69,074.27 million (from SDR 6,639.83 million) on May 10, 2010 pursuant to IMF Executive Board Decision No. 14577-(10/35) adopted April 12, 2010. As with the quota increase, the new portion of the NAB will be subject to the FCRA and treated as a direct loan. Similarly, this will not affect the treatment of the reserve position in the IMF, only the budget presentation.

Contingent Liability to Government Sponsored Enterprises

The Department has recorded a contingent liability at September 30, 2010 of $359,900 million ($76,937 million at September 30, 2009) to the Government Sponsored Enterprises, Fannie Mae and Freddie Mac, based on probable future liability under the Senior Preferred Stock Purchase Agreement between the Department and the GSEs. Refer to Note 9 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 $27,587 million 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. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $19,603 million and by appeals is $7,984 million.

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 as discussed in Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the U.S. Government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2010 and September 30, 2009, were as follows (in millions):

	2010	2009
Total Unpaid Assessments	$ 330,000	$ 308,000
Less: Compliance Assessments	(93,000)	(75,000)
Write Offs	(99,000)	(105,000)
Gross Federal Taxes Receivable	**138,000**	**128,000**
Less: Allowance for Doubtful Accounts	(103,091)	(99,000)
Federal Taxes Receivables, Net	**$ 34,909**	**$ 29,000**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $2,850 million, 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.

Internal Revenue Service (IRS)

The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment, as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

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 Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

Alcohol and Tobacco Tax and Trade Bureau (TTB)

As an agent of the Federal Government and as authorized by 26 U.S.C., the Alcohol and Tobacco Tax and Trade Bureau (TTB) collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain tobacco businesses. During fiscal year 2010, TTB collected nearly $23,800 million in taxes, interest, and other revenues. 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 U.S.C. 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 of the U.S. Government. 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 year 2010 and 2009, 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 2010. In addition, a new table provides the fiscal year 2010 SBR by significant programs within the Departmental Offices.

Fiscal Year 2010 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in millions)

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service
BUDGETARY RESOURCES						
Unobligated balance, brought forward, Oct. 1	$ 46	$ 91	$ 454,924	$ 25	$ 274	$ 876
Recoveries of prior year unpaid obligations	0	9	42,191	1	24	90
Budget authority:						
Appropriations (Note 23)	0	512,067	19,468	111	24,818	12,443
Borrowing authority:	0	0	151,473	0	0	0
Spending Authority from Offsetting Collections:						
Earned:						
Collected	632	213	208,575	4	236	136
Change in receivables from Federal sources	0	(5)	4	3	(3)	23
Change in unfilled customer orders:						
Advance received	(3)	0	(45)	0	0	0
Without advance from Federal sources	0	(4)	(5,105)	3	(5)	1
Anticipated for rest of year, w/o advances	0	0	0	0	0	0
Subtotal	629	512,271	374,370	121	25,046	12,603
Non-expenditure transfers, net	0	(4)	394	0	(29)	0
Temporarily not available pursuant to Public Law	0	(5)	(137)	0	0	0
Permanently not available	0	(97,800)	(130,177)	0	(8,620)	(152)
Total Budgetary Resources	**$ 675**	**$ 414,562**	**$ 741,565**	**$ 147**	**$ 16,695**	**$ 13,417**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	0	414,266	371,565	109	16,185	12,475
Reimbursable	616	201	299	10	223	136
Subtotal	616	414,467	371,864	119	16,408	12,611
Unobligated Balance:						
Apportionment	59	80	287,754	26	273	236
Exempt from apportionment	0	0	12,116	0	2	0
Subtotal	59	80	299,870	26	275	236
Unobligated balance not available	0	15	69,831	2	12	570
Total Status of Budgetary Resources	**$ 675**	**$ 414,562**	**$ 741,565**	**$ 147**	**$ 16,695**	**$ 13,417**
CHANGE IN OBLIGATED BALANCE						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	115	75	184,825	15	339	1,620
Uncollected customer payments from Federal sources brought forward	(29)	(23)	(28,958)	(5)	(37)	(32)
Total unpaid obligated balance, net	86	52	155,867	10	302	1,588
Obligations incurred, net	616	414,467	371,864	119	16,408	12,611
Gross outlays	(614)	(414,457)	(285,223)	(102)	(16,310)	(12,335)
Recoveries of prior year unpaid obligations, actual	0	(9)	(42,191)	(1)	(24)	(90)
Change In uncollected customer payments from Federal source	0	9	5,101	(6)	8	(24)
Obligated balance, net, end of period:						
Unpaid obligations	117	76	229,275	30	413	1,807
Uncollected customer payments Federal sources	(29)	(14)	(23,857)	(10)	(29)	(57)
Total unpaid obligated balance, net, end of period	**$ 88**	**$ 62**	**$ 205,418**	**$ 20**	**$ 384**	**$ 1,750**
NET OUTLAYS						
Net Outlays:						
Gross outlays	614	414,457	285,223	102	16,310	12,335
Offsetting collections	(629)	(213)	(208,530)	(4)	(236)	(136)
Distributed offsetting receipts	0	(36,615)	(141,300)	0	(279)	(715)
Net Outlays	**$ (15)**	**$ 377,629**	**$ (64,607)**	**$ 98**	**$ 15,795**	**$ 11,484**

	U. S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
BUDGETARY RESOURCES						
Unobligated balance, brought forward, Oct. 1	$ 246	$ 793	$ 310	$ 3	$ 415,761	$ 41,827
Recoveries of prior year unpaid obligations	29	0	4	1	2,979	39,370
Budget authority:						
Appropriations (Note 23)	0	0	0	103	569,010	0
Borrowing authority:	0	0	0	0	1	151,472
Spending Authority from Offsetting Collections:						
Earned:						
Collected	3,519	794	234	4	9,401	204,946
Change in receivables from Federal sources	0	0	0	0	22	0
Change in unfilled customer orders:						
Advance received	0	0	(8)	0	(56)	0
Without advance from Federal sources	1	0	0	0	2	(5,111)
Anticipated for rest of year, w/o advances	0	0	0	0	0	0
Subtotal	3,520	794	226	107	578,380	351,307
Non-expenditure transfers, net	0	0	0	0	361	0
Temporarily not available pursuant to Public Law	0	0	0	0	(142)	0
Permanently not available	(13)	0	0	0	(47,341)	(189,421)
Total Budgetary Resources	**$ 3,782**	**$ 1,587**	**$ 540**	**$ 111**	**$ 949,998**	**$ 243,083**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	0	0	0	102	595,438	219,264
Reimbursable	3,671	740	236	4	6,136	0
Subtotal	3,671	740	236	106	601,574	219,264
Unobligated Balance:						
Apportionment	111	0	0	3	267,581	20,961
Exempt from apportionment	0	847	304	0	13,269	0
Subtotal	111	847	304	3	280,850	20,961
Unobligated balance not available	0	0	0	2	67,574	2,858
Total Status of Budgetary Resources	**$ 3,782**	**$ 1,587**	**$ 540**	**$ 111**	**$ 949,998**	**$ 243,083**
CHANGE IN OBLIGATED BALANCE						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	191	177	41	21	108,210	79,209
Uncollected customer payments from Federal sources brought forward	(7)	(3)	0	(2)	(168)	(28,928)
Total unpaid obligated balance, net	184	174	41	19	108,042	50,281
Obligations incurred, net	3,671	740	236	106	601,574	219,264
Gross outlays	(3,604)	(733)	(229)	(103)	(524,098)	(209,612)
Recoveries of prior year unpaid obligations, actual	(29)	0	(4)	(1)	(2,979)	(39,370)
Change In uncollected customer payments from Federal source	(1)	0	0	0	(24)	5,111
Obligated balance, net, end of period:						
Unpaid obligations	229	185	44	22	182,707	49,491
Uncollected customer payments Federal sources	(8)	(4)	0	(1)	(192)	(23,817)
Total unpaid obligated balance, net, end of period	**$ 221**	**$ 181**	**$ 44**	**$ 21**	**$ 182,515**	**$ 25,674**
NET OUTLAYS						
Net Outlays:						
Gross outlays	3,604	733	229	103	524,098	209,612
Offsetting collections	(3,519)	(794)	(226)	(4)	(9,345)	(204,946)
Distributed offsetting receipts	0	0	0	0	(169,303)	(9,606)
Net Outlays	**$ 85**	**$ (61)**	**$ 3**	**$ 99**	**$ 345,450**	**$ (4,940)**

Fiscal Year 2010 Statement of Budgetary Resources Disaggregated by Departmental Offices Accounts (in millions)

	Exchange Stabilization Fund	Government Sponsored Enterprises	Internal Assistance Programs	Office of Financial Stability	All Others	Combined Total
BUDGETARY RESOURCES						
Unobligated balance, brought forward	$ 44,001	$ 337,290	$ 34,303	$ 37,101	$ 2,229	$ 454,924
Recoveries of prior year unpaid obligations	983	6	516	40,537	149	42,191
Budget authority:						
Appropriations (Note 23)	0	0	2,475	5,151	11,842	19,468
Borrowing authority:	0	82,026	0	69,440	7	151,473
Spending Authority from Offsetting Collections:						
Earned:						
Collected	276	48,826	911	156,112	2,450	208,575
Change in receivables from Federal sources	0	0	0	0	4	4
Change in unfilled customer orders:						
Advance received	0	0	0	0	(45)	(45)
Without advance from Federal sources	0	0	0	(5,111)	6	(5,105)
Anticipated for rest of year, w/o advances		0		0	0	0
Subtotal	276	130,852	3,386	225,592	14,264	374,370
Non-expenditure transfers, net	0	29	67	0	298	394
Temporarily not available pursuant to Public Law	0	0	0	0	(137)	(137)
Permanently not available	59,510	(81,440)	0	(107,976)	(271)	(130,177)
Total Budgetary Resources	$ 104,770	$ 386,737	$ 38,272	$ 195,254	$ 16,532	$ 741,565
STATUS OF BUDGETARY RESOURCES						
Obligations incurred (Note 25):						
Direct	$ 61,169	$ 121,658	$ 3,414	$ 173,631	$ 11,693	$ 371,565
Reimbursable	0	0	0	0	299	299
Subtotal	61,169	121,658	3,414	173,631	11,992	371,864
Unobligated Balance:						
Apportionment	0	265,077	12,343	7,834	2,500	287,754
Exempt from apportionment	0	0	11,624	0	492	12,116
Subtotal	0	265,077	23,967	7,834	2,992	299,870
Unobligated balance not available	43,601	2	10,891	13,789	1,548	69,831
Total Status of Budgetary Resources	$ 104,770	$ 386,737	$ 38,272	$ 195,254	$ 16,532	$ 741,565
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS						
Obligated balance, net:						
Unpaid obligations brought forward, Oct. 1	$ 0	$ 6	$ 46,206	$ 135,353	$ 3,260	$ 184,825
Uncollected customer payments from Federal sources brought forward	0	0	0	(28,927)	(31)	(28,958)
Total unpaid obligated balance, net	0	6	46,206	106,426	3,229	155,867
Obligations incurred, net	61,169	121,658	3,414	173,631	11,992	371,864
Gross outlays	0	(114,083)	(3,478)	(157,401)	(10,261)	(285,223)
Recoveries of prior year unpaid obligations, actual	(983)	(6)	(516)	(40,537)	(149)	(42,191)
Change In uncollected customer payments from Federal source	0	0	0	5,111	(10)	5,101
Obligated balance, net, end of period:						
Unpaid obligations	60,186	7,575	45,626	111,046	4,842	229,275
Uncollected customer payments Federal sources	0	0	0	(23,816)	(41)	(23,857)
Total unpaid obligated balance, net, end of period	60,186	7,575	45,626	87,230	4,801	205,418
Net Outlays:						
Gross outlays	$ 0	$ 114,083	$ 3,478	$ 157,401	$ 10,261	$ 285,223
Offsetting collections	(276)	(48,826)	(911)	(156,112)	(2,405)	(208,530)
Distributed offsetting receipts	0	(21,748)	(24)	(118,860)	(668)	(141,300)
Net Outlays	$ (276)	$ 43,509	$ 2,543	$ (117,571)	$ 7,188	$ (64,607)