

# United States Government Notes to the Financial Statements for the Years Ended September 30, 2009, and 2008

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entity

This *Financial Report* includes the financial status and activities of the executive branch, the legislative branch (the U.S. Senate and the U.S. House of Representatives report on a cash basis), and the judicial branch (which also reports on a cash basis) of the Government. The judicial branch reports on a limited basis (primarily budget activity) and is not required by law to submit financial statement information to Treasury. Appendix A of this report contains a list of significant Government entities included and excluded in the *Financial Report*. Certain entities are excluded from the *Financial Report* because they are Government Sponsored Enterprises (GSE), such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), or their activities are not included in the Federal budget, such as the Thrift Savings Fund and the Board of Governors of the Federal Reserve System.

During fiscal year 2008, the Government began a number of additional emergency economic measures relating to the economy that involved various financing programs. Key initiatives effective for fiscal year 2008 involved programs concerning two GSEs, provision of a credit facility for GSE and Federal Home Loan Banks, purchase of Mortgage Backed Securities (MBS), and setup of a Money Market Guarantee Program (see Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization ). The Government increased its investment in the recovery effort in fiscal year 2009. The Emergency Economic Stabilization Act of 2008 (EESA) gave the Secretary of the Treasury temporary authority to purchase and guarantee assets in a wide range of financial institutions and markets (see Note 5—TARP Direct Loans and Equity Investments, Net).

Following Generally Accepted Accounting Principles (GAAP) for Federal entities, the Government has not consolidated into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which Treasury holds either a direct, indirect, or beneficial equity investment. Even though some of the equity investments are significant, under Statement of Federal Financial Accounting Concept (SFFAC) No. 2, these entities meet the criteria of paragraph 50 and do not appear in the Federal budget section “Federal Programs by Agency and Account.” As such, these entities are not consolidated into the financial reports of the Government. However, the values of the investment in such entities are presented on the balance sheet.

Material intragovernmental transactions are eliminated in consolidation, except as described below in this note and in the Supplemental Information—Unmatched Transactions and Balances. The financial reporting period ends September 30 and is the same as used for the annual budget.

### B. Basis of Accounting and Revenue Recognition

These financial statements were prepared using U.S. GAAP, primarily based on Statement of Federal Financial Accounting Standards (SFFAS). Under these principles:

- Expenses are generally recognized when incurred.
- Nonexchange revenues, including taxes, duties, fines, and penalties, are recognized when collected and adjusted to the change in net measurable and legally collectable amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against nonexchange revenue.

- Exchange (earned) revenues are recognized when the Government provides goods and services to the public for a price. Exchange revenues include user charges such as admission to Federal parks and premiums for certain Federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash and obligation basis and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow U.S. GAAP. See the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

Beginning in fiscal year 2009, the Government has implemented the requirements of SFFAS No. 31, Accounting for Fiduciary Activities. This statement requires the Government to distinguish fiduciary activities from all other activities of the Government. For further information related to fiduciary activities, see Note 25—Fiduciary Activities. In addition, fiscal year 2008 financial statements are not allowed to be restated to distinguish fiduciary activities from all other activities of the Government.

## C. Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported based on the present value of the net cashflows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the direct loans and the present value of their net cash inflows is recognized as a subsidy cost allowance. The present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees.

The subsidy expense for direct or guaranteed loans disbursed during a year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal year 1992 are valued under two different methodologies within the Government: the allowance-for-loss method and the present-value method. Under the allowance-for-loss method, the outstanding principal of direct loans is reduced by an allowance for uncollectible amounts; the liability for loan guarantees is the amount the agency estimates would more likely than not require future cash outflow to pay default claims. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cashflows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

## D. Accounts and Taxes Receivable

Accounts receivable represent claims to cash or other assets from entities outside the Government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. Accounts receivable are reported net of an allowance for uncollectible accounts. An allowance is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience and is re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection.

Taxes receivable consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed the amounts are owed or a court has determined the assessments are owed. The Balance Sheets do not include unpaid assessments when neither taxpayers nor a court have agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible. The allowance for doubtful accounts is based on projections of collectibles from a statistical sample of unpaid tax assessments.

## E. TARP Direct Loans and Equity Investments, Net

TARP equity investments are accounted for at fair value which is defined as the estimated amount of proceeds that would be received if the equity investments were sold to a market participant. Consistent with the present value accounting concepts embedded in SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*, TARP Direct Loans and Equity Investments, net disbursed and outstanding are recognized as assets at the net present value of their estimated future cashflows and outstanding asset guarantees are recognized as liabilities or assets at the net present value of their estimated future cashflows. Market risk is considered in the calculation and determination of the estimated net present values.

The subsidy allowance for TARP's Direct Loans and Equity Investments, net, represents the difference between the face value of the outstanding direct loan and equity investment balance and the net present value of the expected future cashflows, and is reported as an adjustment to the face value of the direct loan or equity investment.

The recorded subsidy cost of a direct loan, equity investment or asset guarantee is based on a set of estimated future cashflows.

The Government used the following methodologies for valuation of the TARP Direct Loans and Equity Investments:

The estimated future cashflows for TARP direct loans were derived using analytical models that estimate the cashflows to and from Treasury over the life of the loan. These cashflows include the scheduled principal, interest, and other payments to Treasury, including estimated proceeds from equity interest obtained or additional notes. These models also include estimates of default and recoveries, incorporating the value of any collateral provided by the contract. The probability and timing of default and losses relating to a default are estimated by using applicable historical data when available, or publicly available proxy data, including credit rating agency historical performance data. The models include an adjustment for market risk which is intended to capture the risk of unexpected losses, but are 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.

TARP preferred stock cashflows are projected using an analytical model developed to incorporate the risk of losses associated with adverse events, such as failure of the institution or increases in market interest rates. The model estimates how cashflows vary depending on: (1) current interest rates, which may affect the decision whether to repay the preferred stock; and (2) the strength of a financial institution's assets. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, and historical bank failure information, as well as market prices of comparable securities trading in the market. Treasury estimates the values and projects the cashflows 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 market price. The result of using market prices, either quoted prices for the identical asset or quoted prices for comparable assets, is that the equity investments are recorded at estimated fair value.

## F. Beneficial Interest in Trust

The beneficial interest in trust represents the Government's beneficial interest in the American International Group (AIG) stock held by a trust established by the Federal Reserve Bank of New York (FRBNY), under the terms of a credit facility agreement with AIG and the FRBNY. The value of beneficial interest is based on the market value of the trust's AIG holdings as of the reporting date; 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 (See Note 6—Beneficial Interest in Trust for further details).

## G. Inventories and Related Property

Inventory is tangible personal property that is (1) held for sale, principally to Federal agencies, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. Inventories within the Government are valued using historical cost. However, most of the inventories are held by the Department of Defense (DOD) and its inventory value for most activities is not reported in accordance with GAAP. Historical cost methods include first-in-first-out, weighted average, and moving average.

To a lesser degree, the DOD also uses latest acquisition cost (LAC) methods adjusted for holding gains and losses to approximate the historical cost of resale inventory items remaining in the legacy systems. When using historical cost valuation, estimated repair costs reduce the value of inventory held for repair. Excess, obsolete, and unserviceable inventories are valued at estimated net realizable value. When latest acquisition cost is used to value inventory held for sale, it is adjusted for holding gains and losses in order to approximate historical cost.

Related property includes operating materials and supplies, stockpile materials, commodities, seized and monetary instruments, and forfeited property. Operating materials and supplies are valued at historical cost, latest acquisition cost, and standard price using the purchase and consumption method of accounting. Operating materials and supplies that are valued at latest acquisition cost and standard pricing are not adjusted for holding gains and losses.

## **H. Property, Plant, and Equipment**

Property, plant, and equipment consists of tangible assets including equipment, buildings, construction in progress, internal use software, assets acquired through capital leases, including leasehold improvements, and other assets used to provide goods and services.

Property, plant, and equipment used in Government operations are carried at acquisition cost, with the exception of DOD military equipment (e.g., ships, aircraft, combat vehicles, and weapons). DOD military equipment is valued at estimated historical costs, which are calculated using internal DOD records. DOD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals to create a baseline. The equipment baseline is updated using expenditure information and information related to acquisition and logistics to identify acquisitions and disposals.

All property, plant, and equipment is capitalized if the acquisition costs (or estimated acquisition cost for DOD) are in excess of capitalization thresholds that vary considerably between the Federal entities. Depreciation and amortization expense applies to property, plant, and equipment reported on the balance sheets except for land, unlimited duration land rights and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. All property, plant, and equipment are assigned useful lives depending on their category and vary considerably between the Federal entities. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and is depreciated. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software internally developed.

## **I. Securities and Investments**

Securities and investments are classified as held-to-maturity, available-for-sale, and trading securities and investments. Held-to-maturity securities and investments are reported at amortized cost, net of unamortized premiums and discounts. Available-for-sale securities and investment are reported at fair value with unrealized changes in fair value excluded from revenue. Trading securities and investments are reported at fair value.

## **J. Investments in Government Sponsored Enterprises and Liquidity Guarantee**

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, and also permits the use of other measurement basis, such as fair value, in certain situations. The Office of Management and Budget (OMB) issued guidance noting that while OMB Circular No. A-136 focuses primarily on Federal securities, which are normally accounted for at amortized cost, it is reasonable to interpret OMB Circular No. A-136 to permit non-Federal investments on an instrument by instrument election, to be reported on a basis other than cost. OMB's

guidance allows the use of fair value accounting for non-Federal securities beginning with reporting for fiscal year 2009. OMB Circular No. A-136 also directs agencies with non-Federal securities to consult FASB's Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, for additional guidance. The investments in GSEs disclosed as of September 30, 2008, were recorded at acquisition cost at the date of purchase with disclosure of fair values as of fiscal year end 2008.

Annual valuations are performed, as of September 30, of the preferred stock and warrants. Any changes in valuation, including impairment, is recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the changes in valuation of the preferred stock and warrants are deemed usual and recurring. Accordingly, changes in valuation are recorded as an exchange transaction that is either an expense or revenue. Since the costs of preferred stock and warrants are exchange transactions, any change in valuation is also recorded as an exchange transaction.

Dividends are accrued when declared; therefore, no accrual is made for future dividends. Quarterly payments to the GSEs are made pursuant to the preferred stock purchase agreements, when a GSE's liabilities exceed its assets at the end of any quarter. A liability ("liquidity guarantee") is recognized for estimated future quarterly payments to the GSEs under the senior preferred stock purchase agreements. In addition, a range of the potential liability is disclosed, if applicable. Repayments of estimated future quarterly payments to the GSEs are not deemed reasonably estimable. Increases in the preferred stock liquidity preference occur when quarterly payments to the GSEs are made pursuant to the preferred stock purchase agreements. (See Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization for further details).

## K. Federal Debt

Accrued interest on Treasury Securities Held by the Public is recorded as an expense 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. Treasury 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 (CPI) for all Urban Consumers.

## L. Federal Employee and Veteran Benefits Payable

Generally, Federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation and burial benefits, post-retirement health benefits, life insurance benefits, and Federal Employee and Compensation Act benefits are recorded at estimated present value of future benefits, less any estimated present value of future normal cost contributions. The estimated present value for veterans' pension benefits is disclosed but is not included in the Federal employee and veteran benefits payable line. These benefits are expensed when services are provided.

Normal cost is the portion of the actuarial present value of projected benefits allocated as an expense for employee services rendered in the current year. Actuarial gains and losses (and prior service cost, if any) are recognized immediately in the year they occur, without amortization.

## M. Environmental and Disposal Liabilities

Environmental and disposal liabilities are recorded at the estimated current cost of removing, containing, treating, and/or disposing of radioactive waste, hazardous waste, chemical and nuclear weapons, and other environmental contaminations, assuming the use of current technology. Hazardous waste is a solid, liquid, or gaseous waste that, because of its quantity or concentration, presents a potential hazard to human health or the environment. Remediation consists of removal, decontamination, decommissioning, site restoration, site monitoring, closure and post-closure cost, treatment, and/or safe containment. Where technology does not exist to clean up radioactive or hazardous waste, only the estimable portion of the liability, typically monitoring and safe containment, is recorded.

## N. Insurance and Guarantee Program Liabilities

Insurance and guarantee programs provide protection to individuals or entities against specified risks except for those specifically covered by Federal employee and veteran benefits, social insurance, and loan guarantee programs. Insurance and guarantee program funds are commonly held in revolving funds in the Government and losses sustained by participants are paid from these funds. Many of these programs receive appropriations to pay excess claims and/or have authority to borrow from the Treasury. The values of insurance and guarantee program liabilities are particularly sensitive to changes in underlying estimates and assumptions. Insurance and guarantee programs with recognized liabilities in future periods (i.e., liabilities that extend beyond one year) are reported at their actuarial present value.

## O. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or scheduled maintenance that was delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so they continue to provide acceptable services and achieve their expected life. Maintenance excludes activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended. Deferred maintenance expenses are not accrued in the Statements of Net Cost or recognized as liabilities on the Balance Sheets. However, deferred maintenance information is disclosed in the Supplemental Information section of this report.

## P. Contingent Liabilities

Liabilities for contingencies are recognized on the Balance Sheets when both:

- A past transaction or event has occurred, and
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized and the range is disclosed.

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed in Note 22—Contingencies.

## Q. Commitments

In the normal course of business, the Government has a number of unfulfilled commitments that may require the use of its financial resources. Note 23—Commitments describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

## R. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Supplemental Information—Social Insurance section, and Note 26—Social Insurance.

## S. Related Party Transactions

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depository and fiscal agents. They process Federal payments and deposits to the Treasury General Account (which functions as the government's checking account for deposits and disbursements) and service Treasury securities. As of September 30, 2009, the FRBs had total holdings of \$769.2 billion, with a very small amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2008, the FRBs owned \$221.3 billion, net of \$255.3 billion in securities lent to dealers and not collateralized by other Treasury securities, for total holdings of \$476.6 billion. These securities are held in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy. Additionally, under the Supplementary Financing Program (SFP), the Government had on deposit \$165 billion and \$300 billion with the Federal Reserve as of September 30, 2009, and 2008 respectively, to support Federal Reserve initiatives (see Note 2—Cash and Other Monetary Assets). FRBs earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled \$34.3 billion and \$33.6 billion for the years ended September 30, 2009, and 2008, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, the FRBs hold Special Drawing Rights Certificates (SDRCs) (see Note 19—Other Liabilities, international monetary liabilities and gold certificates). The U.S. Government—primarily Treasury and the Federal Deposit Insurance Corporation—and the Board of Governors of the Federal Reserve System and the FRBs engaged in concurrent and/or coordinated actions during fiscal years 2008 and 2009 to help stabilize the financial system and the housing market. See further details in Note 5—TARP Direct Loans and Equity Investments, net, Note 6—Beneficial Interest in Trust, and Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization.

FRBs issue Federal Reserve notes, the circulating currency of the United States. Specific assets owned by FRBs, typically Treasury securities, collateralize these notes. Federal Reserve notes are backed by the full faith and credit of the Government.

The Government generally does not guarantee payment of the liabilities of Government Sponsored Enterprises such as Fannie Mae, Freddie Mac, or the Federal Home Loan Banks, which are privately owned. Fannie Mae and Freddie Mac have been placed under conservatorship as of September 7, 2008, and as of September 30, 2009, the Government has committed to provide up to \$400 billion in capital to Fannie Mae and Freddie Mac to the extent that these entities liabilities exceed assets (see Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization). See Note 28—Subsequent Events regarding modification to the amount available to Fannie Mae and Freddie Mac. These entities also are excluded from the reporting entity.

## T. Unmatched Transactions and Balances

The reconciliation of the change in net position requires that the difference between ending and beginning net position equals the excess of revenues over net cost, plus or minus prior period adjustments.

The unmatched transactions and balances are needed to bring the change in net position into balance. The primary factors affecting this out of balance situation are:

- Unmatched intragovernmental transactions and balances between Federal agencies,
- General fund transactions, and
- Timing differences and errors in Federal agencies' reporting.

Refer to the Supplemental Information—Unmatched Transactions and Balances for detailed information.

## U. Derivatives

A derivative is a financial instrument or other contract with all three of the following characteristics:

- It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

An underlying is a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable. An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. A notional (or face) amount is a number of currency units, shares, bushels, pounds, or other units specified in the contract. The settlement of a derivative instrument with a notional amount is determined by interaction of that notional amount with the underlying. The interaction may be simple multiplication, or it may involve a formula with leverage factors or other constants. A payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner.

The accounting for derivative instruments are governed by Financial Accounting Standards Board (FASB) Accounting Standards Codification Section 815 (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and amended by SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*) which aims to highlight to financial statement users additional disclosures on an entity's objectives in its use of derivatives and the method of accounting for such financial instruments. This standard requires that entities with derivatives disclose the following:

- how and why an entity uses derivatives,
- how derivatives and related hedged items are accounted for under this accounting standard, and
- how derivatives and related hedged items affect an entity's financial statements.

This accounting standard for derivatives was implemented in fiscal year 2009. Comparative disclosures for prior years are not presented. For further information, see Note 10—Derivatives.

## V. Reclassifications

Certain fiscal year 2008 amounts have been reclassified to conform to the fiscal year 2009 presentation in the following notes: 3—Accounts and Taxes Receivable, Net, 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net, 12—Other Assets, 13—Accounts Payable, 18—Insurance and Guarantee Program Liabilities, 19—Other Liabilities, 23—Commitments, and 24—Earmarked Funds. The reclassifications from Notes 4 to 12 and Notes 18 to 19 are also reflected in the Balance Sheet and in the Reconciliation of Net Operating Cost and Unified Budget Deficit. In addition, certain fiscal year 2008 amounts have been reclassified on the Statement of Changes in Cash Balance from Unified Budget and Other Activities to conform to the fiscal 2009 presentation.

## W. Restatements

Certain fiscal year 2008 amounts have been restated to correct errors within the notes to the financial statements. See Notes 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net, 23—Commitments, and 24—Earmarked Funds, for further information. These errors did not impact the principal financial statements.

## X. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Government must uphold. Fiduciary cash and other fiduciary assets are not assets of the Government and are not recognized on the Balance Sheet. See Note 25—Fiduciary Activities, for further information.

## Y. Use of Estimates

The Government 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. There are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory and market conditions. As such, actual results will differ from these estimates and such differences may be material.

Significant transactions subject to estimates include loans receivable and mortgage backed securities, net; TARP direct loans and equity investments; investments in non-Federal securities (including GSEs and foreign and domestic public entities) and related impairment, if any; tax receivables; loan guarantees; depreciation; liability for liquidity commitment (GSEs); actuarial liabilities; contingent legal liabilities; credit reform subsidy costs; and insurance and guarantee program liabilities.

The Government recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual reestimates to reflect the most accurate cost of the credit programs to the U.S. Government. Two of the emergency economic programs that the Government implemented in the latter part of September 2008, the purchase program for MBS and the GSE credit line facility, both are accounted for pursuant to the provisions of credit reform and the use of estimates as dictated by the *Federal Credit Reform Act of 1990* (FCRA). FCRA loan receivables and loan guarantees are disclosed in Note 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net. Additionally, all TARP credit activity, including investments in common and preferred stock and warrants of public companies and loans and asset guarantees, are also subject to credit reform subsidy cost estimates (see Note 5—TARP Direct Loans and Equity Investments, Net).

The forecasted future cashflows used to determine these amounts as of September 30, 2009, are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the Government has an equity interest, estimates of expected default, and prepayment rates. Forecasts of future financial results have inherent uncertainty and the TARP Direct Loans and Equity Investments, Net line item as of September 30, 2009, is reflective of relative illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions.

The GSE preferred stock purchase agreements provide that the Government will make funding advances to the GSEs, 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 Government. Valuation analyses were performed to attempt to provide a "sufficiently reliable" estimate of the outstanding commitment in order for the Government to record the remaining liability in accordance with SFFAS No. 5. The valuation incorporated various forecasts, projections and cash flow analysis to develop an estimate of potential liability. Note 11—Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization discusses the results of the valuation and the contingent liability recorded as of September 30, 2009.

## Z. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counterparty to perform in accordance with underlying contractual obligations. The Government takes on 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.

The Government also takes on credit risk related to committed but undisbursed direct loans, its liquidity commitment to GSE, its MBS portfolio, investments, loans, and asset guarantees of the TARP, its guarantee of money market funds, 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 Government to potential unknown costs and losses. The extent of the risk assumed 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.

## Note 2. Cash and Other Monetary Assets

### Cash and Other Monetary Assets as of September 30

(In billions of dollars)	2009	2008
Unrestricted cash:		
Cash held by Treasury for Governmentwide operations .....	104.0	64.3
Other .....	8.4	6.5
Restricted cash:		
Cash held by Treasury for Governmentwide operations .....	165.0	300.0
Other .....	17.7	14.0
Total cash .....	<u>295.1</u>	<u>384.8</u>
International monetary assets .....	71.4	14.3
Gold .....	11.1	11.0
Foreign currency .....	15.6	14.4
Total cash and other monetary assets .....	<u>393.2</u>	<u>424.5</u>

Unrestricted cash includes cash held by Treasury for Governmentwide operations (Operating Cash) and all other unrestricted cash held by the Federal agencies. Operating Cash represents balances from tax collections, other revenue, Federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments. Operating Cash includes balances invested with commercial depositaries in Treasury Tax and Loan Accounts (including funds invested through the Term Investment Option program and the Repo Pilot program). Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by agencies, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, imprest funds, and amounts representing the balances of petty cash.

Restricted cash is restricted due to the imposition on cash deposits by law, regulation, or agreement. Restricted cash is primarily composed of the SFP and cash held by the Foreign Military Sales programs. On September 18, 2008, Treasury began issuing specific cash management bills to fund the SFP. The SFP is a temporary program that deposits cash with the Federal Reserve to support Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2009, there were a total of five SFP cash management bills outstanding that totaled \$165 billion. As of September 30, 2008, there were eight SFP cash management bills outstanding that totaled \$300 billion. The decrease is a result of outstanding SFP bills that have matured and have not been reinvested in the program. The Foreign Military Sales program included \$17.2 billion and \$13.3 billion as of September 30, 2009, and 2008, respectively. All cash held by depository institutions is either insured (for balances up to \$100,000 and temporarily increased to \$250,000 through December 31, 2013) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institution or through securities held under reverse repurchase agreements. International monetary assets include the U.S. reserve position in the International Monetary Fund (IMF) and U.S. holdings of Special Drawing Rights (SDRs).

The U.S. reserve position in the IMF reflects the reserve asset portion of the financial subscription that the United States has paid in as part of its participation in the IMF. The IMF promotes international monetary cooperation and a stable payment system to facilitate growth in the world economy. Its primary activities are surveillance of member economies, financial assistance as appropriate and technical assistance.

Only a portion of the U.S. financial subscriptions to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit from the United States to the IMF. The balance available under the letter of credit totaled \$53.1 billion and \$53.0 billion as of September 30, 2009, and 2008, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of \$13.4 billion and \$4.8 billion as of September 30, 2009, and 2008, respectively.

SDRs are in international monetary reserves issued by the IMF. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling \$58.0 billion and \$9.5 billion equivalent as of September 30, 2009, and 2008, respectively. In fiscal year 2009, the ESF received 27.5 billion SDRs (equivalent to approximately \$43 billion in U.S. dollars) as the U.S. share of a general allocation from the IMF, and 2.9 billion SDRs (equivalent to approximately \$4.5 billion in U.S. dollars) as the United States share of a special allocation from the IMF.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. The SDR Act, enacted in 1968, authorized the Secretary of the Treasury to issue SDRCs to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled \$5.2 billion and \$2.2 billion as of September 30, 2009, and 2008 respectively, and are included in Note 19—Other Liabilities.

As of September 30, 2009, and 2008, other liabilities included \$56.0 billion and \$7.6 billion of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations that occurred in 1970, 1971, 1972, 1979, 1980, 1981, and 2009.

Gold is valued at the statutory price of \$42.2222 per fine troy ounce. The number of fine troy ounces was 261,498,900 as of September 30, 2009, and 2008. The market value of gold on the London Fixing was \$996 and \$885 per fine troy ounce as of September 30, 2009, and 2008, respectively. Gold totaling \$11.1 billion and \$11.0 billion as of September 30, 2009, and 2008, respectively, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury and is included in Note 19—Other Liabilities. Treasury may redeem the gold certificates at any time. Foreign currency is translated into U.S. dollars at the exchange rate at fiscal yearend. The foreign currency is maintained by various U.S. Federal agencies and foreign banks.

### Note 3. Accounts and Taxes Receivable, Net

#### Accounts and Taxes Receivable as of September 30

(In billions of dollars)

	2009	2008
Accounts Receivable:		
Gross accounts receivable .....	80.2	77.1
Allowance for uncollectible accounts.....	<u>(20.9)</u>	<u>(15.2)</u>
Accounts receivable, net .....	59.3	61.9
Taxes Receivable:		
Gross taxes receivable .....	131.2	115.5
Allowance for doubtful accounts.....	<u>(100.3)</u>	<u>(84.4)</u>
Taxes receivable, net .....	30.9	31.1
 Total accounts and taxes receivable, net .....	 <u>90.2</u>	 <u>93.0</u>

Accounts receivable includes related interest receivable of \$5.7 billion and \$6.4 billion as of September 30, 2009, and 2008, respectively.

## Note 4. Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net

### Direct Loan and Defaulted Guaranteed Loan Programs as of September 30

	Face Value of Loans Outstanding		Long-term Cost of/(Income From) Direct Loans and Defaulted Guaranteed Loans Outstanding		Loans Receivable and Mortgage Backed Securities, Net		Subsidy Expense/ (Income) for the Fiscal Year	
	2009	2008	2009	2008	2009	2008	2009	2008
(In billions of dollars)								
GSE Mortgage Backed Securities Purchase Program - Treasury .....	173.3	3.3	(11.1)	(0.1)	184.4	3.4	(12.9)	(0.1)
Federal Direct Student Loans - Education .....	157.8	124.4	4.5	14.2	153.3	110.2	(9.6)	5.2
Federal Family Education Loans - Education .....	84.0	32.7	3.1	8.2	80.9	24.5	(4.1)	(0.2)
Electric Loans - USDA.....	40.0	37.5	2.3	2.0	37.7	35.5	0.2	0.5
Rural Housing Services - USDA.....	28.4	27.6	6.9	7.0	21.5	20.6	0.3	0.3
Water and Environmental Loans - USDA.....	10.4	9.9	0.8	0.9	9.6	9.0	(0.1)	0.2
Farm Loans - USDA .....	7.3	6.7	0.3	(0.4)	7.0	7.1	0.8	(0.4)
Disaster Loan Programs - SBA.....	8.4	8.6	1.6	1.5	6.8	7.1	-	-
Export-Import Bank Loans .....	7.7	6.4	3.1	2.6	4.6	3.8	(0.1)	-
Housing and Urban Development Loans.....	5.4	4.9	0.8	(0.8)	4.6	5.7	1.1	1.1
Food Aid - USDA .....	6.1	6.7	1.9	2.8	4.2	3.9	(0.4)	(0.3)
Telecommunications Loans - USDA....	4.1	4.0	-	(0.1)	4.1	4.1	0.2	0.2
U.S. Agency for International Development Loans .....	5.6	6.3	1.8	2.3	3.8	4.0	-	-
Housing for the Elderly and Disabled - HUD.....	3.5	3.9	-	-	3.5	3.9	-	-
All Other Programs.....	19.4	15.5	6.5	4.5	12.9	11.0	1.3	0.4
Total Direct Loans and Defaulted Guaranteed Loans.....	<u>561.4</u>	<u>298.4</u>	<u>22.5</u>	<u>44.6</u>	<u>538.9</u>	<u>253.8</u>	<u>(23.3)</u>	<u>6.9</u>

<b>Loan Guarantees as of September 30</b>								
	<b>Principal Amount of Loans under Guarantee</b>		<b>Principal Amount Guaranteed by the United States</b>		<b>Loan Guarantee Liabilities</b>		<b>Subsidy Expense (Income) for the Fiscal Year</b>	
(In billions of dollars)	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008 (Restated)</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Federal Housing Administration Loans - HUD.....	804.2	576.4	757.3	534.9	34.1	19.6	(0.7)	(1.0)
Federal Family Education Loans - Education.....	457.3	414.6	445.4	405.2	20.6	43.2	(25.9)	(2.7)
Small Business Loans - SBA.....	74.9	75.1	62.2	61.7	4.0	1.8	4.8	0.4
Export-Import Bank Guarantees.....	57.7	51.8	57.7	51.8	2.2	1.4	(0.2)	-
Veterans Housing Benefit Programs - VA.....	183.4	220.8	50.4	63.9	3.9	3.5	-	(0.6)
Rural Housing Services - USDA.....	34.8	22.5	31.3	20.3	1.1	0.8	0.2	0.1
Israeli Loan Guarantee Program - AID ...	12.2	12.5	12.2	12.5	1.8	1.2	0.3	-
Export Credit Guaranteed Programs - USDA.....	7.0	3.9	6.9	3.8	0.2	0.2	-	-
Overseas Private Investment Corporation Credit Program.....	4.9	4.7	4.9	4.7	0.1	0.1	-	-
Business and Industry Loans - USDA.....	4.4	3.8	3.3	2.8	0.4	0.3	0.1	-
Federal Ship Financing Fund (Title XI) - DOT.....	2.4	2.4	2.4	2.4	0.3	0.3	0.1	(0.1)
All Other Guaranteed Loan Programs.....	18.1	14.2	16.8	13.0	0.7	0.5	0.1	-
<b>Total Loan Guarantees.....</b>	<b>1,661.3</b>	<b>1,402.7</b>	<b>1,450.8</b>	<b>1,177.0</b>	<b>69.4</b>	<b>72.9</b>	<b>(21.2)</b>	<b>(3.9)</b>

The Government has different types of loans and loan guarantees. One major type of loan is financing agreements such as the Treasury's GSE MBS Purchase Program. The second major type of loan is direct loans such as the Department of Education's (Education) Federal Direct Student Loans. The third type is loan guarantee programs such as Education's Federal Family Education Loan (FFEL) program and the Department of Agriculture's (USDA) Electric Loans.

Direct loans and loan guarantee programs are used to promote the Nation's welfare by making financing available to segments of the population not served adequately by non-Federal institutions. For those unable to afford credit at the market rate, Federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-Federal financial institutions are reluctant to grant credit because of the high risk involved, Federal credit programs guarantee the payment of these non-Federal loans and absorb the cost of defaults.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for uncollectible amounts (or present value allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of September 30. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, reestimates, amortizations, and writeoffs.

Net loans receivable includes related interest and foreclosed property, and is included in the assets section of the Balance Sheets. Foreclosed property is property that is transferred from borrowers to a Federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the Government sustained under post-1991 loan guarantees. Please refer to the individual financial statements of the Department of Veterans Affairs (VA) and the Department of Housing and Urban Development (HUD) for significant detailed information regarding foreclosed property.

The total subsidy expense/(income) is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense/(income) incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for upward or downward re-estimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense/(income) is included in the Statements of Net Cost.

## Major Loan Programs

The Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, enacted on July 30, 2008, authorized Treasury to enter into several different types of financing arrangements with GSEs to provide stability to the financial markets; prevent disruptions in the availability of mortgage finance; and protect the taxpayer. Two of these arrangements include the GSE MBS Purchase Program and GSE Credit Facility (GSECF).

The GSE MBS Purchase Program was a program to further support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury, via asset managers, purchased GSE MBS in the open market. By purchasing these credit-guaranteed securities, Treasury 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 HERA. While the size and timing of the MBS purchases were subject to the discretion of the Secretary of the Treasury, the authority granted by Congress to purchase MBS expired on December 31, 2009.

Treasury purchased mortgage-backed pass-through securities through the GSE MBS Purchase Program. Consistent with the Federal Credit Reform Act, these securities were treated as direct loans, and the value of Treasury's position and the associated credit subsidy requirements are determined based on the net present value of the securities' forecasted future cashflows. Treasury estimated nominal future cashflows using a financial model that incorporated 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 cashflow forecasts were discounted at interest rates of Treasury securities with comparable maturities using the OMB's Credit Subsidy Calculator. Cashflows were estimated under the assumption that all securities will be held to maturity.

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

The GSECF was established to ensure credit availability to the GSEs and the Federal Home Loan Banks. This lending facility was to provide secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks were eligible to borrow under this program. The GSECF provided liquidity, if needed, until December 31, 2009. There were no loans made through the GSECF in fiscal year 2009 or 2008. No draws occurred between the date of Treasury's press release (December 24, 2009) and when the facility expired on December 31, 2009.

Education has two major education loan programs. The first program, the Federal Direct Student Loan Program, established in fiscal year 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three types of loans are available to borrowers at all income levels. These loans usually mature 9 to 13 years after the student is no longer enrolled. They are unsecured. The second program, the FFEL Program, established in fiscal year 1965, is a guaranteed loan program. Like the Federal Direct Student Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans. During fiscal year 2009, FFEL loans receivable increased significantly due to the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). The ECASLA gave Education temporary loan purchase authority to purchase FFEL loans and interest in those loans.

The USDA offers direct and guaranteed loans through credit programs in the Farm and Foreign Agricultural Services (FFAS) mission area through the Farm Service Agency (FSA), and the Commodity Credit Corporation (CCC), and in the Rural Development (RD) mission area.

The FFAS delivers commodity, credit, conservation, disaster and emergency assistance programs that help strengthen and stabilize the agricultural economy. The FSA offers direct and guaranteed loans to farmers who are temporarily unable to obtain private, commercial credit and through this supervised credit, the goal is to graduate its borrowers to commercial credit. The CCC offers both credit guarantee and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance. The RD provides affordable housing and essential community facilities to rural communities through its rural housing loan and grant programs. The Rural Utilities Program administers a variety of loan programs for electric energy, telecommunications, and water and environmental projects in rural America.

The Small Business Administration's (SBA's) Disaster Assistance Loan Program makes direct loans to disaster victims primarily for homes and personal property.

The Export-Import Bank aids in financing and promoting U.S. exports. The average repayment term for these loans is approximately 7 years.

HUD's Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA predominantly serves borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income families, and residents of underserved areas. Borrowers obtain an FHA insured mortgage and pay an upfront premium and an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and holding costs, property management fees, property sales, and other associated costs. The possibility of a sizable volume of delinquencies remains a significant risk for the housing market and for FHA in the near term. Nonetheless, HUD anticipates that the Mutual Mortgage Insurance Fund will remain financially sound. FHA continues to be a financially conservative and stabilizing presence for credit markets in times of economic disruption.

Please refer to the individual financial statements of the agencies listed in the tables for significant detailed information regarding their direct and guaranteed loan programs.

## Restatements

Due to a correction of an error by VA, the Principal Amount Guaranteed by the U.S. for the Veterans Housing Benefit Programs—VA increased from \$36.1 billion to \$63.9 billion, as of September 30, 2008. This restatement had no impact on the loan guarantee liabilities reported on the Balance Sheet and had no impact on 2008 net position as reported.

## Note 5. TARP Direct Loans and Equity Investments, Net

The TARP was authorized by the Emergency Economic Stabilization Act of 2008 (EESA or “The Act”). The Act gave the Secretary of the Treasury broad flexible authority to establish the TARP to purchase and guarantee mortgages, mortgage related securities and other troubled assets held by financial institutions. This permitted the Secretary of the Treasury to inject capital into, and receive equity interests in, banks and other financial institutions. Treasury established several programs under the TARP to help stabilize the financial system and restore the flow of credit to consumers and businesses, and tackle the foreclosure crisis.

The following TARP programs were designed to stabilize the financial system and restore the flow of credit to consumers and businesses. Treasury made direct loans and made equity investments and entered into asset guarantees. The table below is a list and type of the TARP programs.

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	Direct Loan
Public-Private Investment Program	Equity Investment and Direct Loan
Asset Guarantee Program	Guarantee
Home Affordable Modification Program**	Expenditure

\* Formerly known as the Systemically Significant Failing Institutions Program.  
 \*\*HAMP is not designed to recoup money spent on loan modifications. As such, this program does not include direct loans, equity investments, or asset guarantees.

TARP direct loans, equity investments, and asset guarantee balances as of September 30, 2009 are as follows:

<b>Troubled Asset Relief Program as of September 30</b>	
(In billions of dollars)	<b>2009</b>
Direct Loans and Equity Investments, Net.....	237.9
Asset Guarantee Program .....	1.8
Total .....	<u>239.7</u>

The table below is a summary of the TARP loans and equity investments.

<b>Troubled Asset Relief Program Direct Loans and Equity Investments as of September 30, 2009</b>				
(In billions of dollars)	<b>Direct Loans and Equity Investments</b>	<b>Subsidy Cost Allowance</b>	<b>Net Direct Loans and Equity Investments</b>	<b>Subsidy Expense (Income) for the Fiscal Year</b>
Capital Purchase Program .....	133.9	7.8	141.7	(15.0)
American International Group, Inc. Investment Program.....	43.2	(30.0)	13.2	30.4
Targeted Investment Program.....	40.0	0.3	40.3	(1.9)
Automotive Industry Financing Program .....	73.8	(31.5)	42.3	30.4
Consumer and Business Lending Initiative .....	0.1	0.3	0.4	(0.3)
<b>Total .....</b>	<b>291.0</b>	<b>(53.1)</b>	<b>237.9</b>	<b>43.6</b>

### Capital Purchase Program

In October 2008, Treasury 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, Treasury 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 (QFI)). In addition to the senior preferred stock, Treasury received warrants from public QFIs to purchase shares of common stock. The senior preferred stock has a stated dividend rate of 5.0 percent through year five, increasing to 9.0 percent in subsequent years. The dividends are cumulative for bank holding companies and subsidiaries of bank holding companies and non-cumulative for others and payable when and if declared by the institution's board of directors. QFIs that are Sub-chapter S corporations issued subordinated debentures in order to maintain compliance with the Internal Revenue Code. The maturity of the subordinated debentures is 30 years and interest rates are 7.7 percent for the first 5 years and 13.8 percent for the remaining years.

### American International Group, Inc. Investment Program (AIG)

Treasury provided assistance to AIG in order to prevent its disorderly failure as well as to prevent broader disruption to the financial markets. In November 2008, Treasury invested \$40 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0 percent compounded quarterly. The \$40 billion from Treasury was used to repay a portion of a loan from the FRBNY. On April 17, 2009, AIG and Treasury restructured their November 2008 agreement. Under the restructuring, Treasury exchanged \$40 billion of cumulative Series D preferred stock for \$41.6 billion of non-cumulative 10 percent Series E preferred stock. The amount of Series E preferred stock is equal to the original \$40 billion plus dividends not paid as of April 17, 2009. In addition to the exchange, Treasury agreed to make available an additional \$29.8 billion capital facility to allow AIG to draw additional funds if needed to assist in AIG's restructuring. As of September 30, 2009, Treasury had funded approximately \$3.2 billion 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, 2009.

As of September 30, 2009, AIG had not made any dividend payments on any of the perpetual preferred stock. Subsequently, AIG failed to make dividend payments through February 1, 2010. Per the terms of the preferred stock, if AIG misses four dividend payments, Treasury 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.

### Targeted Investment Program (TIP)

The 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. Treasury considers institutions for the TIP on a case-by-case basis, based on a number of factors described in the program guidelines. These factors include 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 December 2008, Treasury invested \$20.0 billion in Citigroup cumulative perpetual preferred stock with an 8.0 percent stated annual dividend rate and received a warrant for the purchase of Citigroup common stock. In January 2009, Treasury invested \$20.0 billion in Bank of America cumulative perpetual preferred stock with an 8.0 percent stated annual dividend rate and received a warrant for the purchase of Bank of America common stock. In December 2009, Citigroup and Bank of America each repaid to Treasury the \$20.0 billion received under TIP.

### Automotive Industry Financing Program

The objective of the Automotive Industry Financing Program is to prevent a significant disruption of the American automotive industry, which would have a negative effect on the economy of the United States. The various activities undertaken by Treasury in the automotive industry include:

**General Motors**—Prior to June 2009, Treasury provided General Motors (GM) with a total of \$19.4 billion in direct loan financing and received warrants for GM common stock and additional senior unsecured notes. On June 1, 2009, GM filed for Chapter 11 bankruptcy. Under the terms of a debtor-in-possession (DIP) credit agreement, Treasury provided an additional \$30.1 billion to GM. A new entity, General Motors Company (New GM) purchased most of old GM's assets and began operating on July 10, 2009. Treasury's previous \$19.4 billion in loans and \$30.1 billion DIP loans were mostly converted to a combination of loans, preferred stock and common stock of New GM. Specifically, New GM assumed \$7.1 billion of the DIP loan, simultaneously paying \$0.4 billion, resulting in a balance of \$6.7 billion. Treasury also received \$2.1 billion in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity interest in New GM. In addition, approximately \$1.0 billion remained outstanding relating to the DIP due from the old GM.

In addition, in December 2008, Treasury agreed to lend up to \$1.0 billion to GM for participation in a rights offering by GMAC (or GMAC Financial Services) in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interests acquired in the rights offering. The loan agreement specified that at any time, at the option of the lender, the unpaid principal balance and accrued interest was exchangeable for the membership interests purchased by GM, during the rights offering. The note was funded for approximately \$0.9 billion. In May 2009, Treasury exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.4 percent of the voting interest in GMAC, in full satisfaction of the loan.

**Chrysler**—In January 2009, Treasury provided a \$4.0 billion loan to a parent company of Chrysler (Chrysler Holdings) and received a senior unsecured note in the principal amount of approximately \$0.3 billion. On April 30, 2009, Chrysler filed for Chapter 11 bankruptcy. On June 10, 2009, substantially all of the assets of Chrysler were sold to a newly-created entity (New Chrysler). In May 2009, Treasury provided an additional \$1.9 billion to Chrysler under the terms of a DIP credit agreement. Recovery of the DIP loan is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler.

Also in June 2009, Treasury entered into a credit agreement to lend an additional \$6.6 billion. A balance of \$3.5 billion remained outstanding from the Chrysler Holdings loan and was in default and the remaining \$0.5 billion was assumed by New Chrysler. As of September 30, 2009, Treasury had funded approximately \$4.6 billion of the \$6.6 billion in new commitments to New Chrysler. Treasury also obtained other consideration relating to these new commitments, including a 9.85 percent equity interest in New Chrysler and additional notes with principal balances of approximately \$0.3 billion and \$0.1 billion.

**GMAC**—In December 2008, Treasury purchased preferred membership interests for \$5.0 billion with an 8 percent annual distribution right (dividends) from GMAC. In May 2009, Treasury had invested \$7.5 billion in Mandatory 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. As part of these transactions, Treasury also received warrants which it exercised immediately.

As of September 30, 2009, Treasury-OFS owned \$13.1 billion in preferred shares in GMAC, through purchases and the exercise of warrants, in addition to 35 percent of the common equity in GMAC, as described previously under GM.

During December 2009, Treasury made additional investments in GMAC and increased its ownership interest by converting some Mandatory Convertible Preferred Stock. See further information in Note 28—Subsequent Events.

### **Term Asset-Backed Securities Loan Facility**

The Term Asset-Backed Securities Loan Facility (TALF), was created by the Board of Governors of the Federal Reserve System and Treasury to provide low cost funding to investors in certain classes of ABS. Treasury participates in the program as part of Treasury's Consumer and Business Lending Initiative by providing liquidity and credit protection to the FRBNY. 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. Under the TALF, the FRBNY, as implementer of the TALF program, originates loans on a non-recourse basis to holders of certain AAA rated ABS. The TALF, LLC receives a monthly fee 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, Treasury has committed to invest up to \$20.0 billion in non-recourse subordinate notes issued by the TALF, LLC. Treasury disbursed \$0.1 billion upon creation of the TALF, LLC and the remainder can be drawn to purchase collateral in the event the accumulated fees are not sufficient to cover purchases. As of September 30, 2009, the FRBNY had originated \$50.9 billion in TALF loans of which \$42.7 billion were outstanding.

### **Public Private Investment Program (PPIP)**

The PPIP is part of Treasury's efforts to help restart the markets and provide liquidity for legacy assets. Under this program, Treasury will make equity and debt investments in investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment will be used to match private capital and will equal not more than 50 percent of the total equity invested. The debt investment will be, at the option of the investment manager, equal to 50 percent or 100 percent of the total equity (including private equity). The PPIFs invest primarily in commercial mortgage-backed securities and non-agency residential MBS. At least 90 percent of the assets underlying any eligible asset must be situated in the United States. On September 30, 2009, Treasury signed limited partnership and loan agreements with two investment managers, committing to potentially disburse up to \$6.7 billion. However, as of September 30, 2009, for PPIP no private fund managers had made any investments and Treasury had not disbursed any funds.

As of December 31, 2009, Treasury had signed limited partnership and loan agreements with nine PPIFs which committed Treasury to potentially disburse up to \$30 billion. As of December 31, 2009, the PPIFs had drawn-down approximately \$4.2 billion (\$1.2 billion from private capital, \$1.2 from Treasury capital, and approximately \$1.8 from Treasury debt) which has been invested in eligible assets and cash equivalents pending investments.

### **Asset Guarantee Program (AGP)**

The AGP provided guarantees for assets held by systemically significant financial institutions that face 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.

In January 2009, Treasury finalized the terms of a guarantee agreement with Citigroup. Under the agreement, Treasury, FDIC, and the FRBNY provided protection against the possibility of large losses on an asset pool of approximately \$301 billion of loans and securities which remain on Citigroup's balance sheet. The following loss-sharing terms applied to the transaction: Citigroup would absorb the first \$39.5 billion in losses, and losses over the \$39.5 billion would be shared by the Government and the FRBNY (90.0 percent) and Citigroup (10.0 percent) (the "second loss"). For the second loss, Treasury would absorb up to \$5.0 billion, then FDIC would absorb up to \$10.0 billion, and lastly the FRBNY would fund any losses above Treasury and the FDIC commitments through a non-recourse loan. As a premium for the guarantee, Citigroup issued approximately \$7.0 billion of cumulative preferred stock with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; approximately \$4.0 billion and the warrant was issued to Treasury and approximately \$3.0 billion was issued to the FDIC. For the period ended September 30, 2009, the AGP's subsidy cost (income) was about \$(2.2) billion. Subsequent to September 30, 2009, the guarantee was terminated without the Federal Government incurring any losses.

On December 23, 2009, Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation and Citigroup terminated this program. The Government parties did not pay any losses under the program and will keep \$5.2 billion of \$7 billion in trust preferred securities as well as warrants for common shares that were issued by Citigroup as consideration for such guarantee. With this termination, the AGP is being terminated at a profit to the taxpayer.

### **Home Affordable Modification Program (HAMP)**

The HAMP is designed to assist eligible homeowners by providing reductions in their monthly mortgage payments for up to five years. As of September 30, 2009, Treasury had entered into agreements with 63 servicers to provide up to approximately \$27.1 billion in payments and incentives to borrowers, servicers, and investors. As of September 30, 2009, approximately \$1 million in incentive payments had been made.

For more details on the TARP, please see the Performance and Accountability Report for Treasury.

## Note 6. Beneficial Interest in Trust

Under the initial terms of a credit facility agreement with AIG and the 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 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. Treasury. The 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 will be done by Treasury. The trustees of the trust are independent of both Treasury and the FRBNY, and are not involved in day-to-day management of AIG.

As the Government is the sole beneficiary of the trust, it is anticipated that the Government will ultimately realize an economic benefit from its beneficial interest in the trust. The \$23.5 billion value recorded is 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. The Government's proceeds will be received when AIG's credit line with the FRBNY is terminated, AIG has redeemed the preferred stock owned by Treasury through TARP, and the trustees sell the stock held by the trust. The Government 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 Government's interest in the trust. The amount ultimately realized by the Government upon liquidation of the trust is inherently subject to substantial uncertainty regarding future economic events that could affect the future value of AIG common stock.

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

## Note 7. Inventories and Related Property, Net

<b>Inventories and Related Property as of September 30</b>						
(In billions of dollars)	<b>All</b>			<b>All</b>		
	<b>Defense</b>	<b>Others</b>	<b>Total</b>	<b>Defense</b>	<b>Others</b>	<b>Total</b>
	<b>2009</b>			<b>2008</b>		
Inventory purchased for resale .....	87.8	0.8	88.6	101.1	0.8	101.9
Inventory and operating material and supplies held for repair .....	46.0	0.6	46.6	44.1	0.6	44.7
Inventory—excess, obsolete, and unserviceable .....	7.8	-	7.8	7.8	-	7.8
Operating materials and supplies held for use.....	128.9	5.3	134.2	131.7	4.9	136.6
Operating materials and supplies held in reserve for future use .....	-	0.9	0.9	-	0.2	0.2
Operating materials and supplies—excess, obsolete, and unserviceable .....	3.4	0.1	3.5	3.6	0.2	3.8
Stockpile materials .....	-	47.2	47.2	-	46.1	46.1
Stockpile materials held for sale .....	0.7	0.2	0.9	0.7	0.2	0.9
Other related property .....	1.0	1.1	2.1	0.7	1.0	1.7
Allowance for loss .....	(46.9)	(0.3)	(47.2)	(53.7)	(0.4)	(54.1)
Total inventories and related property, net ..	<u>228.7</u>	<u>55.9</u>	<u>284.6</u>	<u>236.0</u>	<u>53.6</u>	<u>289.6</u>

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. DOD values approximately 68 percent of its resale inventory using the moving average cost (MAC) method. An additional 6 percent (fuel inventory) is reported using the first-in-first-out method. DOD reports the remaining 26 percent of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. The LAC method is used because its legacy inventory systems do not maintain historical cost data.

Please refer to the individual financial statements of DOD for significant detailed information regarding its inventories.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economic to repair than to dispose of (operating materials and supplies).

Inventory—excess, obsolete, and unserviceable consists of:

- Excess inventory that exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- Obsolete inventory that is no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory that is damaged beyond economic repair.

Excess, obsolete, and unserviceable inventory is reported at net realizable value.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations.

Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses LAC, MAC, and Standard Price and expenses a significant amount of them when purchased instead of when consumed.

Operating materials and supplies—excess, obsolete, and unserviceable consists of:

- Excess operating materials and supplies are materials that exceed the demand expected in the normal course of operations, and do not meet management’s criteria to be held in reserve for future use.
- Obsolete operating materials and supplies are materials no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable operating materials and supplies are materials damaged beyond economic repair.

DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, revalues it to a net realizable value of zero through the allowance account.

Please refer to the individual financial statements of DOD and National Aeronautics and Space Administration (NASA) for significant detailed information regarding operating materials and supplies.

Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, and stockpile materials that are authorized to be sold. The majority of the amount reported by DOD is stockpile materials held for sale, and the amount reported by others is stockpile materials held in reserve, with the majority of it being reported by the Department of Energy (DOE). Please refer to their individual financial statements for more information on stockpile materials.

Other related property consists of the following:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices. Please refer to the financial statements of the USDA for detailed information regarding commodities.
- Seized monetary instruments are comprised only of monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the Government, such as real property and tangible personal property, is not considered a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated. Please refer to the individual financial statements of the Department of Justice (DOJ), Treasury, and the Department of Homeland Security (DHS) for significant detailed information regarding seized property.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise. Please refer to the individual financial statements of DOJ, Treasury, and DHS for significant detailed information regarding forfeited property.
- Foreclosed property is comprised of assets received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). All properties included in foreclosed property are assumed to be held for sale. Please refer to the individual financial statements of USDA and HUD for significant detailed information regarding foreclosed property.
- Other property not classified above.

## Note 8. Property, Plant, and Equipment, Net

### Property, Plant, and Equipment as of September 30, 2009

(In billions of dollars)	<u>Cost</u>		<u>Accumulated Depreciation/ Amortization</u>		<u>Net</u>	
	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>
Buildings, structures, and facilities.....	191.7	201.4	108.0	104.6	83.7	96.8
Furniture, fixtures, and equipment.....	877.5	151.4	446.9	91.6	430.6	59.8
Construction in progress.....	30.8	41.2	N/A	N/A	30.8	41.2
Land.....	10.5	11.7	N/A	N/A	10.5	11.7
Internal use software.....	9.0	15.0	5.6	7.5	3.4	7.5
Assets under capital lease.....	1.0	2.8	0.6	1.3	0.4	1.5
Leasehold improvements.....	0.7	5.7	0.5	2.8	0.2	2.9
Other property, plant, and equipment.....	0.1	8.5	-	5.5	0.1	3.0
Subtotal.....	<u>1,121.3</u>	<u>437.7</u>	<u>561.6</u>	<u>213.3</u>	<u>559.7</u>	<u>224.4</u>
Total property, plant, and equipment, net.....		<u>1,559.0</u>		<u>774.9</u>		<u>784.1</u>

### Property, Plant, and Equipment as of September 30, 2008

(In billions of dollars)	<u>Cost</u>		<u>Accumulated Depreciation/ Amortization</u>		<u>Net</u>	
	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>
Buildings, structures, and facilities.....	180.2	193.3	105.3	99.6	74.9	93.7
Furniture, fixtures, and equipment.....	789.5	156.5	386.7	91.5	402.8	65.0
Construction in progress.....	22.5	39.0	N/A	N/A	22.5	39.0
Land.....	10.5	11.7	N/A	N/A	10.5	11.7
Internal use software.....	8.9	12.8	5.5	5.9	3.4	6.9
Assets under capital lease.....	1.0	2.0	0.5	0.8	0.5	1.2
Leasehold improvements.....	0.6	4.9	0.4	2.6	0.2	2.3
Other property, plant, and equipment.....	0.1	8.6	-	5.6	0.1	3.0
Subtotal.....	<u>1,013.3</u>	<u>428.8</u>	<u>498.4</u>	<u>206.0</u>	<u>514.9</u>	<u>222.8</u>
Total property, plant, and equipment, net.....		<u>1,442.1</u>		<u>704.4</u>		<u>737.7</u>

For further information related to multi-use heritage assets, see Note 27—Stewardship Land and Heritage Assets.

DOD comprises approximately 71 percent of the Government's reported property, plant, and equipment as of September 30, 2009. Refer to the individual financial statements of DOD, DOE, the Tennessee Valley Authority (TVA), the United States Postal Service (USPS), GSA, Department of the Interior (DOI), and DHS for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 89 percent of the Government's total reported net property, plant, and equipment of \$784.1 billion as of September 30, 2009.

## Note 9. Securities and Investments

### Securities and Investments as of September 30, 2009

(In billions of dollars)	By Category									Total
	Held-to-Maturity			Available-for-Sale			Trading			
	Cost Basis	Unamor- tized Premium/ Discount	Net Invest- ment	Cost Basis	Unreal- ized Gain/ Loss	Fair Value	Cost Basis	Unreal- ized Gain/ Loss	Fair Value	
<b>Fixed/debt securities:</b>										
Non-U.S. Government .....	0.2	-	0.2	12.1	0.4	12.5	2.7	0.3	3.0	15.7
Commercial.....	-	-	-	-	-	-	0.1	-	0.1	0.1
Mortgage/asset backed .....	-	-	-	-	-	-	2.9	(0.1)	2.8	2.8
Corporate and other bonds.....	-	-	-	-	-	-	8.7	(0.1)	8.6	8.6
All other fixed debt securities....	1.1	-	1.1	-	-	-	1.5	0.1	1.6	2.7
<b>Equity securities:</b>										
Common stocks .....	-	-	-	-	-	-	0.9	(0.1)	0.8	0.8
Unit trust .....	-	-	-	-	-	-	17.0	5.1	22.1	22.1
All other equity securities.....	-	-	-	3.0	-	3.0	2.0	(0.2)	1.8	4.8
Other.....	<u>2.2</u>	-	<u>2.2</u>	-	-	-	<u>33.2</u>	<u>0.1</u>	<u>33.3</u>	<u>35.5</u>
Total Securities and Investments.....	<u>3.5</u>	-	<u>3.5</u>	<u>15.1</u>	<u>0.4</u>	<u>15.5</u>	<u>69.0</u>	<u>5.1</u>	<u>74.1</u>	<u>93.1</u>

**Securities and Investments as of September 30, 2008****By Category**

(In billions of dollars)	Held-to-Maturity			Available-for-Sale			Trading			Total
	Cost Basis	Unamor-	Net Investment	Cost Basis	Unreal-	Fair Value	Cost Basis	Unreal-	Fair Value	
		tized Premium/Discount			ized Gain/Loss			ized Gain/Loss		
<b>Fixed/debt securities:</b>										
Non-U.S. Government .....	10.8	-	10.8	-	-	-	2.9	(0.3)	2.6	13.4
Commercial.....	-	-	-	-	-	-	(0.2)	-	(0.2)	(0.2)
Mortgage/asset backed .....	0.2	-	0.2	-	-	-	3.8	(0.4)	3.4	3.6
Corporate and other bonds .....	-	-	-	-	-	-	13.4	(2.3)	11.1	11.1
All other fixed debt securities .....	-	-	-	-	-	-	0.2	(0.1)	0.1	0.1
<b>Equity securities:</b>										
Common stocks .....	-	-	-	-	-	-	3.6	(0.7)	2.9	2.9
Unit trust .....	-	-	-	-	-	-	6.2	3.4	9.6	9.6
All other equity securities .....	-	-	-	-	-	-	1.1	(0.1)	1.0	1.0
Other.....	<u>2.1</u>	-	<u>2.1</u>	-	-	-	<u>36.0</u>	-	<u>36.0</u>	<u>38.1</u>
Total Securities and Investments.....	<u>13.1</u>	-	<u>13.1</u>	-	-	-	<u>67.0</u>	<u>(0.5)</u>	<u>66.5</u>	<u>79.6</u>

**Securities and Investments as of September 30****By Agency**

(In billions of dollars)

**2009****2008****Securities and Investments:**

Pension Benefit Guaranty Corporation .....	43.6	33.6
Railroad Retirement Board .....	22.2	24.9
Exchange Stabilization Fund .....	13.6	10.6
Tennessee Valley Authority .....	8.0	7.9
All other .....	5.7	2.6
Total Securities and Investments .....	<u>93.1</u>	<u>79.6</u>

These securities and investments do not include nonmarketable Treasury securities, which have been eliminated in consolidation. Held-to-maturity securities and investments are reported at amortized cost, net of unamortized premiums and discounts. Available-for-sale securities and investments are reported at fair value with unrealized changes in fair value excluded from revenue. Trading securities and investments are reported at fair value. The Pension Benefit Guaranty Corporation (PBGC) and the TVA invest primarily in fixed maturity and equity securities, classified as trading. TVA also has a small investment in available-for-sale securities. The National Railroad Retirement Investment Trust (NRRIT), on behalf of the RRB, manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program. The NRRIT's investments are all classified as other trading equity securities. Treasury's ESF invests primarily in foreign currency, bonds, and bills. Certain Foreign Currency Denominated Assets totaling \$12.5 billion as of September 30, 2009, are considered available-for-sale securities and recorded at fair value as permitted by OMB Circular No. A-136, beginning in fiscal year 2009. Prior to fiscal year 2009, these assets, which totaled \$10.8 billion at September 30, 2008, were classified as investment securities held-to-maturity and reported at cost. The TVA balance includes \$6.8 billion and \$6.9 billion as of September 30, 2009, and 2008, respectively, for the Tennessee Valley Authority Retirement System (TVARS). Please refer to the individual financial statements of PBGC, NRRIT, Treasury, TVA and TVARS for more detailed information related to securities and investments. These agencies comprise 93.9 percent of the total reported securities and investments of \$93.1 billion as of September 30, 2009.

## Note 10. Derivatives

Derivatives are financial instruments that entities use to hedge their particular exposure to some sort of financial risk. These financial risks include interest rate risk, market price risk, credit risk, foreign exchange risk and commodity risk. As FASAB (which determines GAAP for Federal entities) is silent on this issue, the accounting for derivative instruments are governed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 815 Derivatives and Hedging (formerly SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and amended by SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*) which aims to highlight to financial statement users additional disclosures on an entity's objectives in its use of derivatives and the method of accounting for such financial instruments. Derivatives are accounted for at market value in accordance with this standard. Derivatives are marked to market with changes in value reported within financial income. The hedge strategy (i.e., fair value, cash flow or foreign currency) employed determines the financial statement impact on their statement of operations and net position.

PBGC uses derivatives to mitigate investment risks, enhance investment returns and as a liquid and cost efficient substitute for positions in physical securities. As of September 30, 2009, PBGC had \$2.8 billion worth of derivatives in an asset position (recorded in accounts receivable) and \$2.9 billion worth of derivatives in a liability position (recorded in other liabilities). During fiscal year 2009, PBGC's investment managers decreased their utilization of derivative instruments as they became a less preferred way of implementing portfolio strategies relative to fiscal year 2008. TVA uses derivatives purely for hedging purposes and not for speculative purposes. TVA, as of September 30, 2009, had \$0.04 billion worth of derivatives in an asset position (recorded in other assets) and \$1.0 billion worth of derivatives in a liability position (recorded in other liabilities). The amount of gain/(loss) on these derivatives for fiscal year 2009 was a \$0.2 billion gain for PBGC and a \$0.3 billion loss for TVA.

Please refer to the individual financial statements of PBGC and TVA for more detailed information related to derivatives.

## Note 11. Investments in Government Sponsored Enterprises and Other Financial and Housing Market Stabilization

Fannie Mae and Freddie Mac are stockholder-owned GSEs. Congress established the GSEs to increase the supply of mortgage loans and to reduce the accompanying costs. A key Fannie Mae and Freddie Mac business responsibility is to package purchased mortgages into securities. These securities are subsequently sold to investors. Proceeds from sales are used to buy additional mortgages and keep money flowing through the mortgage markets.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of Fannie Mae and Freddie Mac, thereby undermining the entire housing market. This led Congress to pass HERA. This Act created the new 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.

The HERA authorized Treasury to enter into several different types of financing arrangements with GSEs to:

- provide stability to the financial markets;
- prevent disruptions in the availability of mortgage finance; and
- protect the taxpayer.

As authorized by HERA, the Secretary of the Treasury entered into Senior Preferred Stock Purchase Agreements (SPSPA) with Fannie Mae and Freddie Mac on September 7, 2008, and began providing substantial financial support to the enterprises; thereby minimizing potential systemic financial risks associated with the deteriorating financial condition of Fannie Mae and Freddie Mac. Per SFFAC No. 2, *Entity and Display*, these entities meet the criteria under paragraph 50. Accordingly, Treasury has not consolidated them into the financial statements, but included “disclosure of the relationship(s) with the entities and any actual or potential material costs or liabilities” in the consolidated financial statements.

The Federal Reserve has also conducted activities during 2009 in support of Fannie Mae and Freddie Mac. In November 2008, the Federal Reserve announced that it would purchase up to \$500 billion in agency MBS and has since extended its intent to purchase up to \$1.25 trillion of agency MBS by the end of the first quarter of 2010. As of December 31, 2009, the Federal Reserve reported that it had purchased approximately \$1 trillion of Fannie Mae and Freddie Mac MBS. In addition, the Federal Reserve reported that it has increased its intent to purchase agency debt from \$100 billion, announced in November 2008, to a total of \$175 billion. As of December 31, 2009, the Federal Reserve reported that it had purchased approximately \$125 billion of Fannie Mae and Freddie Mac debt.

### Senior Preferred Stock Purchase Agreements (SPSPA)

Under the SPSPA, Treasury initially received from the GSE: (1) 2,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and (2) a non-transferable 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 shall increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. During fiscal year 2009, approximately \$4.3 billion in dividends on GSE Senior Preferred Stock are included in earned revenue on the Statement of Net Cost. In addition, beginning on March 31, 2011, the GSE will pay Treasury a periodic commitment fee on a quarterly basis. This fee will be initially set by December 31, 2010, based on mutual agreement between Treasury and each GSE in consultation with the Chairman of the Board of Governors of the Federal Reserve System. The fee shall be established for 5-year periods, and may be waived by Treasury 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.

These agreements, which have no expiration date, provide that Treasury will make funding advances 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 \$100 billion and was increased to \$200 billion in May 2009. See Note 28—Subsequent Events for additional changes in the maximum amount available to each GSE. Actual payments to the GSEs to date are \$95.6 billion. As of September 30, 2009, \$140.1 billion and \$149.3 billion remain available to Fannie Mae and Freddie Mac, respectively, after quarterly payments made or accrued.

Treasury determined the estimated amount of the remaining liability to the GSEs under the SPSPA as of September 30, 2009. The valuation analysis resulted in estimates ranging from the “best case” scenario of \$76.9 billion to an “extreme case” scenario of \$206.7 billion. The results also noted that no value within the range is a better estimate than any other amount. However, future payments under the SPSPA are deemed to be probable. SFFAS No. 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 liability should be based on the minimum value in the range. Accordingly, \$76.9 billion is recorded as a contingent liability as of September 30, 2009.

As of September 30, 2009, \$91.9 billion is recorded as a liquidity guarantee liability which consists of \$15.0 billion accrued liability and the contingent liability of \$76.9 billion. Revenue of \$7.0 billion was recognized from the acquisition of preferred stock and warrants in fiscal year 2008.

The investments in GSEs disclosed as of September 30, 2008, were recorded at acquisition cost at the date of purchase with disclosure of market values as of fiscal year end 2008. OMB issued guidance to Treasury on October 7, 2009, allowing the use of fair value accounting for non-Federal securities beginning with reporting for fiscal year 2009. As a result, the GSE investments are reported at fair value at September 30, 2009. Annual valuations are performed, as of September 30, of the preferred stock and warrants. In accordance with SFFAS No. 7, the annual valuation is classified as usual and recurring and thus recorded as an expense or revenue to the financial statements.

As of September 30, 2009, and September 30, 2008, GSE investments consisted of the following:

<b>Investments in GSE as of September 30, 2009</b>					
	Liquidation Preference Value At Beginning of Year	Current Year Increase in Liquidation Preference Value	Net Increase in Liquidation Preference Value	Valuation Gain/(Loss)	9/30/09 Fair Value at Reporting Date
(In billions of dollars)					
Fannie Mae Senior Preferred Stock .....	0.8	44.9	45.7	(20.6)	25.1
Freddie Mac Senior Preferred Stock .....	0.8	50.7	51.5	(23.2)	28.3
Fannie Mae Warrants Common Stock .....	3.1	-	3.1	3.6	6.7
Freddie Mac Warrants Common Stock .....	2.3	-	2.3	2.3	4.6
Total GSE Investment ...	<u>7.0</u>	<u>95.6</u>	<u>102.6</u>	<u>(37.9)</u>	<u>64.7</u>
<b>Investments in GSE as of September 30, 2008</b>					
	Cost at Purchase Date	9/30/08 Liquidation Preference Value Balance	Valuation Gain/(Loss)	9/30/08 Fair Value at Reporting Date	
(In billions of dollars)					
Fannie Mae Senior Preferred Stock .....	0.8	0.8	(0.1)	0.7	
Freddie Mac Senior Preferred Stock .....	0.8	0.8	(0.1)	0.7	
Fannie Mae Warrants Common Stock .....	3.1	3.1	3.4	6.5	
Freddie Mac Warrants Common Stock .....	2.3	2.3	2.1	4.4	
Total GSE Investment ...	<u>7.0</u>	<u>7.0</u>	<u>5.3</u>	<u>12.3</u>	

### **Government Sponsored Enterprise Credit Facility**

The GSE Credit Facility was established to ensure credit availability to the GSEs and the Federal Home Loan Banks. This lending facility provided secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. The GSEs and the Federal Home Loan Banks were eligible to borrow under this program. The GSECF provided liquidity, if needed, until December 31, 2009. There were no loans made through the GSECF in fiscal years 2009 or 2008 (see Note 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net).

### **GSE Mortgage-Backed Securities Purchase Program**

Under this program, Treasury, via asset managers, purchased GSE MBS in the open market. The asset managers were also authorized to enter into other trade/sell transactions such as pair offs, turns, assignments, and dollar rolls. By purchasing these credit-guaranteed securities, the Treasury sought to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market. The size and timing of the MBS purchases was subject to the discretion of the Secretary. The scale of the program was based on developments in the capital and housing markets. As these securities are backed by individual mortgages, they are accounted for under the Federal Credit Reform Act and are included in Note 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net.

### **Temporary Guarantee Program for Money Market Funds**

In September 2008, the Treasury Department established a Temporary Guarantee Program (Program) for Money Market Funds. Under this program, Treasury 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 from funds available under the EESA. Under Section 131 of the Act such outlays would be reimbursed from funds available under TARP. 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 and Treasury did not receive any claims for payment. As of September 30, 2009, Treasury had collected a total of approximately \$1.2 billion in program participation payments that is recorded as earned revenue in the Statement of Net Cost. All participant payments are invested into Government securities.

## Note 12. Other Assets

### Other Assets as of September 30

(In billions of dollars)	2009	2008
Advances and prepayments .....	76.9	45.0
FDIC Receivable from Resolution Activity .....	32.1	14.6
NCUA Loans .....	18.4	1.1
Regulatory assets .....	14.4	12.0
Other .....	14.1	16.8
Total other assets .....	<u>155.9</u>	<u>89.5</u>

Advances and prepayments are assets that represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. These include advances to contractors and grantees, travel advances, and prepayments for items such as rents, taxes, insurance, royalties, commissions, and supplies.

With regard to regulatory assets, the DOE's Power Marketing Authorities (PMAs) and the TVA record certain amounts as assets in accordance with FASB ASC 980-Regulated Operations (formerly) SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. The provisions of FASB ASC 980 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under FASB ASC 980, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If the PMAs' or TVA's rates should become market-based, FASB ASC 980 would no longer be applicable, and all of the deferred costs under that standard would be expensed.

The FDIC has receiverships management responsibility for resolving the failed institutions in an orderly and efficient manner. The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bid for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through closing process. FDIC records receivables for resolutions which include payments by the Deposit Insurance Fund to cover obligations to insured depositors, advances to receiverships and conservatorships for working capital, and administrative expenses paid on behalf of receiverships and conservatorships.

The National Credit Union Administration (NCUA) provides a variety of loans as a liquidity lender to credit unions experiencing unusual or unexpected liquidity shortfalls. These loans can be either short- or long-term. NCUA also provides loans to stimulate economic development in low-income communities.

The NCUA 2008 amount of \$1.1 billion and \$8.5 billion of the FDIC 2008 amounts were reclassified from the All Other Programs line of Note 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantees, Net to conform to the fiscal year 2009 presentation.

Other items included in other assets are purchased power generating capacity, deferred nuclear generating units, nonmarketable equity investments in international financial institutions, and the balance of assets held by the experience-rated carriers participating in the Health Benefits and Life Insurance Program (pending disposition on behalf of OPM).

Advances and prepayments increased significantly from 2008 to 2009, primarily as a result of a \$26.9 billion correction of an error by DOD. In fiscal year 2009, DOD made corrections to recognize \$26.9 billion in assets for contract financing payments of shipbuilding procurement during the period October 1, 2005, through September 30, 2008. DOD correction is reflected in the September 30, 2009, advances and prepayments amount.

## Note 13. Accounts Payable

### Accounts Payable as of September 30

(In billions of dollars)	2009	2008
Department of Defense.....	35.4	32.1
Department of the Treasury.....	4.8	3.8
Department of Veterans Affairs.....	4.5	6.2
Department of Homeland Security.....	2.8	2.9
Tennessee Valley Authority.....	2.7	3.2
Department of Justice.....	2.3	2.1
General Services Administration.....	2.3	2.1
Department of State.....	2.0	2.8
Department of Education.....	1.9	1.3
Agency for International Development.....	1.8	1.9
U.S. Postal Service.....	1.7	1.7
Department of Energy.....	1.7	1.6
Department of Labor.....	1.4	0.9
National Aeronautics and Space Administration.....	1.3	1.4
Department of Housing and Urban Development.....	1.0	0.9
All other.....	5.6	8.4
Total accounts payable.....	<u>73.2</u>	<u>73.3</u>

Accounts payable includes amounts due for goods and property ordered and received, services rendered by other than Federal employees, and accounts payable for cancelled appropriations.

## Note 14. Federal Debt Securities Held by the Public and Accrued Interest

### Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2008	Net Change During Fiscal Year 2009	Balance September 30, 2009	Average Interest Rate	
				2009	2008
<b>Treasury securities (public):</b>					
Marketable securities:					
Treasury bills .....	1,484.3	501.9	1,986.2	0.3%	1.6%
Treasury notes .....	2,623.4	1,149.6	3,773.0	3.0%	4.1%
Treasury bonds .....	578.5	99.0	677.5	6.5%	7.1%
Treasury inflation-protected securities (TIPS) .....	524.0	27.3	551.3	2.1%	2.0%
Total marketable Treasury securities .....	5,210.2	1,777.8	6,988.0		
Nonmarketable securities .....	598.5	(34.6)	563.9	3.7%	4.1%
Net unamortized premium/ (discounts) .....	(36.1)	2.2	(33.9)		
Total Treasury securities, net (public) .....	5,772.6	1,745.4	7,518.0		
<b>Agency securities:</b>					
Tennessee Valley Authority .....	22.6	-	22.6		
All other agencies .....	0.4	-	0.4		
Total agency securities, net of unamortized premiums and discounts .....	23.0	-	23.0		
<b>Accrued interest payable</b> .....	40.6	1.1	41.7		
<b>Total Federal debt securities held by the public and accrued interest</b> .....	<u>5,836.2</u>	<u>1,746.5</u>	<u>7,582.7</u>		

Types of marketable securities:

Bills—Short-term obligations issued with a term of 1 year or less.

Notes—Medium-term obligations issued with a term of at least 1 year, but not more than 10 years.

Bonds—Long-term obligations of more than 10 years.

TIPS—Term of more than 5 years.

Federal debt securities held by the public outside the Government are held by individuals, corporations, State or local governments, FRBs, foreign governments, and central banks. The above table details Government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized discounts including accrued interest.

Securities that represent Federal debt held by the public are issued primarily by the Treasury and include:

- Interest-bearing marketable securities (bills, notes, bonds, and inflation-protected).
- Interest-bearing nonmarketable securities (foreign series, State and local government series, domestic series, and savings bonds).
- Non-interest-bearing marketable and nonmarketable securities (matured and other).

Section 3111 of Title 31, United States Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government. There were no buyback operations in fiscal years 2009 and 2008.

During the fiscal year, changes in economic conditions resulted in the need for an increase in borrowings from the public to finance federal spending. Treasury responded to the increase in marketable borrowing requirements by raising issuance sizes of regular weekly and monthly bills, increasing the frequency and issuance sizes of cash management bills, increasing the issuance sizes of nominal coupon security offerings, and adjusting the securities offering calendar to include the reintroduction of certain Treasury notes.

Gross Federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, the Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress established a dollar ceiling for Federal borrowing. Congress raised the debt limit twice during fiscal year 2009—from \$10,615 billion to \$11,315 billion in October 2008 with the passage of the EESA, and again to \$12,104 billion in February 2009 with the passage of the ARRA. On December 28, 2009, Public Law 111-123 was enacted, which increased the statutory debt limit to \$12,394 billion. On February 12, 2010, Public Law 111-139 was enacted, which increased the statutory debt limit to \$14,294 billion (See Note 28—Subsequent Events). As of September 30, 2009, and 2008, respectively, debt outstanding was \$11,853.1 billion and \$9,959.9 billion. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of Federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the following table).

**Intragovernmental Debt Holdings: Federal Debt Securities  
Held as Investments by Government Accounts as of September 30**

(In billions of dollars)	Balance 2008	Net Change During Fiscal Year 2009	Balance 2009
Social Security Administration, Federal Old-Age and Survivors Insurance .....	2,150.7	145.6	2,296.3
Office of Personnel Management, Civil Service Retirement and Disability .....	728.8	25.4	754.2
Department of Health and Human Services, Federal Hospital Insurance Trust Fund .....	318.7	(9.0)	309.7
Department of Defense, Military Retirement Fund .....	215.9	24.9	240.8
Social Security Administration, Federal Disability Insurance Trust Fund .....	216.5	(8.6)	207.9
Department of Defense, Medicare-Eligible Retiree Health Care Fund .....	112.7	14.1	126.8
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund .....	59.1	2.7	61.8
Department of Energy, Nuclear Waste Disposal .....	42.6	2.0	44.6
Office of Personnel Management, Employees' Life Insurance Fund .....	34.4	1.7	36.1
Office of Personnel Management, Postal Service Retiree Health Benefits Fund .....	32.3	2.8	35.1
Federal Deposit Insurance Corporation Funds .....	33.3	(6.9)	26.4
Department of Labor, Unemployment Trust Fund .....	72.4	(52.8)	19.6
Department of the Treasury, Exchange Stabilization Fund .....	16.8	1.8	18.6
Pension Benefit Guaranty Corporation Fund .....	22.4	(4.9)	17.5
Office of Personnel Management, Employees' Health Benefits Fund .....	15.6	(0.2)	15.4
Department of State, Foreign Service Retirement and Disability Fund .....	14.9	0.4	15.3
Department of Transportation, Highway Trust Fund .....	12.8	(1.3)	11.5
Housing and Urban Development, Federal Housing Administration (FHA) - Liquidating Account .....	19.1	(8.4)	10.7
All other programs and funds .....	97.0	12.1	109.1
Subtotal .....	<u>4,216.0</u>	<u>141.4</u>	<u>4,357.4</u>
Unamortized net (discounts)/premiums .....	32.6	1.3	33.9
Total intragovernmental debt holdings, net .....	<u><u>4,248.6</u></u>	<u><u>142.7</u></u>	<u><u>4,391.3</u></u>

Intragovernmental debt holdings represent the portion of the gross Federal debt held as investments by Government entities such as trust funds, revolving funds, and special funds. This includes trust funds that are earmarked funds. For more information on earmarked funds, see Note 24—Earmarked Funds. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

## Note 15. Federal Employee and Veteran Benefits Payable

### Federal Employee and Veteran Benefits Payable as of September 30

(In billions of dollars)	Civilian		Military		Total	
	2009	2008	2009	2008	2009	2008
Pension and accrued benefits .....	1,529.4	1,454.8	1,177.1	1,154.1	2,706.5	2,608.9
Post-retirement health and accrued benefits .....	352.2	341.8	825.8	820.6	1,178.0	1,162.4
Veterans compensation and burial benefits .....	N/A	N/A	1,317.5	1,466.7	1,317.5	1,466.7
Life insurance and accrued benefits .....	39.7	37.5	12.1	12.6	51.8	50.1
FECA benefits .....	17.9	16.6	8.1	8.8	26.0	25.4
Liability for other benefits .....	0.3	0.4	3.6	5.0	3.9	5.4
Total Federal employee and veteran benefits payable .....	<u>1,939.5</u>	<u>1,851.1</u>	<u>3,344.2</u>	<u>3,467.8</u>	<u>5,283.7</u>	<u>5,318.9</u>

### Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
<b>Actuarial accrued pension liability as of September 30, 2008....</b>	1,454.8	1,154.1	2,608.9
<b>Pension Expense:</b>			
Prior (and past) service costs from plan amendments.....	(0.4)	0.3	(0.1)
Assumption changes .....	2.1	7.8	9.9
Expected Normal costs .....	29.7	22.8	52.5
Interest on pension liability during the period.....	89.1	65.6	154.7
Actuarial (gains)/losses .....	24.7	(23.0)	1.7
Total pension expense.....	145.2	73.5	218.7
Less benefits paid.....	70.6	50.5	121.1
<b>Actuarial accrued pension liability as of September 30, 2009 ...</b>	<u>1,529.4</u>	<u>1,177.1</u>	<u>2,706.5</u>

<b>Change in Post-Retirement Health and Accrued Benefits</b>			
(In billions of dollars)	<b>Civilian</b>	<b>Military</b>	<b>Total</b>
<b>Actuarial accrued post-retirement health benefits liability, as of September 30, 2008</b> .....	341.8	820.6	1,162.4
<b>Post-Retirement Health Benefits Expense:</b>			
Normal costs.....	11.6	21.3	32.9
Interest on liability.....	20.5	47.7	68.2
Change in medical inflation rate assumption (gains) .....	-	(1.1)	(1.1)
Other actuarial (gains).....	(8.7)	(43.7)	(52.4)
Total post-retirement health benefits expense .....	23.4	24.2	47.6
Less claims paid.....	13.0	19.0	32.0
<b>Actuarial accrued post-retirement health benefits liability, as of September 30, 2009</b> .....	<u>352.2</u>	<u>825.8</u>	<u>1,178.0</u>

The Government offers its employees life and health insurance, as well as retirement and other benefits. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to civilian and military employees.

OPM administers the largest civilian plan. DOD administers the largest military plan. Other significant pension plans with more than \$10 billion in accrued benefits payable include those of the Coast Guard (DHS) and Foreign Service (Department of State).

<b>Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense</b>				
	<b>Civilian</b>		<b>Military</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Rate of interest.....	6.25%	6.25%	5.75%	5.75%
Rate of inflation .....	3.50%	3.50%	3.00%	3.00%
Projected salary increases.....	4.25%	4.25%	3.75%	3.75%

<b>Significant Long-Term Economic Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense</b>				
	<b>Civilian</b>		<b>Military</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Rate of interest.....	6.25%	6.25%	5.75%	5.75%
Medical trend rate .....	8.00%	7.00%	6.25%	6.25%

Separate boards of actuaries for OPM and DOD approve the actuarial assumptions used in calculating the pension liability and the post-retirement health benefit liability for the civilian and military personnel. The boards use generally accepted actuarial methodologies. The board for OPM uses a fixed rate of inflation and projected salary increases over all years for both the pension liability and related expense. These rates are shown in the table above. OPM approves the long-term assumptions for interest, inflation, and across-the-board salary increases shown in the table above. The DOD Health Care Board approves the assumptions used for the Medicare-eligible portion of the military post-retirement health benefit liabilities. DOD uses a range of medical trend rate assumptions, varying by year and type of service, with an ultimate rate for the long-term as shown in the table above.

DOD's long-term ultimate medical trend rate for fiscal year 2009 post-retirement health benefits liability is 6.25 percent. For disclosure and comparison purposes, DOD's estimate of a single equivalent medical trend rate for fiscal year 2009 is 6.5 percent, which is an approximation of the single equivalent rate that would produce that same actuarial liability as the actual rates used. Please refer to the individual financial statements of DOD for further details regarding Military Retirement Health Benefits—Medical Trend.

## Civilian Employees

### Pensions

OPM administers the largest civilian pension plan, which covers substantially all full-time, permanent civilian Federal employees. This plan includes two components of defined benefits. These are the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF).

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the General Fund, and interest on investments in Treasury securities. See Note 24—Earmarked Funds.

The Federal Retirement Thrift Investment Board administers the Thrift Savings Plan (TSP) Fund. The TSP Fund investment options include two fixed income funds (the G and F Funds), three stock funds (the C, S, and I Funds) and five lifecycle funds (L 2040, L 2030, L 2020, L 2010, and L Income). The L-Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons. Treasury securities held in the G-Fund are included in Federal debt securities held by the public and accrued interest in the Balance Sheets. The G-Fund held \$113.3 billion and \$101.5 billion in non-marketable Treasury securities as of September 30, 2009, and 2008, respectively.

### Post-Retirement Health Benefits

The post-retirement civilian health benefit liability is an estimate of the Government's future cost of providing post-retirement health benefits to current employees and retirees. Although active and retired employees pay insurance premiums under the Federal Employees Health Benefits Program (FEHB), these premiums cover only a portion of the costs. The OPM actuary applies economic assumptions to historical cost information to estimate the liability.

### Life Insurance Benefits

One of the largest other employee benefits is the Federal Employee Group Life Insurance (FEGLI) Program. Employee and annuitant contributions and interest on investments fund a portion of this liability. The actuarial life insurance liability is the expected present value of future benefits to pay to, or on behalf of, existing FEGLI participants. The OPM actuary uses interest rate, inflation, and salary increase assumptions that are consistent with the pension liability.

## Workers' Compensation Benefits

The DOL determines both civilian and military agencies' liabilities for future workers' compensation benefits for civilian Federal employees, as mandated by the Federal Employees' Compensation Act (FECA), for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred, but not reported, claims. The FECA liability is determined annually using historical benefit payment patterns related to injury years to predict the ultimate payments. These estimated payments have been discounted to present value using OMB's interest rate assumptions for 10-year U.S. Treasury notes. For 2009, a 4.22 percent interest rate was assumed in year one and 4.72 percent was assumed for year two and thereafter.

The DOL calculates the FECA liability using wage inflation factors cost of living adjustments or (COLA) and medical inflation factors (consumer price index—medical or CPIM). The table below reflects the compensation COLAs and CPIMs used in the estimations for various charge-back years.

Fiscal Year	COLA	CPIM
2010	0.47%	3.42%
2011	1.40%	3.29%
2012	1.50%	3.48%
2013	1.80%	3.71%
2014+	2.00%	3.71%

## Military Employees (Including Veterans)

### Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The increase in the Military Retirement Pension is due to interest on the pension liability, assumption and benefit changes, and actuarial experience. The increase due to interest is proportionate to the size of the liability. Liabilities in the future will depend on future benefit changes, assumption changes, and actuarial experience.

The Fund receives income from three sources: monthly normal cost payments from the Services to pay for the current year's service cost; annual payments from Treasury to amortize the unfunded liability and pay for the increase in the normal cost attributable to Concurrent Receipt per Public Law 108-136; and investment income. During fiscal year 2009, the Fund received approximately \$18 billion in normal cost payments, a \$55 billion Treasury payment, and approximately \$3 billion in investment income, net of premium/discount amortization and accrued inflation compensation.

Pension and accrued benefits increased in fiscal year 2009 primarily due to changes in assumptions, benefits and actuarial experience. The new assumptions include a lower Career Status Bonus (CSB) take rate, updated permanent disability retiree rates, and updated Survivor Benefit Plan/offset factors. The net effect of these new assumptions is an increase of \$7.8 billion. Actuarial experience, including an across-the-board salary increase for January 2010, and a lower than expected cost of living adjustment, led to a \$23.0 billion decrease. The change in retirement benefits, including the Dependency and Indemnity Coverage Supplement increase enacted in Public Law 111-31, led to a \$0.3 billion increase. The remaining increase results primarily from an expected increase in the actuarial liability of \$37.9 billion (growth due to normal cost, interest cost, and liability released through benefit payments).

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of the Army, Navy, Air Force, and Marine Corps). This system includes nondisability retirement pay, disability retirement pay, and survivor annuity programs. Military personnel who remain on active duty for 20 years or longer are eligible for retirement. There are three different retirement benefit formulas that are currently being used by the military: Final Pay, High-3 Year Average, and Career Status Bonus/Military Retirement Reform Act of 1986 (REDUX). The date an individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system. For more information on these benefits, see DOD's websites (<http://www.dfas.mil/army2/bonuses/redux.html>, and <http://www.defenselink.mil/militarypay/retirement/index.html>).

### **Post-Retirement Health Benefits**

Military retirees and their dependents are entitled to health care in military medical facilities if a facility can provide the needed care. Prior to becoming Medicare eligible, military retirees and their dependents also are entitled to participate in TRICARE, which reimburses (net of beneficiary copay and deductible requirements) for the cost of health care from civilian providers. TRICARE options are available in indemnity, preferred provider organization (PPO), and health maintenance organization (HMO) designs.

Since fiscal year 2002, TRICARE, as second payer to Medicare, covers military retirees and their dependents after they become Medicare eligible. This TRICARE coverage for Medicare eligible beneficiaries requires that the beneficiary enroll in Medicare Part B and is referred to as TRICARE for Life (TFL). Health care under TFL can be obtained from military medical facilities on an "as available" basis or from civilian providers. Military retiree health care actuarial liability figures include costs incurred in military medical facilities, as well as claims paid to civilian providers and certain administrative costs. Costs paid to civilian providers are net of Medicare's portion of the cost.

Chapter 56 of Title 10, U.S.C. created the DOD Medicare-Eligible Retiree Health Care Fund, which became operative on October 1, 2002. The purpose of this fund is to account for the health benefits of Medicare-eligible military retirees, their dependents, and survivors who are Medicare eligible. The Fund receives contributions from the Uniformed Services and Treasury, as well as interest earnings on its investments and pays costs incurred in military medical facilities, as well as claims for care provided by civilian providers under TFL, administration costs associated with processing the TFL claims, and premium costs for HMO coverage provided by U.S. Family Health Plans.

In addition to the health care benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2005 through 2009, the average medical care cost per year was \$33.1 billion.

### **Veterans Compensation and Burial Benefits**

The Government compensates disabled veterans and their survivors. Veterans compensation is payable as a disability benefit or a survivor's benefit. Entitlement to compensation depends on the veteran's disabilities having been incurred in, or aggravated during, active military service; death while on duty; or death resulting from service-connected disabilities, if not on active duty.

Burial benefits include a burial and plot or interment allowance payable for a veteran who, at the time of death, is qualified to receive compensation or a pension, or whose death occurred in a VA facility.

The liability for veterans' compensation and burial benefits payable decreased by \$149.2 billion in fiscal year 2009, and increased by \$339.0 billion in fiscal year 2008. The impact of lower estimated COLA rates used to calculate the 2009 liability was a reduction of \$287 billion. That reduction was due in part (\$150 billion) to the decrease in inflation expectations that occurred during 2009 and in part (\$137 billion) due to a change in methodology which aligned the assumption for future COLA rates with the assumption for future discount rates.

**Veterans Compensation and Burial Benefits Payable as of September 30**

(In billions of dollars)	2009	2008
<b>Compensation:</b>		
Veterans .....	1,130.7	1,231.9
Survivors .....	183.2	230.1
Burial benefits .....	3.6	4.7
Total veterans compensation and burial benefits payable.....	<u>1,317.5</u>	<u>1,466.7</u>

**Significant Economic Assumptions Used in Determining Veterans Compensation and Burial Benefits as of September 30**

	2009	2008
Rate of interest .....	3.17%	3.97%
Rate of inflation.....	1.30%	2.45%

**Life Insurance Benefits**

The largest veterans’ life insurance programs consist of the following:

- National Service Life Insurance (NSLI) covers policyholders who served during World War II.
- Veterans’ Special Life Insurance (VSLI) was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict and through the period ending January 1, 1957.
- Veterans’ Reopened Insurance (VRI), which provided a 1-year reopening for insurance coverage in 1965 for those eligible to have obtained NSLI or VSLI and were disabled.

The components of veteran life insurance liability for future policy benefits are presented below.

**Veterans Life Insurance Liability as of September 30**

(In billions of dollars)	2009	2008
<b>Insurance death benefits:</b>		
NSLI .....	7.3	7.8
VSLI .....	1.6	1.6
VRI .....	0.3	0.3
Other.....	0.4	0.4
Total death benefits.....	<u>9.6</u>	<u>10.1</u>
Death benefit annuities.....	0.1	0.1
Disability income and waiver .....	0.6	0.5
Insurance dividends payable.....	1.8	1.9
Total veterans life insurance liability.....	<u>12.1</u>	<u>12.6</u>

Insurance dividends payable consists of dividends left on deposit with VA, related interest payable, and dividends payable to policyholders.

The VA supervises service members' Group Life Insurance and Veterans' Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services and veterans who served during the Vietnam era or thereafter. The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the Balance Sheet. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2009, and 2008, were \$91.4 billion and \$97.3 billion, respectively.

## Note 16. Environmental and Disposal Liabilities

### Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2009	2008
<b>Department of Energy:</b>		
Environmental management program.....	180.0	185.4
Legacy environmental liabilities - other.....	57.7	51.2
Active and Surplus Facilities.....	29.9	29.4
Total Department of Energy.....	<u>267.6</u>	<u>266.0</u>
<b>Department of Defense:</b>		
Environmental restoration.....	30.2	32.0
Disposal of weapon systems program.....	25.3	28.8
Environmental corrective other.....	5.7	4.5
Base realignment and closure.....	5.1	5.2
Total Department of Defense.....	<u>66.3</u>	<u>70.5</u>
<b>All other agencies</b> .....	<u>7.9</u>	<u>6.3</u>
Total environmental and disposal liabilities.....	<u><u>341.8</u></u>	<u><u>342.8</u></u>

During World War II and the Cold War, DOE (or predecessor agencies) developed a massive industrial complex to research, produce, and test nuclear weapons. This included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

Estimated cleanup costs at sites for which there are no current feasible remediation approaches, such as the Nevada nuclear test site, are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas; however, because DOE has not identified effective remedial technologies for these sites, no basis for estimating costs is available.

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. The sites and facilities could be restored to a condition suitable for any desirable use, or could be restored to a point where they pose no near-term health risks. Achieving the former conditions would have a higher cost, but may or may not, warrant the costs, or be legally required. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

DOE's environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

DOE is also required to recognize closure and post-closure costs for its active and surplus facilities and environmental corrective action costs for current operations. The cleanup cost associated with active and surplus facilities that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. For facilities newly contaminated since fiscal year 1997, cleanup costs allocated to future periods and not included in the liability amounted to \$627.0 million and \$698.0 million for fiscal years 2009 and 2008, respectively. The unrecognized portion of the cleanup cost is recognized over a predetermined period of time.

Please refer to the financial statements of the DOE for significant detailed information regarding DOE's environmental and disposal liabilities, including cleanup costs.

DOD follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Amendments and Reauthorization Act, Resource Conservation and Recovery Act (RCRA) and other applicable Federal or State laws to clean up contamination. The CERCLA and RCRA require the DOD to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates puts the DOD at risk of incurring fines and penalties.

DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as defense sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines). DOD is responsible, as well, for training range and other non-range unexploded ordnance cleanup.

DOD uses engineering estimates and independently validated models to estimate environmental costs. The engineering estimates are used after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

DOD expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for stewardship property, plant, and equipment at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general property, plant, and equipment placed into service before October 1, 1997, except for costs intended to be recovered through user charges; for those costs, DOD has expensed cleanup costs associated with that portion of the asset life that has passed since it was placed into service. DOD systematically recognizes the remaining cost over the remaining life of the asset. The unrecognized portion of the cleanup cost associated with general property, plant, and equipment is \$2.1 billion and \$2.0 billion for fiscal years 2009 and 2008, respectively. Not all components of DOD are able to compile the necessary information for this disclosure, thus the amount reported may not accurately reflect DOD's total unrecognized costs associated with general property, plant, and equipment. DOD is implementing procedures to address these deficiencies.

DOD is unable to estimate and report a liability for environmental restoration and corrective action for buried chemical munitions and agents, because the extent of the buried chemical munitions and agents is unknown at this time. DOD is also unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program. DOD has ongoing studies and will update its estimate as additional liabilities are identified. DOD has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. However, DOD is unable to provide a reasonable estimate at this time because the extent of required restoration is unknown.

Please refer to the financial statements of the DOD for further detailed information regarding DOD's environmental and disposal liabilities, including cleanup costs.

## Note 17. Benefits Due and Payable

### Benefits Due and Payable as of September 30

(In billions of dollars)

	2009	2008
Federal Old-Age and Survivors Insurance .....	50.2	46.4
Grants to States for Medicaid .....	25.0	20.4
Federal Supplementary Medical Insurance (Medicare Parts B and D) ...	24.4	24.0
Federal Disability Insurance .....	24.3	22.2
Federal Hospital Insurance (Medicare Part A) .....	22.4	21.0
Supplemental Security Income .....	5.3	4.5
Unemployment Insurance .....	4.5	1.6
All other benefit programs.....	4.7	4.3
Total benefits due and payable.....	<u>160.8</u>	<u>144.4</u>

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. For a description of the programs, see the Supplemental Information—Social Insurance section.

## Note 18. Insurance and Guarantee Program Liabilities

### Insurance and Guarantee Program Liabilities as of September 30

(In billions of dollars)

	2009	2008
<b>Insurance and Guarantee Program Liabilities:</b>		
Pension Benefit Guaranty Corporation - Benefit Pension Plans .....	83.1	60.0
Federal Deposit Insurance Corporation Funds .....	70.5	12.1
All other insurance and guarantee programs .....	12.6	13.0
Total insurance and guarantee program liabilities .....	<u>166.2</u>	<u>85.1</u>

PBGC insures pension benefits for participants in covered defined benefit pension plans. As a wholly owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general. As of September 30, 2009, PBGC had total liabilities of \$92.1 billion, and its total liabilities exceeded its total assets by \$21.9 billion. In addition, as discussed in Note 22—Contingencies, PBGC reported reasonably possible contingent losses of about \$168.2 billion.

Of the total FDIC amount as of September 30, 2009, \$38.9 billion represents the recorded contingent liability and loss provision for institutions insured by the Deposit Insurance Fund that are likely to fail. In addition, \$20.1 billion pertains to liabilities due to resolutions of failed or failing institutions and to pending depositor claims. Another \$10.3 billion pertains to the Temporary Liquidity Guarantee Program, which guarantees certain newly issued debt and certain noninterest-bearing transaction accounts in an effort to counter the system-wide crisis in the nation's financial sector. The remaining amounts represent contingent liabilities for litigation.

Of the \$12.6 billion under all other insurance and guarantee programs as of September 30, 2009, \$5.9 billion pertains to the USDA's Federal Crop Insurance Program. The Federal Crop Insurance Program is administered by the Federal Crop Insurance Corporation, whose mission is to provide an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters. Also, \$5.3 billion represents National Credit Union Administration's Temporary Corporate Credit Union Liquidity Guarantee Program. This Program guarantees the timely payment of principal and interest on certain unsecured debt of participating credit unions.

Of the \$13.0 billion under all other insurance and guarantee programs as of September 30, 2008, \$7.3 billion pertains to USDA's Federal Crop Insurance Program. These amounts were reclassified from the Farm and Other Subsidies line of Note 19—Other Liabilities to conform to the fiscal year 2009 presentation.

## Note 19. Other Liabilities

<b>Other Liabilities as of September 30</b>	<b>2009</b>	<b>2008</b>
(In billions of dollars)		
<b>Unearned revenue and assets held for others:</b>		
DOE's unearned fees for nuclear waste disposal and other unearned revenue .....	39.8	53.3
Assets held on behalf of others .....	<u>56.6</u>	<u>46.2</u>
Subtotal .....	<u>96.4</u>	<u>99.5</u>
<b>Employee-related liabilities:</b>		
Accrued Federal employees wages and benefits .....	38.9	35.1
Selected DOE contractors' and D.C. employees' pension benefits .....	<u>41.8</u>	<u>29.2</u>
Subtotal .....	<u>80.7</u>	<u>64.3</u>
<b>Subsidies and grants:</b>		
Farm and other subsidies .....	13.9	14.1
Grant payments due to State and local governments and others .....	<u>16.5</u>	<u>14.6</u>
Subtotal .....	<u>30.4</u>	<u>28.7</u>
<b>International monetary liabilities and gold certificates (Note 2) .....</b>	<b>72.2</b>	<b>18.7</b>
<b>Miscellaneous liabilities:</b>		
Legal and other contingencies .....	26.1	26.6
Bonneville Power Administration non-Federal power projects and capital lease liabilities, and disposal liabilities .....	10.2	10.2
Other miscellaneous .....	<u>38.1</u>	<u>42.8</u>
Subtotal .....	<u>74.4</u>	<u>79.6</u>
Total other liabilities .....	<u><u>354.1</u></u>	<u><u>290.8</u></u>

Other liabilities represent liabilities that are not separately identified on the Balance Sheets and are presented on a comparative basis by major category.

## Unearned Revenue and Assets Held for Others

The Government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The Government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste is about \$26.2 billion and \$25.5 billion as of September 30, 2009, and 2008, respectively. The Federal Communications Commission (FCC) includes deferred revenue of \$17.1 billion as of September 30, 2008, for proceeds received from its competitive bidding system for the recovered analog spectrum relating to licenses that have not been granted. Other unearned revenue includes U.S.P.S. income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance and undelivered defense articles. The Foreign Military Sales program holds \$47.0 billion and \$36.0 billion as of September 30, 2009, and 2008, respectively for articles and services for future delivery to foreign governments.

## Employee-Related Liabilities

This category includes amounts owed to employees at yearend and actuarial liabilities for certain non-Federal employees. Actuarial liabilities for Federal employees and veteran benefits are included in Note 15 and are reported on another line on the balance sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to Federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors such as the University of California, which operates the Lawrence Livermore National Laboratory, for contractor employee pension and postretirement benefits, which is about \$24.4 billion and \$12.3 billion as of September 30, 2009, and 2008, respectively. Also, the Government owed about \$9.0 billion and \$8.8 billion as of September 30, 2009, and 2008, respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

## Subsidies and Grants

The Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about \$11.3 billion, and \$12.2 billion as of September 30, 2009, and 2008, respectively.

The Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2009, and 2008, the Department of Transportation (DOT), Education, and HHS collectively owed their grantees about \$13.8 billion and \$11.9 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

## Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 22—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables due to derivative contracts and the purchases of securities. In addition, many Federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise classified.

## Note 20. Collections and Refunds of Federal Revenue

### Collections of Federal Revenue for the Year Ended September 30, 2009

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2009	2008	2007	Prior Years
Individual income and tax withholdings .....	2,036.6	1,296.4	702.6	22.3	15.3
Corporation income taxes .....	225.5	138.2	69.0	1.7	16.6
Unemployment taxes .....	38.2	21.1	9.7	7.3	0.1
Excise taxes .....	69.8	57.1	12.5	0.1	0.1
Estate and gift taxes .....	24.7	0.1	4.0	0.8	19.8
Railroad retirement taxes .....	4.7	3.6	1.1	-	-
Federal Reserve earnings .....	34.3	24.5	9.8	-	-
Fines, penalties, interest, and other revenue .....	6.0	5.8	0.1	0.1	-
Customs duties .....	23.0	23.0	-	-	-
Subtotal .....	<u>2,462.8</u>	<u>1,569.8</u>	<u>808.8</u>	<u>32.3</u>	<u>51.9</u>
Less: amounts collected for non-Federal entities .....	<u>(0.2)</u>				
Total .....	<u><u>2,462.6</u></u>				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income tax and tax withholdings consist of FICA/SECA and other taxes. These taxes are characterized as non-exchange revenue.

Excise taxes consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others. These are also characterized as non-exchange revenue.

### Federal Tax Refunds Disbursed for the Year Ended September 30, 2009

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2009	2008	2007	Prior Years
Individual income and tax withholdings .....	339.6	1.1	293.8	30.4	14.3
Corporation income taxes .....	95.2	6.6	32.6	17.4	38.6
Unemployment taxes .....	0.1	-	0.1	-	-
Excise taxes .....	1.8	0.5	0.6	0.1	0.6
Estate and gift taxes .....	1.2	-	0.3	0.5	0.4
Customs duties .....	1.4	0.7	0.2	0.1	0.4
Total.....	<u>439.3</u>	<u>8.9</u>	<u>327.6</u>	<u>48.5</u>	<u>54.3</u>

### Reconciliation of Revenue to Collections for the Year Ended September 30

(In billions of dollars)	2009	2008
Consolidated revenue per the Statements of Operations and Changes in Net Position .....	2,198.4	2,661.4
Tax refunds .....	439.3	427.3
ARRA and Stimulus Act Recovery Rebate Payments .....	(2.0)	(94.3)
First-time Homebuyers Tax Credit .....	(9.4)	-
Earned income tax credit and child tax credit imputed revenue .....	(66.7)	(59.2)
Beneficial Interest in Trust .....	(23.5)	-
Nontax-related fines and penalties reported by agencies .....	(18.7)	(40.7)
Nontax-related earned revenue .....	<u>(54.8)</u>	<u>(35.7)</u>
Collections of Federal revenue .....	<u>2,462.6</u>	<u>2,858.8</u>

Consolidated revenue in the Statements of Operations and Changes in Net Position is presented on a modified cash basis, is net of tax refunds, and includes other nontax related revenue. ARRA and Stimulus Act Recovery Rebate Payments, First-time Homebuyer Credit and Earned Income Tax Credit and Child Tax Credit amounts (unaudited) are included in gross cost in the Statements of Net Cost as a component of Treasury. Beneficial Interest in Trust is presented as an asset on the Balance Sheet. The ARRA of 2009 was signed into law on February 17, 2009. Payments since then are \$2.0 billion as of September 30, 2009. The payments under the Economic Stimulus Act of 2008 are \$94.3 billion as of September 30, 2009.

On the other hand, collections of Federal revenue are reported on a gross cash basis. The table above reconciles total revenue to collections.

### Collections of Federal Revenue for the Year Ended September 30, 2008

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2008	2007	2006	Prior Years
Individual income and tax withholdings .....	2,294.3	1,455.0	799.2	23.5	16.6
Corporation income taxes .....	354.0	222.0	114.0	2.0	16.0
Unemployment taxes .....	39.5	21.9	10.1	7.4	0.1
Excise taxes .....	68.4	50.2	17.9	0.1	0.2
Estate and gift taxes .....	29.8	-	19.2	1.3	9.3
Railroad retirement taxes .....	4.9	3.7	1.2	-	-
Federal Reserve earnings .....	33.6	25.9	7.7	-	-
Fines, penalties, interest, and other revenue .....	6.6	6.1	0.4	0.1	-
Customs duties .....	28.6	28.6	-	-	-
Subtotal .....	<u>2,859.7</u>	<u>1,813.4</u>	<u>969.7</u>	<u>34.4</u>	<u>42.2</u>
Less: amounts collected for non-Federal entities .....	<u>(0.9)</u>				
Total .....	<u>2,858.8</u>				

### Federal Tax Refunds Disbursed for the Year Ended September 30, 2008

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2008	2007	2006	Prior Years
Individual income and tax withholdings .....	369.3	0.9	342.1	19.2	7.1
Corporation income taxes .....	54.3	2.2	19.6	10.4	22.1
Unemployment taxes .....	0.1	-	0.1	-	-
Excise taxes .....	1.3	0.5	0.5	0.1	0.2
Estate and gift taxes .....	1.0	-	0.3	0.4	0.3
Customs duties .....	1.3	0.7	0.2	0.1	0.3
Total .....	<u>427.3</u>	<u>4.3</u>	<u>362.8</u>	<u>30.2</u>	<u>30.0</u>

## Note 21. Prior Period Adjustments

(In billions of dollars)	Changes to Net Position	
	2009	2008
<b>Prior Period Adjustments</b>		
Department of Defense.....	1.6	-
Department of the Interior.....	(0.3)	-
Department of Agriculture.....	-	11.5
Other prior period adjustments.....	-	(0.1)
Total prior period adjustments.....	1.3	11.4

During fiscal year 2009, a DOD component implemented an Enterprise Resource Planning system, which provided a means to revalue inventory from LAC to moving average cost, which is the Department's current policy for reporting inventory. The result was a prior period adjustment due to a change in accounting principle that increased the 2009 beginning net position by \$1.6 billion. Additionally, DOI adopted SFFAS 31, Accounting for Fiduciary Activities, which resulted in the removal of net fiduciary assets and liabilities of \$(0.3) billion from its net position.

DHS deposits 30 percent of customs duties collected into an unavailable receipt account. USDA receives an amount annually from this account in accordance with 7 U.S.C. 612c to encourage exportation and domestic consumption of agricultural products. Treasury and OMB decided that USDA should be assigned responsibility for the unavailable receipt account to improve Governmentwide reporting. Consequently, the cumulative effect of this change on prior periods increased the 2008 beginning balance of Net Position by \$13.6 billion. Additionally, USDA implemented a reclassification of its road prism assets from General Property, Plant, and Equipment to Stewardship Property, Plant, and Equipment. This change removes a net book value of \$2.1 billion from the beginning balance of Net Position. The net value of these two numbers increased USDA's beginning balance of Net Position by \$11.5 billion.

## Note 22. Contingencies

### Financial Treatment of Loss Contingencies

Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in this note. The following table provides criteria for how Federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.<sup>1</sup>

Likelihood of future outflow or other sacrifice of resources.	Loss amount can be reasonably measured.	Loss range can be reasonably measured.	Loss amount or range cannot be reasonably measured.
<b>Probable.</b> Future confirming event(s) are more likely to occur than not. <sup>2</sup>	Accrue the liability. Report on Balance Sheet and Statement of Net Cost.	Accrue liability of the best estimate or minimum amount in loss range if there is no best estimate, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
<b>Reasonably possible.</b> Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated loss amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
<b>Remote.</b> Possibility of future event(s) occurring is slight.	No disclosure.	No disclosure.	No disclosure.

<sup>1</sup> In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

<sup>2</sup> For loss contingencies related to litigation, probable is defined as the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For the pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

The Government is subject to loss contingencies that include insurance and litigation cases. These loss contingencies arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for the insurance and litigation described in the following sections:

### **Insurance Contingencies**

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. The Government has insurance contingencies that are reasonably possible in the amount of \$198.7 billion as of September 30, 2009, and \$64.1 billion as of September 30, 2008. The major programs are identified below:

- PBGC reported \$168.2 billion and \$46.8 billion as of September 30, 2009, and 2008, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined pension plans that are classified as a reasonably possible exposure to loss.
- FDIC reported \$30.5 billion and \$17.2 billion as of September 30, 2009, and 2008, respectively, for identified additional risk in the financial services industry that could result in additional loss to the Deposit Insurance Fund should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

### **Insurance in Force**

Insurance in Force is the accumulation of policy limits for all policies issued and outstanding at a point in time. The Government has Insurance in Force in the amount of \$1,252.2 billion as of September 30, 2009, and \$1,660.1 billion as of September 30, 2008. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major programs are identified below:

- The DHS reported \$1,190.0 billion and \$1,600.0 billion as of September 30, 2009, and 2008, respectively, for the National Flood Insurance Program (NFIP).
- The Export-Import Bank of the United States reported \$42.2 billion and \$39.9 billion as of September 30, 2009, and 2008, respectively, for export credit insurance.

### **Deposit Insurance**

Deposit insurance covers all types of deposit accounts such as checking, NOW and savings accounts, money market deposit accounts, and certificates of deposit (CDs) received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account and shares, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial institution's closing. As a result, the Government has the following exposure from Federally-insured financial institutions:

- FDIC has estimated insured deposits of \$5,309.0 billion as of September 30, 2009, and \$4,462.0 billion as of June 30, 2008, the most recent information available at the time of issuance of the 2008 Financial Report for the Deposit Insurance Fund.
- NCUA has estimated insured shares of \$713.6 billion as of September 30, 2009, and \$601.6 billion as of September 30, 2008, for the National Credit Union Share Insurance Fund.

## Legal Contingencies

Legal contingencies as of September 30, 2009, and 2008, are summarized in the table below:

(In billions of dollars)	Accrued Liabilities <sup>1</sup>	2009 Estimated Range of Loss for Certain Cases <sup>2</sup>		Accrued Liabilities <sup>1</sup>	2008 Estimated Range of Loss for Certain Cases <sup>2</sup>	
		Lower End	Upper End		Lower End	Upper End
Legal contingencies						
Probable.....	3.4	3.4	3.9	6.6	5.8	7.8
Reasonably possible .....		10.2	22.3		8.0	21.4
<sup>1</sup> Accrued liabilities are recorded and presented in the related line items of the balance sheet. <sup>2</sup> Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.						

The Government is party to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against the Government.

Management and legal counsel have determined that it is “probable” that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are \$3.4 billion and \$6.6 billion as of September 30, 2009, and 2008, respectively, and are reflected in the Balance Sheet as “Other Liabilities.” For example, USDA is subject to various claims and contingencies related to lawsuits. For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, about \$1.3 billion and \$0.1 billion has been accrued in the financial statements as of September 30, 2009 and 2008, respectively.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as “reasonably possible” with an estimate of potential loss or a range of potential loss. The estimated potential losses for such claims and actions range from \$10.2 billion to \$22.3 billion as of September 30, 2009, and from \$8.0 billion to \$21.4 billion as of September 30, 2008. For example, DHS has pending administrative claims and 30 class action lawsuits with a “reasonably possible” likelihood of loss. The claims and lawsuits are related to claims against the Federal Emergency Management Agency (FEMA) for personal injuries allegedly resulting from exposure to formaldehyde in temporary housing units (i.e., travel trailers, and mobile homes) issued by FEMA in response to Hurricanes Katrina and Rita.

Numerous litigation cases are pending where the outcome is uncertain or it is reasonably possible that a loss has been incurred and where estimates cannot be made. There are other litigation cases where the plaintiffs have not made claims for specific dollar amounts, but the claimed amounts may be significant. The ultimate resolution of these legal actions for which the potential loss could not be determined may materially affect the U.S. Government’s financial position or operating results. Examples of specific cases are summarized below:

- Cobell et al. versus Salazar et al.—Native Americans allege that DOI and 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, the parties announced they have settled the claims raised in this lawsuit as well as other claims for the mismanagement of trust assets. The settlement is contingent on the passage of new legislation to authorize the settlement terms and court approval, which would not occur until March 2010 at the earliest. It is probable that an unfavorable outcome will occur with a \$3.412 billion estimated amount of potential loss (See Note 28—Subsequent Events, for additional information).
- Tribal Trust Fund Cases—Numerous cases have been filed in U.S. District Court 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.

It is not possible at this time to determine the likelihood of an unfavorable outcome or an estimate of the amount or range of any potential loss.

- Various parties filed administrative claims and lawsuits against the U.S. Army Corps of Engineers (USACE) as a result of Hurricane Katrina in 2005. Most of the Hurricane Katrina tort actions that have been filed are consolidated before a single judge sitting in the Eastern District of Louisiana. The court has classified the individual cases that have been consolidated into seven categories: Levee, MRGO, Insurance, Responder, Dredging Limitations, St. Rita Nursing Home and Barge. Approximately 490,000 administrative claims related to the allegations in this consolidated action have been filed. There is a reasonably possible chance of an unfavorable outcome that was previously unspecified. (See Note 28—Subsequent Events, for additional information).

**Environmental and Disposal Contingencies**

Environmental and disposal contingencies as of September 30, 2009, and 2008, are summarized in the table below:

(In billions of dollars)	Accrued Liabilities <sup>1</sup>	2009 Estimated Range of Loss for Certain Cases <sup>2</sup>		Accrued Liabilities <sup>1</sup>	2008 Estimated Range of Loss for Certain Cases <sup>2</sup>	
		Lower End	Upper End		Lower End	Upper End
Environmental and disposal contingencies						
Probable .....	13.5	13.5	13.7	12.7	12.7	13.0
Reasonably possible ....		0.4	0.4		0.4	0.4

<sup>1</sup> Accrued liabilities are recorded and presented in the related line items of the balance sheet.  
<sup>2</sup> Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is subject to loss contingencies for a variety of environmental cleanup costs for the storage and disposal of hazardous material and the operations and closures of facilities at which environmental contamination may be present.

Management and legal counsel have determined that it is “probable” that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are \$13.5 billion and \$12.7 billion as of September 30, 2009, and 2008, respectively, and are reflected on the Balance Sheet as “Other Liabilities.” DOE is subject to Spent Nuclear Fuel litigation for damages suffered by all utilities as a result of the delay in beginning disposal of spent nuclear fuel and also damages for alleged exposures to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of \$13.2 billion and \$12.4 billion as of September 30, 2009, and 2008, respectively. However, DOE reported that several developments have made it difficult to predict the amount of the Government’s likely liability, which at this time is undetermined.

## Other Contingencies

DOT reported the following other contingencies:

- The Federal Highway Administration (FHWA) reimburses states for construction costs on projects related to the Federal Highway System of roads. FHWA has pre-authorized \$41.0 billion and \$46.2 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2009, and 2008, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the consolidated financial statements.
- The Federal Transit Administration (FTA) provides grants to state and local transit authorities and agencies. FTA executes Full Funding Grant Agreements authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. Under these agreements, FTA has committed approximately \$4.2 billion and \$1.7 billion for fiscal years ending September 30, 2009, and 2008, respectively. Congress has not provided appropriations for these commitments and no liability is reflected in the consolidated financial statements.

## Treaties

The U.S. Government is a party to major treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and arms that may involve financial obligations or give rise to possible exposure to losses. A comprehensive analysis to determine any such financial obligations or possible exposure to loss and their related effect on the consolidated financial statements of the U.S. Government has not yet been performed.

## Note 23. Commitments

### Long-Term Operating Leases as of September 30

(In billions of dollars)

	2009	2008
General Services Administration.....	24.8	23.9
U.S. Postal Service .....	7.6	8.3
Department of Health and Human Services ..	1.5	1.5
Department of State .....	1.0	1.0
Department of Homeland Security.....	0.9	2.3
Department of Agriculture .....	0.9	0.8
Securities and Exchange Commission .....	0.6	0.7
Other Operating Leases.....	4.4	8.2
Total long-term operating leases.....	<u>41.7</u>	<u>46.7</u>

The Government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The Government has other contractual commitments that may require future use of financial resources. For example, the Government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are autonomous international financial entities that finance economic and social development projects in developing countries. Callable capital stock shares in the MDB, serve as a supplement pool of resources that maybe called, and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. To date, there has never been a call on this capital for any of the major MDBs and none is anticipated.

### Undelivered Orders and Other Commitments as of September 30

(In billions of dollars)	2009	2008 (Restated)
<b>Undelivered Orders:</b>		
Department of Defense .....	342.9	336.3
Department of Education .....	224.5	87.8
Department of the Treasury .....	156.4	57.1
EOP Foreign Military Sales Program .....	103.0	85.6
Department of Transportation .....	97.6	71.7
Department of Health and Human Services .....	89.4	69.4
Department of Housing and Urban Development .....	68.2	56.8
Department of Agriculture .....	44.3	37.8
Department of Energy .....	42.4	13.6
Department of Homeland Security .....	35.6	33.6
Department of State .....	15.0	13.6
Environmental Protection Agency .....	12.6	7.8
Agency for International Development .....	12.4	11.6
Department of Justice .....	11.4	8.9
National Science Foundation .....	11.0	8.0
Department of Labor .....	10.4	5.6
All other agencies .....	42.9	37.0
Total undelivered orders.....	<u>1,320.0</u>	<u>942.2</u>
<b>Other Commitments:</b>		
Senior GSE Preferred Stock Purchase Agreement .....	289.4	186.2
Callable capital subscriptions for multilateral development banks.....	62.2	62.3
Contract options and negotiations.....	10.2	3.7
Fuel purchase obligations .....	8.6	4.2
Power purchase obligations.....	7.4	7.2
Agriculture direct loans and guarantees.....	6.1	3.8
Long-term satellite and systems.....	4.7	4.8
Conservation reserve program.....	1.8	1.9
All other commitments.....	4.5	2.8
Total other commitments .....	<u>394.9</u>	<u>276.9</u>

## Other Commitments and Risks

Treasury announced on December 9, 2009, that it will start to wind down programs that were established during the crisis and are no longer critical to financial stability. As authorized by HERA, P.L. 110-289, enacted on July 30, 2008, the Secretary of the Treasury entered into SPSPAs with Fannie Mae and Freddie Mac on September 7, 2008, and began providing substantial financial support to the enterprises; thereby minimizing potential systemic financial risks associated with the deteriorating financial condition of Fannie Mae and Freddie Mac. These agreements, which have no expiration date, provide that Treasury will make funding advances to the GSEs if, at the end of any quarter FHFA determines that the liabilities of either GSE exceed its assets. As of September 30, 2009, the maximum amount available to each GSE under this agreement was \$200 billion. See Note 28—Subsequent Events regarding modification to the amount available to each GSE under the SPSPAs authorized by HERA.

In addition, the U. S. Government has entered into other agreements that could potentially require claims on Government resources in the future. For an example, The Terrorism Risk Insurance Act of 2002 (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 Treasury 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 Government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Government. The Act also gives Treasury 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.

## Restatements

As of September 30, 2008, the following restatements were made: Due to correction of errors by DOD, Education, Executive Office of the President (EOP) Foreign Military Sales, and the FCC undelivered orders increased by \$72.1 billion. The restatement had no impact on the assets or liabilities reported on the balance sheet and the 2008 net position as reported.

In addition, due to correction of an error by DOE, \$32.8 billion was removed from commitments. During 2009, DOE determined that its surplus power sales activity did not meet the definition of a commitment. The restatement had no impact on the assets or liabilities reported on the balance sheet and the 2008 net position as reported.

## Note 24. Earmarked Funds

### Earmarked Funds as of September 30, 2009 <sup>1</sup>

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement and Disability Fund	Medicare- Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Civil Service Health Benefits Program Trust Funds
<b>Assets:</b>						
Cash and other monetary assets.....	-	-	-	-	0.1	-
Fund balance with Treasury .....	(0.2)	-	-	-	0.4	1.0
Investments in U.S. Treasury securities, net of unamortized premiums/discounts .....	2,296.3	275.5	754.2	146.8	309.7	50.5
Other Federal assets.....	26.8	2.9	10.2	1.6	28.5	1.2
Non-Federal assets.....	2.3	-	0.4	0.4	0.7	0.9
Total assets.....	<u>2,325.2</u>	<u>278.4</u>	<u>764.8</u>	<u>148.8</u>	<u>339.4</u>	<u>53.6</u>
<b>Liabilities:</b>						
Liabilities due and payable to beneficiaries .....	50.3	3.7	5.3	0.7	22.4	3.8
Other Federal liabilities.....	4.7	-	0.1	0.1	24.4	0.3
Other non-Federal liabilities .....	-	1,173.5	1,455.4	509.4	0.2	340.3
Total liabilities.....	55.0	1,177.2	1,460.8	510.2	47.0	344.4
Total net position .....	<u>2,270.2</u>	<u>(898.8)</u>	<u>(696.0)</u>	<u>(361.4)</u>	<u>292.4</u>	<u>(290.8)</u>
Total liabilities and net position .....	<u>2,325.2</u>	<u>278.4</u>	<u>764.8</u>	<u>148.8</u>	<u>339.4</u>	<u>53.6</u>
<b>Change in net position:</b>						
Beginning net position.....	2,128.7	(901.1)	(653.6)	(366.7)	302.9	(285.5)
Prior period adjustment .....	-	-	-	-	-	-
Beginning net position, adjusted.....	2,128.7	(901.1)	(653.6)	(366.7)	302.9	(285.5)
Investment revenue.....	107.7	2.8	37.1	1.1	15.6	1.9
Individual income taxes.....	571.2	-	-	-	194.1	-
Unemployment and excise taxes...	-	-	-	-	-	-
Other taxes and receipts .....	-	-	-	-	0.5	-
Miscellaneous earned revenues..	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers).....	12.1	72.5	31.4	21.4	14.5	9.1
Non-program expenses.....	-	-	-	-	-	-
Program net cost.....	549.5	73.0	110.9	17.2	235.2	16.3
Ending net position.....	<u>2,270.2</u>	<u>(898.8)</u>	<u>(696.0)</u>	<u>(361.4)</u>	<u>292.4</u>	<u>(290.8)</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

**Earmarked Funds as of September 30, 2009 <sup>1</sup>**

(In billions of dollars)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	Exchange Stabilization Fund	All Other Earmarked Funds	Intra- Earmarked Fund Eliminations	Total Earmarked Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	0.3	71.7	0.1	-	72.2
Fund balance with Treasury ..	(0.3)	2.9	-	103.3	-	107.1
Investments in U.S. Treasury securities, net of unamortized premiums/discounts.....	207.9	61.8	19.8	185.9	-	4,308.4
Other Federal assets.....	2.6	27.9	-	19.6	(57.0)	64.3
Non-Federal assets .....	3.2	4.3	13.5	81.4	-	107.1
Total assets .....	<u>213.4</u>	<u>97.2</u>	<u>105.0</u>	<u>390.3</u>	<u>(57.0)</u>	<u>4,659.1</u>
<b>Liabilities:</b>						
Liabilities due and payable to beneficiaries .....	25.5	24.4	-	6.4	-	142.5
Other Federal liabilities.....	1.3	28.5	-	57.3	(57.0)	59.7
Other non-Federal liabilities ...	-	0.3	61.2	163.9	-	3,704.2
Total liabilities .....	26.8	53.2	61.2	227.6	(57.0)	3,906.4
Total net position .....	186.6	44.0	43.8	162.7	-	752.7
Total liabilities and net position .....	<u>213.4</u>	<u>97.2</u>	<u>105.0</u>	<u>390.3</u>	<u>(57.0)</u>	<u>4,659.1</u>
<b>Change in net position:</b>						
Beginning net position .....	196.7	52.0	39.8	191.4	-	704.6
Prior period adjustment .....	-	-	-	(0.3)	-	(0.3)
Beginning net position, adjusted.....	196.7	52.0	39.8	191.1	-	704.3
Investment revenue.....	10.6	3.0	-	4.8	-	184.6
Individual income taxes .....	97.0	-	-	-	-	862.3
Unemployment and excise taxes .....	-	-	-	87.0	-	87.0
Other taxes and receipts .....	-	-	0.2	51.8	(0.3)	52.2
Miscellaneous earned revenues.....	-	-	-	4.4	-	4.4
Other changes in fund balance (e.g., appropriations, transfers) ..	(1.3)	183.8	-	42.5	-	386.0
Non-program expenses.....	-	-	-	2.8	-	2.8
Program net cost .....	116.4	194.8	(3.8)	216.1	(0.3)	1,525.3
Ending net position .....	<u>186.6</u>	<u>44.0</u>	<u>43.8</u>	<u>162.7</u>	<u>-</u>	<u>752.7</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

**Earmarked Funds as of September 30, 2008 <sup>1</sup>**

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement and Disability Fund	Medicare- Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Civil Service Health Benefits Program Trust Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	-	-	-	-	-
Fund balance with Treasury .....	(0.3)	-	-	-	0.2	0.9
Investments in U.S. Treasury Securities, net of unamortized premiums/discounts .....	2,150.7	250.3	728.9	132.8	318.7	47.8
Other Federal assets .....	26.4	2.7	10.1	1.5	26.8	1.1
Non-Federal assets .....	2.5	-	0.3	-	1.1	0.9
<b>Total assets .....</b>	<b>2,179.3</b>	<b>253.0</b>	<b>739.3</b>	<b>134.3</b>	<b>346.8</b>	<b>50.7</b>
<b>Liabilities and net position:</b>						
Liabilities due and payable to beneficiaries .....	46.4	3.4	5.0	0.6	21.0	4.1
Other Federal liabilities .....	4.2	-	0.1	0.1	22.5	0.3
Other non-Federal liabilities .....	-	1,150.7	1,387.8	500.3	0.4	331.8
<b>Total liabilities .....</b>	<b>50.6</b>	<b>1,154.1</b>	<b>1,392.9</b>	<b>501.0</b>	<b>43.9</b>	<b>336.2</b>
<b>Total net position .....</b>	<b>2,128.7</b>	<b>(901.1)</b>	<b>(653.6)</b>	<b>(366.7)</b>	<b>302.9</b>	<b>(285.5)</b>
<b>Total liabilities and net position .....</b>	<b>2,179.3</b>	<b>253.0</b>	<b>739.3</b>	<b>134.3</b>	<b>346.8</b>	<b>50.7</b>
<b>Change in net position:</b>						
Beginning net position .....	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)
Prior period adjustment .....	-	-	-	-	-	-
Beginning net position, adjusted .....	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)
Investment revenue .....	104.1	15.5	37.3	8.2	16.6	1.9
Individual income taxes .....	573.8	-	-	-	197.2	-
Unemployment and excise taxes .....	-	-	-	-	-	-
Other taxes and receipts .....	-	-	-	-	0.6	-
Miscellaneous earned revenue .....	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers) .....	10.0	65.1	30.9	24.4	11.2	8.7
Non-program expenses .....	-	-	-	-	-	-
Program net cost .....	505.9	171.1	108.2	(8.6)	217.7	33.3
<b>Ending net position .....</b>	<b>2,128.7</b>	<b>(901.1)</b>	<b>(653.6)</b>	<b>(366.7)</b>	<b>302.9</b>	<b>(285.5)</b>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

**Earmarked Funds as of September 30, 2008 <sup>1</sup>**

(In billions of dollars)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	Exchange Stabilization Fund	All Other Earmarked Funds (Restated)	Intra- Earmarked Fund Eliminations	Total Earmarked Funds (Restated)
<b>Assets:</b>						
Cash and other monetary assets .....	-	0.3	22.2	0.1	-	22.6
Fund balance with Treasury .....	(0.4)	12.3	0.1	77.3	-	90.1
Investments in U.S. Treasury Securities, net of unamortized premiums/discounts.....	216.5	59.1	16.8	233.2	-	4,154.8
Other Federal assets .....	2.7	26.5	-	19.5	(53.5)	63.8
Non-Federal assets .....	3.0	5.0	10.8	79.8	-	103.4
Total assets .....	<u>221.8</u>	<u>103.2</u>	<u>49.9</u>	<u>409.9</u>	<u>(53.5)</u>	<u>4,434.7</u>
<b>Liabilities and net position:</b>						
Liabilities due and payable to beneficiaries .....	24.1	24.0	-	3.6	-	132.2
Other Federal liabilities .....	1.0	26.9	-	50.4	(53.5)	52.0
Other non-Federal liabilities..	-	0.3	10.1	164.5	-	3,545.9
Total liabilities .....	<u>25.1</u>	<u>51.2</u>	<u>10.1</u>	<u>218.5</u>	<u>(53.5)</u>	<u>3,730.1</u>
Total net position .....	<u>196.7</u>	<u>52.0</u>	<u>39.8</u>	<u>191.4</u>	<u>-</u>	<u>704.6</u>
Total liabilities and net position .....	<u>221.8</u>	<u>103.2</u>	<u>49.9</u>	<u>409.9</u>	<u>(53.5)</u>	<u>4,434.7</u>
<b>Change in net position:</b>						
Beginning net position .....	193.9	43.9	38.1	197.5	-	620.2
Prior period adjustment .....	-	-	-	-	-	-
Beginning net position, adjusted .....	193.9	43.9	38.1	197.5	-	620.2
Investment revenue .....	11.0	2.5	1.4	2.5	-	201.0
Individual income taxes .....	97.4	-	-	-	-	868.4
Unemployment and excise taxes .....	-	-	-	91.2	-	91.2
Other taxes and receipts .....	0.1	3.3	-	30.7	(0.4)	34.3
Miscellaneous earned revenue.....	-	-	-	5.8	-	5.8
Other changes in fund balance (e.g., appropriations, transfers)..	(1.5)	179.6	-	9.6	-	338.0
Non-program expenses .....	-	-	-	1.9	-	1.9
Program net cost .....	<u>104.2</u>	<u>177.3</u>	<u>(0.3)</u>	<u>144.0</u>	<u>(0.4)</u>	<u>1,452.4</u>
Ending net position .....	<u>196.7</u>	<u>52.0</u>	<u>39.8</u>	<u>191.4</u>	<u>-</u>	<u>704.6</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. Earmarked funds generally include trust funds, public enterprise revolving funds (not including credit reform financing funds) and special funds.

In the Federal budget, the term "trust fund" means only that the law requires a particular fund be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund's resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity. The activity of earmarked funds differs from fiduciary activities primarily in that earmarked fund assets are Government-owned.

Public enterprise revolving funds include expenditure accounts authorized by law to be credited with offsetting collections, mostly from the public, that are generated by and earmarked to finance a continuing cycle of business-type operations. Some of the financing for these funds may be from appropriations.

Special funds are Federal funds earmarked by law for a specific purpose. Special funds include the special fund receipt account and the special fund expenditure account.

The tables above depict major earmarked funds chosen based on their significant financial activity and importance to taxpayers. All other Government earmarked funds not shown separately are aggregated as "all other."

Total assets represent the unexpended balance from all sources of receipts and amounts due to the earmarked funds, regardless of source, including related Governmental transactions. These are transactions between two different entities within the Government (for example, monies received by one entity of the Government from another entity of the Government).

The intragovernmental assets are comprised of fund balances with Treasury, investments in Treasury securities—including unamortized amounts, and other assets that include the related accrued interest receivable on Federal investments. These amounts were eliminated in preparing the principal financial statements.

The non-Federal assets represent only the activity with individuals and organizations outside of the Government.

Most of the earmarked fund assets are invested in intragovernmental debt holdings. The Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to Federal agencies as evidence of its receipts. Treasury securities are an asset to the Federal agencies and a liability to the U.S. Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report of the U.S. Government*. These securities require redemption if a fund's disbursements exceeds its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 14—Federal Debt Securities Held by the Public and Accrued Interest for further information related to the investments in Federal debt securities.

Depicted below is a description of the major earmarked funds shown in the above tables, which also includes the names of the Government agencies that administer each particular fund. For detailed information regarding these earmarked funds, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain earmarked funds, see Note 17—Benefits Due and Payable.

## Federal Old-Age and Survivors Insurance Trust Fund

The Federal Old-Age and Survivors Insurance Trust Fund, administered by the SSA, provides a basic annuity to workers to protect them from loss of income at retirement and provide a guaranteed income to survivors in the event of the death of a family's primary wage earner.

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits provide the fund with additional income. The law establishing the Federal Old-Age and Survivors Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 401.

## **Military Retirement Fund**

The Military Retirement Fund, administered by DOD, provides retirement benefits for Army, Navy, Marine Corps, and Air Force personnel and their survivors. The fund is financed by DOD contributions, appropriations, and interest earnings on Treasury securities. The laws establishing the Military Retirement Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 10 U.S.C. § 1461-1467.

## **Civil Service Retirement and Disability Fund**

The CSRDF covers two Federal civilian retirement systems: the CSRS—for employees hired before 1984, and the FERS—for employees hired after 1983. OPM administers the CSRS and the FERS systems. The laws establishing the CSRDF and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8331-8348. Funding sources include:

- Federal civilian employees' contributions.
- Agencies' contributions on behalf of employees.
- Appropriations.
- Interest earnings on Treasury securities.

## **Medicare-Eligible Retiree Health Care Fund**

The Department of Defense Medicare-Eligible Retiree Health Care Fund, administered by the Secretary of the Treasury and established by 10 U.S.C. § 1111, finances and pays the liabilities under the DOD retiree health care programs for military retirees, their dependents and survivors who are Medicare-Eligible. Such beneficiaries include qualifying members, former members, and dependents of the Uniformed Services. The assets of the fund are comprised of any amounts appropriated to the trust fund, payments to the fund authorized by 10 U.S.C. § 1116, and interest earned on investments authorized by 10 U.S.C. § 1117.

## **Federal Hospital Insurance Trust Fund (Medicare Part A)**

The Federal Hospital Insurance Trust Fund, administered by HHS, finances the Hospital Insurance Program (Medicare Part A). This program funds the cost of inpatient hospital and related care for individuals age 65 or older who meet certain insured status requirements, and eligible disabled people.

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by Federal agencies. It also receives income from interest earnings on Treasury securities and a portion of income taxes collected on Social Security benefits. The law establishing the Federal Hospital Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395i.

## **Civil Service Health Benefits Program Trust Funds**

The Civil Service Health Benefits Program (HBP) provides health benefits to Federal employees and dependents as well as to Federal retirees, including USPS retirees, and survivor annuitants. The program is operated through two revolving trust funds. The HBP administers a wide variety of health and wellness plans including Fee-For-Service and HMO plans. Retired employees can choose to continue coverage upon separation from the Government. OPM administers the HBP.

The law establishing the first HBP trust fund, the FEHB Fund, and authorizing the depositing of amounts to the credit of the trust fund is set forth in 5 U.S.C. § 8909. The FEHB fund is funded on a “pay-as-you-go” basis and funding sources include:

- Federal civilian employees’ contributions.
- Agencies’ contributions on behalf of employees.
- Appropriations (for “employer” share related to retirement program annuitants).
- Interest earnings on Treasury securities.

The *Postal Accountability and Enhancement* (Postal Act of 2006) (P.L. No 109-435, Title VIII), made significant changes in the funding of retiree health benefits for employees of the USPS, including the requirement for the USPS to make scheduled payments to the second HBP trust fund, the newly-created Postal Service Retiree Health Benefits (PSRHB) Fund.

The laws establishing the PSRHB Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8909a. The Postal Civil Service Retirement and Health Benefits Funding Amendments of 2006 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from \$5.4 billion to \$5.8 billion per year from fiscal year 2007 through fiscal year 2016. Thereafter, the USPS will make annual payments in the amount of the normal cost payment. The PSRHB Fund is also funded by interest earnings on Treasury securities. However, Public Law 111-68 made significant changes to the funding requirements of 5 U.S.C. § 8909a. Specifically, the law changed the USPS contribution for fiscal year 2009 to \$1.4 billion rather than \$5.4 billion.

## Federal Disability Insurance Trust Fund

The Federal Disability Insurance Trust Fund provides financial assistance and protection against the loss of earnings due to a wage earner’s disability. The SSA administers this Trust Fund.

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The fund also receives income from interest earnings on Treasury securities, Federal agencies’ payments for the Social Security benefits earned by military and Federal civilian employees, and a portion of income taxes collected on Social Security benefits. The law establishing the Federal Disability Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 401.

## Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)

The Federal Supplementary Medical Insurance Trust Fund, administered by HHS, finances the Supplementary Medical Insurance Program (Medicare Part B) and the Medicare Prescription Drug Benefit Program (Medicare Part D). These programs provide supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. Medicare Part B financing is not based on payroll taxes; it is based on monthly premiums, income from the General Fund of the Treasury, and interest earnings on Treasury securities. The law establishing the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395t.

Medicare Part D was created by the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* (P.L. No. 108-173). Medicare Part D financing is similar to Part B; it is based on monthly premiums and income from the General Fund of the Treasury, not on payroll taxes. The law creating the Medicare prescription drug account within the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395w-116.

## Exchange Stabilization Fund (ESF)

The Exchange Stabilization Fund uses funds to purchase or sell foreign currencies, hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. SDR assets in the International Monetary Fund, investments in Treasury securities, and investments in Foreign Currency Denominated assets are the sources of revenues or financing sources to the ESF. The Gold Reserve Act of 1934, the Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the fund. The law establishing the ESF account and authorizing the depositing of amounts to the credit of the trust fund are set forth in 31 U.S.C. § 5302.

## All Other Earmarked Funds

The Government is responsible for the management of numerous earmarked funds that serve a wide variety of purposes. The earmarked funds presented on an individual basis in the table above represent the majority of the Government's net position attributable to earmarked funds. All other earmarked activity is aggregated in accordance with SFFAS No. 27. For the years ending September 30, 2009 and 2008, there were approximately 579 and 537 earmarked funds, respectively. The earmarked funds within the "all other" aggregate, along with the agencies that administer them, include the following:

- Unemployment Trust Fund—administered by DOL.
- Railroad Retirement Trust Fund—administered by RRB.
- Universal Service Fund—administered by FCC.
- Federal Crop Insurance Corporation Fund—administered by USDA.
- Superfund (Hazardous Substance) and Leaking Underground Storage Tanks—administered by Environmental Protection Agency (EPA).
- National Telecommunications and Information Administration (NTIA) Digital Television Transition and Public Safety Fund—administered by Department of Commerce (DOC).
- Land and Water Conservation Fund, Reclamation Fund, Water and Related Resources Fund, Lower Colorado River Basin Fund, and Historic Preservation Fund—administered by DOI.
- Decommissioning and Decontamination Fund—administered by DOE.
- Black Lung Disability Trust Fund (BLDTF)—administered by DOL.
- Federal Employees' Life Insurance—administered by OPM.
- Mass Transit—administered by DOT.
- Medical Care—administered by VA.
- Customs User Fees, and National Flood Insurance Program—administered by DHS.
- Government National Mortgage Association (Ginnie Mae)—administered by HUD.

## Unemployment Trust Fund (UTF) and Excise Taxes

The Unemployment Trust Fund provides temporary assistance to workers who lose their jobs. The program is administered through a unique system of Federal and State partnerships, established in Federal law, but executed through conforming State laws by State officials. DOL administers the Federal operations of the program.

The current economic recession has increased average unemployment from 5.3 percent in fiscal year 2008 to 8.6 percent in 2009. Additionally, new unemployment insurance benefit claims rose 70 percent, and payments rose 181 percent to \$119.2 billion. As a result, the UTF's total assets decreased from \$75.0 billion in 2008 to \$25.1 billion in 2009. The decrease in total assets was reflected in the investments held in the UTF. A portion of these investments was liquidated to pay unemployment benefits causing investments to decrease from \$73.3 billion in 2008 to \$19.8 billion in 2009. As a result, net position of the UTF dropped from \$72.1 billion in 2008 to \$10.5 billion in 2009.

Employer taxes provide the primary funding source for the UTF and constitute all the earmarked unemployment tax revenues as shown on the consolidated Statement of Operations and Changes in Net Position. For the years ending September 30, 2009, and 2008, UTF unemployment tax revenues were \$38.1 billion and \$39.4 billion, respectively. However, interest earnings on Treasury securities also provide income to the fund. Appropriations have supplemented the fund's income during periods of high and extended unemployment. The law establishing the UTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1104.

In addition, there are 10 other earmarked funds within the "all other" aggregate that contribute to all of the earmarked excise tax revenue shown on the consolidated Statement of Operations and Changes in Net Position. Two of these earmarked funds, the Highway Trust Fund and the Airport and Airway Trust Fund, provide more than 90 percent of the total earmarked excise tax revenues. Both of these earmarked funds are administered by the DOT and, for more detailed information regarding them, please refer to DOT's financial statements.

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides Federal grants to States for highway construction, certain transit programs, and related transportation purposes. The law establishing the Highway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9503. Funding sources include earmarked excise taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For the years ending September 30, 2009, and 2008, Highway Trust Fund excise tax revenues were \$35.0 billion and \$36.4 billion, respectively. As funds are needed for payments, the Highway Trust Fund Corpus investments are liquidated and funds are transferred to the Federal Highway Administration, the Federal Transit Administration, or other DOT entity, for payment of obligations.

The Airport and Airway Trust Fund provides for airport improvement and airport facilities maintenance. It also funds airport equipment, research, and a portion of the Federal Aviation Administration's administrative operational support. The law establishing the Airport and Airway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9502. Funding sources include:

- Taxes received from transportation of persons and property in the air and fuel used in commercial and general aviation.
- International departure taxes.
- Interest earnings on Treasury securities.

For the years ending September 30, 2009, and 2008, Airport and Airway Trust Fund excise tax revenues were \$10.6 billion and \$11.8 billion, respectively. These revenue amounts do not reflect any transfers from the Highway Trust Fund to the Airport and Airway Trust Fund for fuel which was used in aviation, but which was taxed at highway rates under P.L. 109-59 (SAFETEA-LU).

## Miscellaneous Earned Revenues

Miscellaneous earned revenues due to earmarked funds activity primarily relate to royalties retained by various earmarked funds within DOI.

## Intra-Earmarked Fund Eliminations

The intra-earmarked fund eliminations represent the activity between earmarked funds that are administered by different Federal agencies and which are eliminated to produce consolidated earmarked revenues and net costs as shown on the Statement of Operations and Changes in Net Position. Significant examples of such intra-earmarked fund activity include the financial interchanges and transactions between the Railroad Retirement Trust Fund, the Social Security Trust Funds, and the Medicare Trust Funds, which are administered by the RRB, SSA and HHS, respectively. The financial interchanges and transactions between RRB's Railroad Retirement Trust Fund, SSA's Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, and HHS' Federal Hospital Insurance Trust Fund are intended to put the latter three trust funds in the same position they would have been had railroad employment been covered under the Social Security Act. For further information, see the Railroad Retirement program description within Note 26—Social Insurance.

## Restatements

As of September 30, 2008, the following restatements were made:

Due to a correction of an error by VA, other Federal liabilities were decreased and other non-Federal liabilities were increased by \$12.8 billion. This restatement had no impact on liabilities reported on the balance sheet and no impact on 2008 net position as reported.

In addition, due to a correction of an error by the DOT Highway Trust Fund, both other non-Federal assets and other non-Federal liabilities were decreased by \$27.1 billion to remove an intra-DOT elimination. The restatement had no impact on the assets or liabilities reported on the balance sheet and no impact on the 2008 net position as reported.

## Note 25. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Government must uphold. Fiduciary cash and other assets are not assets of the Government and accordingly are not recognized on the consolidated Governmentwide Balance Sheet. Examples of the Government's fiduciary activities include the Thrift Savings Plan, which is administered by the Federal Retirement Thrift Investment Board, and the Indian tribal and individual Indian trust funds, which are administered by the DOI.

### Schedule of Fiduciary Net Assets as of September 30, 2009

(In billions of dollars)

FRTIB-Thrift Savings Plan .....	234.0
Department of the Interior .....	3.6
All other .....	5.0
Total fiduciary net assets.....	<u>242.6</u>

In accordance with the requirements of SFFAS 31, fiduciary investments in Treasury securities and fund balance with Treasury held by fiduciary funds are to be recognized on the Governmentwide Balance Sheet as debt held by the public and as liability for fiduciary fund balance with Treasury, respectively.

As of September 30, 2009, total fiduciary investments in Treasury securities and in non-Treasury securities are \$116.9 billion and \$124.8 billion, respectively. As of September 30, 2009, the total fiduciary fund balance with Treasury is \$0.9 billion. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in Note 19—Other Liabilities.

Collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all Government entities represent \$3.1 billion of unrestricted cash included within cash held by Treasury for Governmentwide Operations shown in Note 2—Cash and Other Monetary Assets.

### FRTIB-Thrift Savings Plan

The TSP is administered by an independent Government agency, the Federal Retirement Thrift Investment Board (FRTIB), which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries. Assets of the TSP are maintained in the Thrift Savings Fund (the Plan).

The TSP is a retirement savings and investment plan for Federal employees and members of the uniformed services. It was authorized by the United States Congress in the Federal Employees' Retirement System Act of 1986 (FERSA). The Plan provides Federal employees and members of the uniformed services with a savings and tax benefit similar to what many private sector employers offer their employees. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by the FERS.

As of September 30, 2009, the TSP held \$234.0 billion in net assets, which included \$113.0 billion of U.S. Government Securities (amounts are unaudited). The most recent audited financial statements for the TSP are as of December 31, 2008. As of December 31, 2008, the TSP held \$202.8 billion in net assets, which included \$108.2 billion of U.S. Government Securities. The unaudited amounts above are included to enhance comparability of the TSP net assets with the remainder of the Government's fiduciary net assets as of September 30, 2009.

Federal employees, who are participants of FERS, the CSRS, or equivalent retirement systems, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2008, there were approximately 4.0 million participants in the

TSP, with approximately 2.7 million contributing their own money. For further information about FRTIB and the TSP, please refer to the FRTIB website at <http://www.frtib.gov>.

## DOI–Indian Trust Funds

As stated above, DOI has responsibility for the assets held in trust on behalf of American Indian tribes and individuals, and these account for all of DOI's fiduciary net assets. DOI maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund and Individual Indian Money Trust Funds) in accordance with the American Indian Trust Fund Management Reform Act of 1994. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained for the benefit of individual Native Americans as well as for designated Indian tribes. For further information related to these assets, see the financial statements of the DOI.

## All Other Entities with Fiduciary Activities

The Government is responsible for the management of other fiduciary net assets on behalf of various non-Federal entities. The component agencies presented individually in the table above represent the vast majority of the Government's fiduciary net assets. All other component entities with fiduciary net assets are aggregated in accordance with SFFAS No. 31. As of September 30, 2009, including FRTIB and DOI, there are a total of 13 Federal entities with fiduciary activities with a grand total of 55 fiduciary funds. For further information relating to the fiduciary activities of the 11 remaining component entities within the "all other" aggregate, please refer to the financial statements for:

- Small Business Administration
- Library of Congress
- Department of the Treasury
- Department of State
- Department of Defense
- Department of Transportation
- Department of Labor
- Department of Agriculture
- Smithsonian Institution
- Department of Commerce
- National Labor Relations Board.

## Note 26. Social Insurance

The Statement of Social Insurance presents the projected actuarial present value of the estimated future revenue and estimated future expenditures of the Social Security, Medicare, Railroad Retirement, and Black Lung social insurance programs which are administered by the SSA, HHS, RRB, and DOL, respectively. These estimates are based on the economic and demographic assumptions presented later in this note as set forth in the relevant Social Security and Medicare trustees' reports and in the agency financial report of HHS and in the relevant agency performance and accountability reports for SSA, RRB, and DOL. The projections are based on the continuation of program provisions contained in current law. The estimates in the consolidated Statements of Social Insurance (SOSI) are for persons who are participants or eventually will participate in the programs as contributors (workers) or beneficiaries (retired workers, survivors, and disabled) during the 75-year projection period (Black Lung is projected only through September 30, 2040 because the projection period will terminate on September 30, 2040).

Contributions and earmarked taxes consist of: payroll taxes from employers, employees, and self-employed persons; revenue from Federal income taxation of Old-Age and Survivors Disability Insurance (OASDI) and railroad retirement benefits; excise tax on coal (Black Lung); and premiums from, and State transfers on behalf of, participants in Medicare. Income for all programs is presented from a consolidated perspective. Future interest payments and other future intragovernmental transfers have been excluded upon consolidation. Expenditures include scheduled benefit payments and administrative expenses. Scheduled benefits are projected based on the benefit formulas under current law. However, current Social Security and Medicare law provides for full benefit payments only to the extent that there are sufficient balances in the trust funds.

Actuarial present values of estimated future revenue (excluding interest) and estimated future expenditures for the Social Security, Medicare, and Railroad Retirement social insurance programs are presented for three different groups of participants: (1) current participants who have attained eligibility age, (2) current participants who have not attained eligibility age, and (3) future participants who are new entrants expected to become participants in the future. Current participants in the Social Security and Medicare programs form the "closed group" of taxpayers and/or beneficiaries who are at least age 15 at the start of the projection period. For the 2007 Medicare projections, current participants are at least 18 years of age at the beginning of the projection period. Since the projection period for the Social Security, Medicare, and Railroad Retirement social insurance programs consists of 75 years, the period covers virtually all of the current participants' working and retirement years, a period that could be greater than 75 years in a relatively small number of instances. Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 (below age 18 for the Medicare programs for 2007) as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of January 1 of the valuation year.

The present values of future expenditures in excess of future revenue are the current amounts of funds needed to cover projected shortfalls, excluding the starting trust fund balances, over the projection period. They are calculated by subtracting the actuarial present values of future scheduled contributions and dedicated tax income by and on behalf of current and future participants from the actuarial present value of the future scheduled benefit payments to them or on their behalf.

The trust fund balances as of the valuation date for the respective programs, including interest earned, are in the table shown below. Substantially all of the Social Security (OASDI) and Medicare Hospital Insurance (HI), and Supplementary Medical Insurance (SMI) trust fund balances consist of investments in special non-marketable U.S. Treasury securities that are backed by the full faith and credit of the U.S. Government.

<b>Social Insurance Programs Trust Fund Balances <sup>1</sup></b>					<u>UNAUDITED</u>
(In billions of dollars)	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Social Security.....	2,419	2,238	2,048	1,859	1,687
Medicare:					
HI .....	321	312	300	285	268
SMI Part B .....	59	53	38	23	19
SMI Part D .....	1	3	1	-	-
Railroad Retirement .....	22	33	32	30	28
Black Lung.....	(6)	(10)	(10)	(10)	(9)

<sup>1</sup> As of the valuation date of the respective programs.

## Social Security

The Old Age and Survivors Insurance (OASI) program, created in 1935, and the Disability Insurance (DI) program, created in 1956, collectively referred to as OASDI or “Social Security,” provides cash benefits for eligible U.S. citizens and residents. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The primary financing of the OASDI Trust Funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI Program. Refer to the *Social Insurance* segment in the Supplemental Information section for additional information on social security program financing.

That portion of each trust fund not required to pay benefits and administrative costs is invested, on a daily basis, in interest-bearing obligations of the U.S. Government. The Social Security Act authorizes the issuance by the Treasury of special nonmarketable, intragovernmental debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuation in principal value due to changes in market yield rates. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the General Fund of the Treasury. These Treasury securities and related interest are eliminated in consolidation at the Governmentwide level.

## Medicare

The Medicare Program, created in 1965, has two separate trust funds: the Hospital Insurance (HI, Medicare Part A) and Supplementary Medical Insurance (SMI, Medicare Parts B and D) Trust Funds. HI pays for inpatient acute hospital services and major alternatives to hospitals (skilled nursing services, for example) and SMI pays for hospital outpatient services, physician services, and assorted other services and products through the Part B account and pays for prescription drugs through the Part D account. Though the events that trigger benefit payments are similar, HI and SMI have different earmarked financing structures. Similar to OASDI, HI is financed primarily by payroll contributions. Other income to the HI fund includes a small amount of premium income from voluntary enrollees, a portion of the Federal income taxes that beneficiaries pay on Social Security benefits and interest credited on Treasury securities held in the HI Trust Fund. These Treasury securities and related interest are eliminated in the consolidation at the Governmentwide level.

For SMI, transfers from the General Fund of the Treasury represent the largest source of income for both Parts B and D. Beneficiaries finance the remainder of Parts B and D costs via monthly premiums to these programs. With the introduction of Part D drug coverage, Medicaid is no longer the primary payer for beneficiaries dually eligible for Medicare and Medicaid. For those beneficiaries, States must pay a portion of their estimated foregone drug costs into the Part D account (referred to as State transfers). As with HI, interest received on Treasury securities held in the SMI Trust Fund is credited to the fund and these Treasury securities and related interest are eliminated in consolidation at the Governmentwide level. Refer to the *Social Insurance* segment in the Supplemental Information section for additional information on Medicare program financing.

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA), enacted on December 8, 2003, created the Part D account in the SMI Trust Fund to account for the prescription drug benefit that began in 2006. The MMA established within SMI two Part D accounts related to prescription drug benefits: the Medicare Prescription Drug Account and the Transitional Assistance Account. The Medicare Prescription Drug Account was used in conjunction with the broad, voluntary prescription drug benefits that commenced in 2006. The Transitional Assistance Account was used to provide transitional assistance benefits, beginning in 2004 and extending through 2005, for certain low-income beneficiaries prior to the start of the new prescription drug benefit.

## SMI Part B Physician Payments

The projected Part B expenditure growth reflected in the accompanying 2009 Statement of Social Insurance is significantly reduced as a result of the structure of physician payment updates under current law. In the absence of legislation (and before the definitional change described below), this structure would result in multiple years of significant reductions in physician payments, totaling an estimated 38 percent over the next 6 years. Reductions of this magnitude are very unlikely to occur fully. For example, Congress has overridden scheduled negative updates for each of the years 2003 through 2009.<sup>1</sup> However, since such reductions are required in the future under the

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<sup>1</sup> Per Public Law 111-118, which was enacted on December 19, 2009, the negative update scheduled for 2010 was made zero for services furnished between January 1, 2010, and February 28, 2010. This provision has no impact on the calculation of the conversion factor for the remainder of 2010 and subsequent years.

current-law payment system, they are reflected in the accompanying 2009 Statement of Social Insurance as required under GAAP. Consequently, the projected actuarial present values of Part B expenditures shown in the accompanying 2009 Statement of Social Insurance, are likely understated.

The potential magnitude of the understatement of Part B expenditures due to the physician payment mechanism can be illustrated using two hypothetical examples of changes to current law. These examples were developed by management for illustrative purposes only; the calculations have not been audited, and the examples do not attempt to portray likely or recommended future outcomes. Also, the illustrations do not reflect the change in the definition of “physician-related services” described below. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation on physician payments under Medicare and of the broad range of uncertainty associated with such impacts. Under current law, the projected 75-year present value of future Part B expenditures is \$23.2 trillion. An alternative scenario indicated that if Congress were to set future physician payment updates at zero percent per year, then absent other provisions to offset these costs, the projected present value would increase to \$23.7 trillion. Similarly, if Congress were to set future physician payment updates equal to the Medicare Economic Index (projected to be 2 to 2.5 percent per year), the present value would be \$25.7 trillion.

The extent to which actual future Part B costs could exceed the projected current-law amounts due to physician payments depends on both the level of physician payment updates that might be legislated and on whether Congress would pass further provisions to help offset such costs (as it did, for example, in the Deficit Reduction Act of 2005 and the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA)). As noted, these examples only reflect hypothetical changes to physician payments. It is likely that in the coming years, Congress will consider and pass numerous other legislative proposals affecting Medicare. Many of these would likely be designed to reduce costs in an effort to make the program more affordable. In practice, it is not possible to anticipate what actions Congress might take, either in the near term or over longer periods.

Subsequent to September 30, 2009, HHS revised the definition of “physician-related services” under Part B to exclude physician-administered drugs in the determination of Medicare payment updates for physicians. The change in the definition of physician-related services increases estimated future Part B expenditures throughout the long-range SOSI projection period. The total increase for fiscal years 2010 through 2019 is estimated to be approximately \$125 billion; the amount of increase in the long range is not reasonably estimable at this time. The Part B projections prepared for the 2010 Medicare Trustees Report and the 2010 Statement of Social Insurance will reflect this change in policy.

It is likely that in the coming years, Congress will consider and pass numerous other legislative proposals affecting Medicare. Many of these would likely be designed to reduce costs in an effort to make the program more affordable. In practice, it is not possible to anticipate what actions Congress might take, either in the near term or over longer periods.

## **Social Security and Medicare—Demographic and Economic Assumptions**

The Boards of Trustees<sup>2</sup> of the OASDI and Medicare Trust Funds provide in their annual reports to Congress short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Boards use three alternative sets of economic and demographic assumptions to show a range of possibilities. Assumptions are made about many economic and demographic factors, including gross domestic product (GDP), earnings, the CPI, the unemployment rate, the fertility rate, immigration, mortality, disability incidence and terminations and, for the Medicare projections, health care cost growth. The assumptions used for the most recent set of projections shown in Tables 1A (Social Security) and Table 1B (Medicare) are generally referred to as the “intermediate assumptions,” and reflect the trustees’ best estimate of expected future experience. For further information on Social Security and Medicare demographic and economic assumptions, refer to SSA’s Performance and Accountability Report and HHS’ Agency Financial Report.

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<sup>2</sup> There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor; the Commissioner of the Social Security Administration; and two public trustees who are generally appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

**Table 1A**  
**Social Security – Demographic and Economic Assumptions**

Demographic Assumptions					
Year	Total Fertility Rate <sup>1</sup>	Age-Sex Adjusted Death Rate <sup>2</sup> (per 100,000)	Net Immigration <sup>3</sup> (persons)	Period Life Expectancy at Birth <sup>4</sup>	
				Male	Female
2009	2.08	811.4	1,210,000	75.5	80.0
2010	2.08	806.4	1,190,000	75.7	80.1
2020	2.04	743.2	1,130,000	77.0	81.0
2030	2.01	679.5	1,085,000	78.1	81.9
2040	2.00	622.9	1,050,000	79.2	82.9
2050	2.00	573.5	1,035,000	80.1	83.7
2060	2.00	530.2	1,030,000	81.1	84.5
2070	2.00	492.0	1,025,000	81.9	85.3
2080	2.00	458.2	1,025,000	82.7	86.0

  

Economic Assumptions						
Year	Real Wage Differential <sup>5</sup> (percent)	Average Annual Wage in Covered Employment <sup>6</sup> (percent change)	CPI <sup>7</sup> (percent change)	Real GDP <sup>8</sup> (percent change)	Total Employment <sup>9</sup> (percent change)	Average Annual Interest Rate <sup>10</sup> (percent)
2010	1.8	3.4	1.7	2.4	(0.4)	4.0
2020	1.1	3.9	2.8	2.1	0.5	5.7
2030	1.1	3.9	2.8	2.2	0.5	5.7
2040	1.1	3.9	2.8	2.2	0.5	5.7
2050	1.1	3.9	2.8	2.1	0.5	5.7
2060	1.1	3.9	2.8	2.1	0.4	5.7
2070	1.1	3.9	2.8	2.1	0.4	5.7
2080	1.1	3.9	2.8	2.1	0.4	5.7

<sup>1</sup> The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2033.

<sup>2</sup> The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>3</sup> Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>4</sup> The period life expectancy for a group of persons born in the selected year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age assumed for the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>5</sup> The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.

<sup>6</sup> The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>7</sup> The CPI is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.

<sup>8</sup> The real GDP is the value of total output of goods and services produced in the U.S., expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>9</sup> Total employment represents total of civilian and military employment in the U.S. economy. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>10</sup> The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually for special-issue Treasury obligations sold only to the trust funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

**Table 1B  
Medicare – Demographic and Economic Assumptions**

Demographic Assumptions								
Year	Total Fertility Rate <sup>1</sup>	Age-Sex		Net Immigration <sup>3</sup>				
		Adjusted Death Rate <sup>2</sup>	(per 100,000)		(persons)			
2009	2.08	811.4		1,210,000				
2010	2.08	806.4		1,190,000				
2020	2.04	743.2		1,130,000				
2030	2.01	679.5		1,085,000				
2040	2.00	622.9		1,050,000				
2050	2.00	573.5		1,035,000				
2060	2.00	530.2		1,030,000				
2070	2.00	492.0		1,025,000				
2080	2.00	458.2		1,025,000				

  

Economic Assumptions								
Year	Real Wage Differential <sup>4</sup>	Average Annual Wage in Covered Employment (percent change)	CPI <sup>5</sup>	Real GDP <sup>6</sup>	Per Beneficiary Cost (percent change) <sup>7</sup>			Real Interest Rate <sup>8</sup>
					HI	SMI		
						Part B	Part D	
2009	1.8	0.7	(1.0)	(2.2)	5.8	10.0	6.1	4.7
2010	1.8	3.4	1.7	2.4	1.4	(2.9)	5.4	1.3
2020	1.1	3.9	2.8	2.1	4.3	6.4	7.2	2.9
2030	1.1	3.9	2.8	2.2	5.7	6.0	5.8	2.9
2040	1.1	3.9	2.8	2.2	5.9	5.5	5.3	2.9
2050	1.1	3.9	2.8	2.1	5.0	4.9	5.0	2.9
2060	1.1	3.9	2.8	2.1	4.7	4.8	4.7	2.9
2070	1.1	3.9	2.8	2.1	4.6	4.5	4.5	2.9
2080	1.1	3.9	2.8	2.1	4.4	4.3	4.3	2.9

<sup>1</sup> The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2033.

<sup>2</sup> The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>3</sup> Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>4</sup> The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.

<sup>5</sup> The CPI is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.

<sup>6</sup> The real GDP is the value of total output of goods and services produced in the U.S., expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>7</sup> These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, and pharmaceutical costs). These assumptions include changes in the payment rates, utilization, and intensity of each type of service.

<sup>8</sup> The average annual interest rate earned on new trust fund securities, above and beyond the rate of inflation.

## Railroad Retirement

The Railroad Retirement and Survivor Benefit program pays full retirement annuities at age 60 to railroad workers with 30 years of service. The program pays disability annuities based on total or occupational disability. It also pays annuities to spouses, divorced spouses, widow(er)s, remarried widow(er)s, surviving divorced spouses, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as it does Social Security beneficiaries. The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) liberalized benefits for 30-year service employees and their spouses, eliminated a cap on monthly benefits for retirement and disability benefits, lowered minimum service requirements from 10 to 5 years, and provided for increased benefits for widow(er)s.

The RRB and the SSA share jurisdiction over the payment of retirement and survivor benefits. RRB has jurisdiction if the employee has at least 5 years (if performed after 1995) of railroad service. For survivor benefits, RRB requires that the employee's last regular employment before retirement or death be in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA.

Payroll taxes paid by railroad employers and their employees are a primary source of income for the Railroad Retirement and Survivor Benefit Program. By law, railroad retirement taxes are coordinated with Social Security taxes. Employees and employers pay tier I taxes at the same rate as Social Security taxes. Tier II taxes finance railroad retirement benefit payments that are higher than Social Security levels.

Other sources of program income include: financial transactions with the Social Security and Medicare Trust Funds, earnings on investments, Federal income taxes on railroad retirement benefits, and appropriations (provided after 1974 as part of a phase out of certain vested dual benefits). The financial interchanges and transactions between RRB's Social Security Equivalent Benefit (SSEB) Account, the Federal Old-Age and Survivors Insurance Trust Fund, the Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund are intended to put the latter three trust funds in the same position they would have been had railroad employment been covered under the Social Security Act. From a Governmentwide perspective, these future financial interchanges and transactions are intragovernmental transfers and are eliminated in consolidation.

## Railroad Retirement—Employment, Demographic and Economic Assumptions

The most recent set of projections are prepared using employment, demographic and economic assumptions and reflect the Board Members' best estimate of expected future experience.

Three employment assumptions were used in preparing the projections and reflect optimistic, moderate and pessimistic future passenger rail and freight employment. The average railroad employment is assumed to be 230,000 in 2009 under the moderate employment assumption. This employment assumption, based on a model developed by the Association of American Railroads, assumes that (1) passenger service employment will remain at the level of 43,000 and (2) the employment base, excluding passenger service employment, will decline at a constant 2.0 percent annual rate for 23 years, at a falling rate over the next 25 years, and remain level thereafter. All the projections are based on an open group (i.e., future entrants) population.

The moderate (middle) economic assumptions include a long-term cost of living increase of 3.0 percent, an interest rate of 7.5 percent, and a wage increase of 4.0 percent. The cost of living assumption reflects the expected level of price inflation. The interest rate assumption reflects the expected return on NRRIT investments. The wage increase reflects the expected increase in railroad employee earnings.

Sources of the demographic assumptions including mortality rates and total termination rates, remarriage rates for widows, retirement rates and withdrawal rates, are listed in Table 2. For further details on the employment, demographic, economic and all other assumptions, refer to the *U.S. Railroad Retirement Board Annual Report*, and the 24th *Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts* (Valuation Report) as of December 31, 2007, with Technical Supplement.

<b>Table 2 Railroad Retirement Demographic Actuarial Assumptions (Sources)</b>		
<b>Mortality Rates<sup>1</sup></b>	Mortality after age retirement	2007 RRB Annuitants Mortality Table
	Mortality after disability retirement	2007 RRB Disabled Mortality Table for Annuitants with Disability Freeze
		2007 RRB Disabled Mortality Table for Annuitants without Disability Freeze
	Mortality during active service	2003 RRB Active Service Mortality Table
	Mortality of widow annuitants	1995 RRB Mortality Table for Widows
<b>Total Termination Rates<sup>2</sup></b>	Termination for spouses	2007 RRB Spouse Total Termination Table
	Termination for disabled children	2004 RRB Total Termination Table for Disabled Children
<b>Widow Remarriage Rate<sup>3</sup></b>	1997 RRB Remarriage Table	
<b>Retirement Rates<sup>4</sup></b>	Age retirement	See the Valuation Report
	Disability retirement	See the Valuation Report
<b>Withdrawal Rates<sup>5</sup></b>	See the Valuation Report	
<p><sup>1</sup> These mortality tables are used to project the termination of eligible employee benefit payments within the population.</p> <p><sup>2</sup> Total termination rates are used to project the termination of dependent benefits to spouses and disabled children.</p> <p><sup>3</sup> This rate is used to project the termination of spousal survivor benefits.</p> <p><sup>4</sup> The retirement rates are used to determine the expected annuity to be paid based on age and years of service for both age and disability retirees.</p> <p><sup>5</sup> The withdrawal rates are used to project all withdrawals from the railroad industry and resultant effect on the population and accumulated benefits to be paid.</p>		

**Black Lung Disability Benefit Program**

The Black Lung Disability Benefit Program provides for compensation and medical benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) as a result of their coal mine employment. The same program also provides for survivor benefits for eligible survivors of coal miners who died due to pneumoconiosis. DOL operates the Black Lung Disability Benefit Program. BLDTF provides benefit payments to eligible coal miners totally disabled by pneumoconiosis and to eligible survivors when no responsible mine operator can be assigned the liability.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the sale of coal, as are the fund’s administrative costs. These taxes are collected by the Internal Revenue Service (IRS) and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the Treasury. Prior to October 3, 2008, the Black Lung Benefits Revenue Act provided for repayable advances to the BLDTF from the general fund of Treasury, in the event that BLDTF resources were not adequate to meet program obligations.

## Black Lung—Demographic and Economic Assumptions

The demographic assumptions used for the most recent set of projections are the number of beneficiaries and their life expectancy. The beneficiary population data is updated from information supplied by the program. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. SSA Life Tables are used to project the life expectancies of the beneficiary population.

The economic assumptions used for the most recent set of projections are coal excise tax revenue estimates, Federal civilian pay raises, medical cost inflation, and the interest rate on new debt issued by the BLDTF. Projections are sensitive to changes in the tax rate and changes in interest rates on debt issued by the BLDTF.

Estimates of future receipts of the black lung excise tax are based on projections of future coal production and sale prices prepared by the Energy Information Agency of DOE. Treasury's Office of Tax Analysis provides the first 11 years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and Treasury's estimated tax receipts. The coal excise tax rate structure is \$1.10 per ton of underground-mined coal and \$0.55 per ton of surface-mined coal sold, with a cap of 4.4 percent of sales price. Based on Treasury's interpretation of the Act, the higher excise tax rates will continue until the earlier of December 31, 2018, or the first December 31 after 2008, in which there exist no (1) balance of repayable debt described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the debt. Starting in 2019, the tax rates revert to \$0.50 per ton of underground-mined coal and \$0.25 per ton of surface-mine coal sold, and a limit of 2.0 percent of sales price.

OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the CPIM, which are used to calculate future benefit costs. During the current projection period, future benefit rate increases 4.6 percent in 2010 and 3.6 percent in each year thereafter and medical cost increases 3.4 percent in 2010, and ranges from 3.3 percent to 3.8 percent thereafter. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, based on current year enacted amounts, while later years are based on the number of projected beneficiaries.

P.L. 110-343, Division B—Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, in section 113, (1) allowed for the temporary increase in coal excise tax rates to continue an additional 5 years beyond the current statutory limit and (2) restructured the BLDTF debt by refinancing the outstanding repayable advances (which had higher interest rates) with the proceeds from issuing discounted debt instruments similar in form to zero-coupon bonds (which had lower interest rates), plus a one-time appropriation. The Act also allowed that any debt issued by the BLDTF subsequent to the refinancing may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing. All debt issued by the BLDTF was effected as borrowing from the Treasury's Bureau of the Public Debt.

## Note 27. Stewardship Land and Heritage Assets

Stewardship land is Federally-owned land that is set aside for the use and enjoyment of present and future generations, and land on which military bases are located. Except for military bases, this land is not used or held for use in general Government operations. Stewardship land is land that the Government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheets. Stewardship land is measured in non-financial units such as acres of land and lakes, and number of National Parks and National Marine Sanctuaries. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems to encourage animal and plant species, and to conserve nature. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

The majority of public lands that are under the management of DOI were acquired by the Government during the first century of the Nation's existence between 1781 and 1867. Stewardship land accounts for 28 percent of the current U.S. landmass.

DOI uses units as a measure to more accurately reflect the major categories of uses of stewardship land. As of September 30, 2009, they have 550 national wildlife refuges, 378 park units, 134 geographic management areas, 66 fish hatcheries, and many other categories. At the end of fiscal year 2009, DOD had 706 thousand acres of public land and 16,057 thousand acres withdrawn public land, the USDA's Forest Service managed an estimated 155 national forests, while the DOC had 13 National Marine Sanctuaries, which included near-shore coral reefs and open ocean. This is just a sample of the types of stewardship lands reported.

Stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. Additional detailed information concerning stewardship land, such as agency stewardship policies, physical units by major categories, and the condition of stewardship land, can be obtained from the financial statements of DOI, DOC, DOD, and USDA.

Heritage assets are Government-owned assets that have one or more of the following characteristics:

- Historical or natural significance.
- Cultural, educational, or artistic importance.
- Significant architectural characteristics.

The cost of heritage assets often is not determinable or relevant to their significance. Like stewardship land, the Government does not expect to use these assets to meet its obligations. The most relevant information about heritage assets is non-financial. The public entrusts the Government with these assets and holds it accountable for their preservation. Examples of heritage assets include the Mount Rushmore National Memorial and Yosemite National Park. Other examples of heritage assets include the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as the Vietnam Veterans Memorial, the Jefferson Memorial, and the Washington Monument, as well as the Library of Congress. Many other sites such as battlefields, historic structures, and national historic landmarks are placed in this category, as well.

Many laws and regulations govern the preservation and management of heritage assets. Established policies by individual Federal agencies for heritage assets ensure the proper care and handling of the assets under their control and preserve these assets for the benefit of the American public.

Some heritage assets are used both to remind us of our heritage and for day-to-day operations. These assets are referred to as multi-use heritage assets. One typical example is the White House. The cost of acquisition, betterment or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and is depreciated.

The Government classifies heritage assets into two broad categories: collection type and non-collection type. Collection type heritage assets include objects gathered and maintained for museum and library collections. Non-collection type heritage assets include national wilderness areas, wild and scenic rivers, natural landmarks, forests, grasslands, historic places and structures, memorials and monuments, buildings, national cemeteries and archeological sites.

The discussion of the Government's heritage assets is not all-inclusive. Rather, it highlights significant heritage assets reported by Federal agencies. Please refer to the individual financial statements of the DOC, the DOD, the National Archives and Records Administration, and the websites for the Library of Congress (<http://www.loc.gov/index.html>) and the Smithsonian Institution (<http://www.si.edu>), for additional information on multi-use heritage assets, agency stewardship policies, and physical units by major categories and conditions.

## Note 28. Subsequent Events

### A. DOI Minerals Management Service (MMS) versus Kerr McGee

Under the 1995 Outer Continental Shelf Deep Water Royalty Relief Act (the Act), the DOI Minerals Management Service (MMS) implemented a royalty relief program that relieves eligible leases from paying royalties on defined amounts of deep water petroleum production over Federal Outer Continental Shelf lands. MMS interpreted the Act to include price thresholds in leases. The thresholds required royalty payments to MMS if market prices exceeded price thresholds established in the leases. Kerr McGee challenged the inclusion of price thresholds, arguing that MMS did not have the authority to impose such thresholds.

On January 15, 2009, the district court decided in favor of Kerr McGee. DOJ filed an appeal in June 2008, and the Fifth Circuit court also ruled in favor of Kerr McGee. DOJ then filed a petition for certiorari with the Supreme Court. On October 5, 2009, MMS was notified that the Supreme Court denied the petition for certiorari. As a result, MMS must issue refunds for payments previously made by payers on the subject leases. The estimated amount to be refunded including estimated interest is approximately \$2.1 billion.

## **B. Cobell versus Salazar**

On December 8, 2009, DOI proposed a settlement to the class-action lawsuit that suspected DOI in the mistreatment of accounts that dealt with the American Indian Trust Funds. This lawsuit was first filed in 1996 and both parties have been trying to settle ever since. A fund totaling \$1.4 billion will be distributed to more than 300,000 individual Indians to compensate them for their claims. The settlement will also establish a land program that will provide individual Indians with an opportunity to obtain cash payments for land interests and free up land for tribal communities. This fund will include an additional \$2 billion fund for the buy-back and consolidation of fractionated land interests.

## **C. Katrina Canal Breaches Litigation**

On November 18, 2009, the United States District Court held U.S. Army Corps of Engineers (USACE) liable for damages from Hurricane Katrina. The Department of Justice and USACE Office of Chief Counsel have reviewed the opinion and intend to appeal the decision to the U.S. Court of Appeals for the Fifth Circuit. The Government is unable to estimate the amount of any loss that may result, however, and the Government has not recorded a provision for Katrina-related matters in the consolidated financial statements.

## **D. Public Debt Limit**

Gross Federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). To permit continued financing of the Government, Public Law 111-123 was signed into law December 28, 2009, which increased the statutory debt limit from \$12,104 billion to \$12,394 billion. On February 12, 2010, President Obama signed into law the statutory Pay-As-You-Go Act of 2010, which increases the public debt limit from \$12,394 billion to \$14,294 billion.

## **E. Troubled Asset Relief Program (TARP)**

On December 9, 2009, the Secretary of the Treasury, pursuant to Section 120(b) of EESA, certified that he was extending the spending authority provided under the Act to October 3, 2010. The spending authority was originally set to expire on December 31, 2009. This extension was deemed necessary to assist American families and stabilize financial markets because it will, among other things, enable the Department of the Treasury to continue to implement programs that address housing markets and the needs of small businesses, and to maintain the capacity to respond to unforeseen threats to the economy stemming from financial instability.

A number of banks that received funds from the TARP also had activity subsequent to September 30, 2009. Certain TARP participants, including Bank of America (\$45 billion), Citigroup (\$20 billion), and Wells Fargo (\$25 billion) and other smaller institutions, had repaid approximately \$90 billion to Treasury subsequent to September 30, 2009.

Conversely, there have been a few financial institutions that have declared bankruptcy or were closed by regulators subsequent to September 30, 2009. Most notably on November 1, 2009, CIT Group, a CPP participant, filed for Chapter 11 Bankruptcy. Treasury had invested \$2.3 billion in senior preferred shares of CIT Group and received a warrant for the purchase of common shares. Treasury does not expect a significant recovery of its preferred stock investment. As such, this investment has been reduced to zero. The ultimate amount received, if any, from this investment will depend on the outcome of the bankruptcy proceedings.

In December 2009, Treasury entered into a termination agreement with Citigroup, the FDIC and FRBNY, which terminated the Citigroup guarantee under the AGP.

In December 2009, Treasury invested an additional \$3.8 billion in GMAC (\$2.5 billion in Trust Preferred securities and \$1.3 billion in Mandatory Convertible Preferred Stock) and exchanged its non-convertible preferred stock purchased in December 2008, into Mandatory Convertible Preferred Stock (see Note 5—TARP Direct Loans and Equity Investments, Net). Also, in December 2009, Treasury converted \$3 billion of its Mandatory Convertible Preferred Stock into GMAC common equity, thereby increasing Treasury's GMAC common equity ownership from approximately 35 percent to approximately 56 percent.

## **F. Treasury and the Housing and Economic Recovery Act (HERA)**

Treasury announced on December 9, 2009, that it would start to wind down programs that had been established during the crisis and were no longer critical to financial stability. The program Treasury established under HERA to support the mortgage market by purchasing GSE-guaranteed mortgage-backed securities (MBS) ended on December 31, 2009. The short-term credit facility Treasury established under HERA for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks was also terminated on December 31, 2009. Treasury also amended the term of its agreements with Fannie Mae and Freddie Mac to support their ongoing stability.

At the time the FHFA placed Fannie Mae and Freddie Mac into conservatorship in September 2008, Treasury established SPSPAs to ensure that each firm maintained a positive net worth. On December 24, 2009, Treasury amended the SPSPAs to replace the existing fixed \$200 billion cap per GSE on Treasury advances, with a formulaic cap for the next 3 years that will adjust upwards quarterly by the cumulative amount of any losses realized by either Fannie Mae or Freddie Mac and downwards by the cumulative amount of any gains, but not below \$200 billion per GSE. At the conclusion of the three-year period, the remaining commitment will then be fixed and be available to be drawn per the terms of the agreements.

In October 2009, Treasury, together with the Fannie Mae, Freddie Mac, and the Department of Housing and Urban Development announced an initiative to provide support to state and local housing finance agencies (HFAs) using authority that Congress had given Treasury in HERA. 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, Treasury has entered into participation interests with Fannie Mae and Freddie Mac supporting credit and liquidity facilities that the GSEs are providing to 12 states are part of the program. The liquidity facilities cover \$8.2 billion of single-family and multi-family variable-rate demand obligations. As of February 17, 2010, none of these bonds have been tendered to the GSEs, and Treasury accordingly has not disbursed any funds. In December, Treasury purchased \$15.3 billion of GSE obligations backed by a combination of HFA mortgage revenue bonds and escrowed funds from over 90 HFAs in 49 states.

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