

United States Government Notes to the Financial Statements for the Years Ended September 30, 2011, and 2010

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 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 Fannie Mae and Freddie Mac (GSEs), provision of a credit facility for GSEs and Federal Home Loan Banks, purchase of Mortgage-Backed Securities (MBS), and setup of a Money Market Guarantee Program (see Note 1.J—Investments in and Liabilities to Government Sponsored Enterprises and Note 11—Investments in and Liabilities to Government-Sponsored Enterprises). 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 U.S. Generally Accepted Accounting Principles for Federal entities (U.S. GAAP), 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 Concepts (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 (see Note 1.T). 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 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.

The basis of accounting used and the detail of the basis for the Statement of Social Insurance (SOSI) and the new Statement of Changes in Social Insurance Amounts (SCSIA) are covered in Note 26—Social Insurance.

Beginning in fiscal year 2011, the Government has implemented the requirements of SFFAS No. 37.¹ As required by SFFAS No 37, the Government is now required to present a new SCSIA that: (1) reconciles beginning and ending open group measures and presents the components of the changes in the open group measures from the end of the previous reporting period; and (2) presents significant components of the change, e.g., the difference due to the change in valuation period; the changes in demographic, economic, and health care assumptions; and the changes in law and policy.

Beginning in fiscal year 2010, the Government implemented the requirements of new standards related to: pensions, other retirement benefits, and other postemployment benefits; long-term fiscal projections; and subsequent events.

- Pensions, other retirement benefits (ORB), and other postemployment benefits (OPEB):
As required by SFFAS, No. 33,² the Government statement of net cost is now required to present the amounts reported under the gain/loss from changes in assumptions on pension, other retirement benefits, or other postemployment benefits as a separate component that will provide more transparent information regarding the underlying costs associated with these liabilities. In addition, SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of Federal Employee Pension, ORB, and OPEB liabilities. For further information on these new requirements, see Note 1.L—Federal Employee and Veteran Benefits Payable.
- Long-term fiscal projections:
As required by SFFAS No. 36,³ the Government is now required to include a statement presenting for all its activities (a) the present value of projected receipts and non-interest spending under current policy without change, (b) the relationship of these amounts to projected Gross Domestic Product (GDP) and (c) changes in the present value of projected receipts and non-interest spending from the prior year (not effective for fiscal year 2010). The Government is also required to provide supplementary information that explains and illustrates projected trends in the relationship between receipts and spending, deficits (or surpluses), debt held by the public as a share of GDP, possible results using alternative scenarios, and the likely impact of delaying corrective action when a fiscal gap exists. Finally, the Government is also required to disclose the assumptions underlying the projections, the factors influencing trends, and significant changes in the projections from period to period. Refer to the *Fiscal Projections for the U.S. Government—Fiscal Year 2011* segment in the Supplementary Information for these required disclosures.

¹ SFFAS No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*.

² SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*.

³ SFFAS No. 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*.

- Subsequent events:
The objective of SSFAS No. 39,⁴ is to incorporate the accounting and financial reporting guidance regarding subsequent events that have been included in the Statements of Auditing Standards of the American Institute of Certified Public Accountants (AICPA) into SFFAS. Accordingly, SFFAS No. 39 does not establish new accounting guidance with regard to subsequent events.

C. Loans Receivable, Mortgage-Backed Securities, and Loan Guarantee Liabilities, Net

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 fiscal 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 fiscal 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.

The MBS are similarly treated to direct loans, and the value of the Government's position and the associated credit subsidy requirements are determined based on the net present value of the securities' forecasted future cashflows. For more details on MBS, see Note 4—Loans Receivable, Mortgage-Backed Securities, and Loan Guarantee Liabilities, Net.

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.

⁴ SFFAS No. 39, *Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*.

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, 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 allowance for 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 the Government over the life of the loan. These cashflows include the scheduled principal, interest, and other payments to the Government, 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. The Government 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.

For more details on TARP, see Note 5—TARP Direct Loans and Equity Investments, Net.

F. Non-TARP Investments in American International Group, Inc.

The Non-TARP investments in American International Group (AIG), Inc. are recorded at fair value and represent the Government's non-TARP holdings of AIG common stock. On September 30, 2010, the Government, the Federal Reserve Bank of New York (FRBNY) and AIG entered into an AIG Recapitalization Agreement for the purpose of restructuring the Government's holdings in AIG. The value of the non-TARP investments in AIG is based on the market value of the Government's holdings of AIG common stock as of the reporting date. (See Note 6—Non-TARP Investments in American International Group, Inc., 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. SFFAS No. 3, *Accounting for Inventory and Related Property*, requires inventories held for sale and held in reserve for future sale within the Government to be valued using either historical cost or latest acquisition cost (LAC). Historical cost methods include first-in-first-out, weighted average, and moving average. When LAC methods are used, the inventory is revalued periodically and an allowance account should be established for unrealized holding gains and losses.

The Department of Defense (DOD) holds the majority of the inventories within the Government and uses moving average cost methods for valuing most of its inventory. To a lesser degree, DOD also uses LAC methods adjusted for holding gains and losses to approximate the historical cost of resale inventory items remaining in its legacy system. DOD is continuing to transition inventories from these legacy systems to new inventory systems, using moving average cost methods, however, most of DOD's inventory value for its activities remain non-compliant with SFFAS No. 3.

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 commodities, seized and monetary instruments, forfeited and foreclosed property, raw materials and work in process. 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) and some National Aeronautics and Space Administration (NASA) equipment. 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. NASA also uses estimates of historical cost to value some of its equipment for which historical cost information is not readily available, such as components of the International Space Station.

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. Debt and Equity Securities

Debt and equity securities are classified as held-to-maturity, available-for-sale, and trading. Held-to-maturity debt and equity securities are reported at amortized cost, net of unamortized premiums and discounts. Available-for-sale debt and equity securities are reported at fair value. Trading debt and equity securities are reported at fair value.

J. Investments in and Liabilities to Government-Sponsored Enterprises

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 Office of Management and Budget (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. Treasury performs annual valuations, as of September 30th, to provide a “sufficiently reliable” estimate of the outstanding commitments in order for Treasury to record the remaining liability in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. The valuations incorporated various forecasts, projections, and cashflow analyses to develop an estimate of the potential liability. Annual valuations are performed, as of September 30, of the preferred stock and warrants and any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the changes in valuation of the preferred stock and warrants are deemed usual and recurring. Accordingly, changes in valuation are recorded as an exchange transaction which 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.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs) provide that Treasury will increase its investment in the GSEs’ senior preferred stock if at the end of any quarter the Federal Housing Finance Agency (FHFA), acting as the conservator, determines 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 Treasury. The potential liabilities to the GSEs are assessed annually and recorded at the gross amount, without considering the increase in preferred stock liquidity preference, future dividend payments, or future commitment fees, due to the uncertainties involved. The Government currently accounts for the GSE MBS purchase program and the two programs of the state and local Housing Finance Agency (HFA) Initiative (the New Issue Bond Program (NIBP) and Temporary Credit and Liquidity Program (TCLP)) under the provisions of credit reform and the use of estimates is dictated by the SFFAS No. 2. See Note 11—Investments in and Liabilities to Government-Sponsored Enterprises 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 Employees' 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.

Gains and losses from changes in long-term assumptions used to estimate Federal employee pensions, ORB, and OPEB liabilities are reflected separately on the Statement of Net Cost and the components of the expense related to Federal employee pension, ORB, and OPEB liabilities are disclosed in Note 15—Federal Employee and Veteran Benefits Payable as prescribed by SFFAS No. 33. In addition, SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of Federal employee pension, ORB, and OPEB liabilities.

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 Unaudited 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 Unaudited 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. The FRBs had total holdings of \$1,665.4 billion and \$813.6 billion, including a net of \$0.8 billion and \$1.9 billion in Treasury securities held by the FRB as collateral for securities lending activities, as of September 30, 2011 and 2010, respectively. 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 no deposit with the Federal Reserve as of September 30, 2011, as compared to \$200 billion as of September 30, 2010, 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 \$82.5 billion and \$75.8 billion for the years ended September 30, 2011, and 2010, respectively and reflect the increase in securities held by the FRB. Also, the FRBs hold Special Drawing Rights Certificates (SDRCs) (see Note 19—Other Liabilities, international monetary liabilities and gold certificates). For further details on the coordinated activities of 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 to help stabilize the financial system and the housing market, see Note 5—TARP Direct Loans and Equity Investments, Net, Note 6—Non-TARP Investments in American International Group, Inc., and Note 11—Investments in and Liabilities to Government-Sponsored Enterprises.

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 GSEs 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. On December 24, 2009, Treasury amended the SPSPAs to replace the existing fixed \$200 billion cap per the GSEs 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 3-year period, the remaining commitment will then be fixed and available to be drawn per the terms of the agreements (referred to as the “Adjusted Cap”). These entities also are excluded from the reporting entity.

The Department of Transportation (DOT) has possession of two long term notes with the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). The first note is for \$4 billion and matures in 2975 and; the second note is for \$1.1 billion and matures in 2082 with renewable 99 year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. DOT does not record the notes in its financial statements because the present value of the notes was immaterial at September 30, 2011. These notes were discounted according to rates published in OMB M-10-07, Appendix C, and the maturity dates of 2975 and 2082.

In addition, DOT has possession of all the preferred stock shares (109.4 million) of Amtrak. Congress through the DOT continues to fund Amtrak since 1981; originally through the purchase of preferred stock, notes receivable and then through grants after 1997. The Amtrak Reform and Accountability Act of 1997 changed the structure of the preferred stock by rescinding the voting rights and eliminating the preferred stock’s liquidation preference over the common stock. This Act also eliminated further issuance of preferred stock to the DOT. DOT does not record the Amtrak stock in its financial statements because it is not publicly traded and no fair market value can be placed on it.

Amtrak is not a department, agency or instrumentality of the Government or the DOT. The nine members of Amtrak’s Board of Directors are appointed by the President of the United States and are subject to confirmation by the U.S. Senate. Once appointed, Board Members, as a whole, act independently without the consent of the Government or any of its officers to set Amtrak policy, determine its budget and decide operational issues. The Secretary of Transportation is statutorily appointed to the nine-member Board. Traditionally, the Secretary of Transportation has designated the Administrator of the Federal Rail Administration to represent the Secretary at Board meetings.

The Export-Import Bank of the United States (Ex-Im Bank) has contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes medium-term and long-term fixed-rate and variable-rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private sector lenders on competitive terms. Ex-Im Bank’s credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO’s major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO’s long-term debt issues, and is entitled to representation at all meetings of PEFCO’s board of directors, advisory board and exporters’ council.

The contractual agreements provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal and interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO’s long-term secured debt obligations when requested by PEFCO. Related to the amounts for Ex-Im Bank as shown in Note 4—Loans Receivable, Mortgage Backed Securities, and Loan Guarantee Liabilities, Net, these guarantees to PEFCO, aggregating \$5.3 billion and \$5.1 billion at September 30, 2011 and 2010, respectively, are included within the principal amounts guaranteed by the United States. The allowance related to these transactions is included within the guaranteed loan liability. Ex-Im Bank received fees totaling \$0.03 billion in both fiscal years 2011 and 2010 for the agreements, which are included as earned revenue on the Statements of Net Costs.

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 Unaudited 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 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 FASB Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, 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.

For further information, see Note 10—Derivatives.

V. Reclassifications

One fund previously reported as an earmarked fund was reclassified to non-earmarked funds and recorded as a prior period adjustment. See Note 21—Prior Period Adjustments.

W. 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.

X. 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 other 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; environmental 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, 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 loans and asset guarantees, are also subject to credit reform accounting (see Note 5—TARP Direct Loans and Equity Investments, Net).

The forecasted future cashflows used to determine credit reform amounts as of September 30, 2011, and 2010, 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, 2011, and 2010, is reflective of relative illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions.

The GSE senior preferred stock purchase agreements provide that the Government will make funding advances to the GSEs, if at the end of any quarter, FHFA, acting as the conservator, determines that the liabilities of either GSE, individually, exceed its respective assets. 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 which is recorded as a liability in accordance with SFFAS No. 5. The valuation incorporated various forecasts, projections and cashflow analysis to develop an estimate of potential liability. Note 1.J—Investments in and Liabilities to Government-Sponsored Enterprises and Note 11—Investments in and Liabilities to Government-Sponsored Enterprises discusses the results of the valuation and the contingent liability recorded as of September 30, 2011, and 2010.

Y. 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, liquidity commitment to GSEs, the MBS portfolio, investments, loans, and asset guarantees of the TARP, guarantee of money market funds, and the 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, 2011, and 2010

(In billions of dollars)	2011	2010
Unrestricted cash:		
Cash held by Treasury for Governmentwide operations	49.8	103.6
Other	8.3	9.0
Restricted cash:		
Cash held by Treasury for Governmentwide operations	-	200.0
Other	18.8	19.4
Total cash	<u>76.9</u>	<u>332.0</u>
International monetary assets	76.6	70.4
Gold	11.1	11.1
Foreign currency	12.4	15.1
Total cash and other monetary assets	<u>177.0</u>	<u>428.6</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 Supplementary Financing Program (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, 2011, there were no outstanding cash management bills earmarked for SFP, as compared to eight outstanding cash management bills totaling \$200.0 billion as of September 30, 2010. The Foreign Military Sales program included \$18.2 billion and \$18.6 billion as of September 30, 2011, and 2010, respectively. 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 is an interest-bearing claim on the IMF that includes the reserve asset portion of the financial subscription that the United States has paid in as part of its participation in the IMF as well as any amounts drawn by the IMF from a letter of credit made available by the United States as part of its financial subscription to 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 \$43.0 billion and \$45.2 billion as of September 30, 2011, and 2010, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of \$22.7 billion and \$12.9 billion as of September 30, 2011, and 2010, respectively.

The SDR is an international reserves asset created by the IMF to supplement the existing reserve assets of its members. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, or in the form of interest earnings on SDR holdings and reserve position in the IMF U.S. SDR holdings are an interest-bearing asset of Treasury's Exchange Stabilization Fund (ESF). The total amount of SDR holdings of the United States was the equivalent of \$55.9 billion and \$57.4 billion as of September 30, 2011, and 2010, respectively.

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 Special Drawing Right Certificates (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 as of September 30, 2011, and 2010 respectively, and are included in Note 19—Other Liabilities.

As of September 30, 2011, and 2010, other liabilities included \$55.1 billion and \$55.0 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, 2011, and 2010. The market value of gold on the London Fixing was \$1,620 and \$1,307 per fine troy ounce as of September 30, 2011, and 2010, respectively. Gold totaling \$11.1 billion as of September 30, 2011, and 2010, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Gold certificates were valued at \$11.0 billion as of September 30, 2011, and 2010, which are 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 the ESF and various U.S. Federal agencies and foreign banks.

Note 3. Accounts and Taxes Receivable, Net

Accounts and Taxes Receivable as of September 30, 2011, and 2010

(In billions of dollars)

	2011	2010
Accounts receivable:		
Gross accounts receivable	89.2	75.1
Allowance for uncollectible accounts.....	<u>(20.7)</u>	<u>(18.0)</u>
Accounts receivable, net	68.5	57.1
Taxes receivable:		
Gross taxes receivable	151.5	141.9
Allowance for doubtful accounts.....	<u>(113.7)</u>	<u>(104.4)</u>
Taxes receivable, net	37.8	37.5
Total accounts and taxes receivable, net	<u>106.3</u>	<u>94.6</u>

Accounts receivable includes related interest receivable of \$6.6 billion and \$6.7 billion as of September 30, 2011, and 2010, respectively.

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

Direct Loan, Mortgage-Backed Securities, and Defaulted Guaranteed Loan Programs as of September 30, 2011, and 2010

	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	
	2011	2010	2011	2010	2011	2010	2011	2010
(In billions of dollars)								
Federal Direct Student Loans - Education	356.1	231.3	(25.3)	2.4	381.5	228.9	(28.6)	(1.6)
Federal Family Education Loans - Education	147.3	138.9	(0.8)	-	148.0	138.9	(4.9)	(1.1)
GSE Mortgage Backed Securities Purchase Program - Treasury	70.6	164.3	(1.8)	(7.9)	72.4	172.2	1.8	(0.6)
Electric Loans - USDA.....	42.2	40.7	2.1	2.2	40.2	38.5	(0.2)	-
Rural Housing Services - USDA.....	30.7	29.8	7.1	7.0	23.6	22.8	0.5	0.5
State and Local Housing Finance Agency Initiative - Treasury.....	15.1	15.3	0.8	1.2	14.3	14.1	-	1.7
Housing and Urban Development Loans.....	13.9	11.3	1.3	(0.2)	12.6	11.5	0.2	1.3
Water and Environmental Loans - USDA	11.9	11.0	0.7	0.8	11.1	10.3	-	0.1
Farm Loans - USDA.....	8.6	8.2	0.4	0.3	8.3	7.9	0.2	(0.1)
Export-Import Bank Loans	9.9	8.9	2.8	3.6	7.0	5.3	(0.4)	(0.2)
Disaster Loan Programs - SBA	7.5	7.9	1.5	1.5	6.0	6.5	0.2	0.2
Telecommunications Loans - USDA....	4.5	4.3	-	-	4.5	4.3	-	-
U. S. Agency for International Development Loans	4.7	5.3	1.3	1.9	3.4	3.4	-	-
Housing for the Elderly and Disabled - HUD	2.8	3.2	-	-	2.8	3.2	-	-
Food Aid - USDA	5.2	5.6	2.5	2.0	2.7	3.7	-	-
All Other Programs.....	45.5	26.6	11.8	9.2	33.7	17.1	2.2	0.6
Total Direct Loans and Defaulted Guaranteed Loans.....	<u>776.5</u>	<u>712.6</u>	<u>4.4</u>	<u>24.0</u>	<u>772.1</u>	<u>688.6</u>	<u>(29.0)</u>	<u>0.8</u>

Loan Guarantees as of September 30, 2011, and 2010

	Principal Amount of Loans under Guarantee		Principal Amount Guaranteed by the United States		Loan Guarantee Liabilities		Subsidy Expense (Income) for the Fiscal Year	
	2011	2010	2011	2010	2011	2010	2011	2010
(In billions of dollars)								
Federal Housing Administration Loans - HUD.....	1,167.1	1,025.1	1,096.8	968.0	36.1	35.0	(7.2)	(3.0)
Federal Family Education Loans - Education.....	327.6	390.5	320.7	382.0	10.0	14.5	(11.2)	(13.3)
Export-Import Bank Guarantees	70.7	61.7	70.7	61.7	1.2	1.4	(0.2)	(0.2)
Small Business Loans - SBA.....	82.2	76.2	70.0	64.4	4.7	4.5	2.4	4.2
Veterans Housing Benefit Programs - VA.....	247.7	214.7	66.2	58.1	5.1	4.9	0.6	1.3
Rural Housing Services - USDA	63.3	51.0	56.9	45.8	2.5	1.8	0.3	0.5
Israeli Loan Guarantee Program - AID ...	11.6	11.9	11.6	11.9	1.3	1.9	-	-
Export Credit Guaranteed Programs - USDA	6.1	6.6	6.0	6.5	0.1	0.2	0.1	-
Business and Industry Loans - USDA	7.0	5.9	5.3	4.4	0.8	0.6	0.4	0.3
Overseas Private Investment Corporation Credit Program	4.9	5.0	4.9	5.0	0.2	0.1	-	-
Federal Ship Financing Fund (Title XI) - DOT.....	1.8	2.0	1.8	2.0	0.2	0.2	-	-
All Other Guaranteed Loan Programs.....	22.6	19.8	20.8	18.4	0.8	0.7	(0.1)	-
Total Loan Guarantees.....	2,012.6	1,870.4	1,731.7	1,628.2	63.0	65.8	(14.9)	(10.2)

The Government has two different types of loans and loan guarantees. One major type of loan is direct loans such as the Department of Education's (Education) Federal Direct Student Loans. Direct Loans includes purchases of asset-backed securities (ABS), such as the Treasury's GSE MBS Purchase Program. The second type is loan guarantee programs, such as the Department of Housing and Urban Development's (HUD's) Federal Housing Administration Loans program.

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, or otherwise providing for certain activities or investments. 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 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

Education has two major education loan programs, authorized by Title IV of the Higher Education Act of 1965 (HEA). The first program, the William D. Ford Federal Direct Student Loan Program, established in fiscal year 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents and graduate or professional students, 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 Federal Family Education Loan (FFEL) Program, established in fiscal year 1965, is a guaranteed loan program. Like the William D. Ford Federal Direct Student Loan Program, it offered four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and graduate or professional students, and consolidation loans. Student Aid and Fiscal Responsibility Act (SAFRA), enacted as part of the Health Care Education and Reconciliation Act of 2010 (Public Law 111-152), eliminated the authority to guarantee new FFEL after July 1, 2010. During fiscal year 2010, FFEL loans receivable continued to increase significantly, principally due to amendments made to the HEA by the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). These amendments gave Education temporary authority to purchase FFEL loans and interests in those loans. This authority was to expire on July 1, 2009; however, Public Law 110-350 extended the authority through July 1, 2010.

The Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, authorized the Treasury to enter into the GSE MBS Purchase Program. Under this program, the Treasury, using private sector asset managers, purchased on the open market as a portfolio of mortgage-backed securities issued by the GSEs. 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 asset managers were also authorized to enter into other trade/sell transactions such as pair offs, turns, assignments, and dollar rolls to further support the market under the HERA provision/mandate. The authority granted by Congress to purchase MBS expired on December 31, 2009, at which point the purchase of new securities ended, though the Treasury still retains its portfolio of previously purchased securities.

The Treasury's GSE MBS Purchase Program portfolio consists of mortgage pass-through securities issued by Freddie Mac and Fannie Mae.

Under HERA, Treasury together with the FHFA, Fannie Mae, Freddie Mac, and HUD announced in October 2009 an initiative to provide support to state and local HFAs. HFAs have historically played a central role in providing a safe, sustainable path to homeownership for working families in all 50 states and many localities across the country. This initiative is designed to support low mortgage rates and expand resources for low and middle income borrowers to purchase or rent homes, making them more affordable over the long term. In December 2009, several transactions closed as part of the HFA Initiative's two separate programs: (1) TCLP and (2) the NIBP. As part of the TCLP, the Treasury has entered into participation agreements with Fannie Mae and Freddie Mac, supporting credit and liquidity facilities that the GSEs are providing to 11 states as part of the program.

HUD's Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA serves many borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income, and other underserved households to realize the benefit of home ownership. 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. The number of FHA mortgages has risen dramatically. HUD decided to raise the annual

premium and lower the upfront premium to aid in returning the Mutual Mortgage Insurance Fund to congressionally mandated levels of capital reserves without disruption to the marketplace.

The United States Department of Agriculture (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. Through this supervised credit offered by FSA, 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 helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects.

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.

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.

Note 5. TARP Direct Loans and Equity Investments, Net

The TARP was authorized by the Emergency Economic Stabilization Act of 2008 (EESA). This 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 from 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, restore the flow of credit to consumers and businesses, and tackle the foreclosure crisis. Under the TARP programs, Treasury made direct loans and equity investments as well as entered into the asset guarantees program. This authority to make new commitments to purchase or guarantee troubled assets expired on October 3, 2010.

The following table lists the TARP programs and types:

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, Subordinated Debentures and Equity Investments
Public-Private Investment Program	Equity Investment and Direct Loan
Asset Guarantee Program	Asset Guarantee
Housing Programs Under TARP **	Expenditure and Loss Sharing

* Formerly known as the Systemically Significant Failing Institutions Program.
 ** Housing Programs Under TARP are not designed to recoup money spent on loan modifications or payments on the loss sharing agreement. As such, these programs do not include direct loans, equity investments, or asset guarantees.

TARP Direct Loans and Equity Investments, Net and Asset Guarantee Program balances as of September 30, 2011, and 2010 are as follows:

Troubled Asset Relief Program as of September 30, 2011, and 2010		
(In billions of dollars)	2011	2010
Direct Loans and Equity Investments, Net.....	80.1	142.5
Asset Guarantee Program	-	2.2
Total	<u>80.1</u>	<u>144.7</u>

The Direct Loans and Equity Investments, Net represents the estimated net outstanding amount of direct loans and equity investments.

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

Troubled Asset Relief Program Direct Loans and Equity Investments as of September 30, 2011, and 2010								
(In billions of dollars)	Direct Loans and Equity Investments		Subsidy Cost Allowance		Net Direct Loans and Equity Investments		Subsidy Expense (Income) for the Fiscal Year	
	2011	2010	2011	2010	2011	2010	2011	2010
American International Group, Inc.								
Investment Program	51.1	47.5	(20.7)	(21.4)	30.4	26.1	1.6	(7.7)
Public-Private Investment Program	15.9	13.7	2.4	0.7	18.3	14.4	(1.9)	(0.7)
Automotive Industry Financing Program	37.3	67.3	(19.4)	(14.6)	17.9	52.7	9.7	(16.6)
Capital Purchase Program.....	17.3	49.8	(4.9)	(1.5)	12.4	48.3	(1.8)	3.9
Consumer and Business Lending Initiative	0.8	0.9	0.3	0.1	1.1	1.0	(0.2)	0.3
Targeted Investment Program	-	-	-	-	-	-	(0.2)	(1.9)
Total.....	122.4	179.2	(42.3)	(36.7)	80.1	142.5	7.2	(22.7)

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 \$40.0 billion in AIG's cumulative Series D perpetual cumulative preferred stock with a dividend rate of 10.0 percent compounded quarterly. On April 17, 2009, AIG and Treasury restructured their November 2008 agreement. Under the restructuring, Treasury exchanged \$40.0 billion of cumulative Series D preferred stock for \$41.6 billion of non-cumulative 10.0 percent Series E preferred stock. 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 necessary to assist in AIG's restructuring. As of January 14, 2011, AIG had drawn an aggregate of \$27.8 billion from the capital facility. On September 30, 2010, Treasury, FRBNY, and AIG announced plans for a restructuring of the U.S. Government's investments in AIG. The restructuring, which occurred on January 14, 2011, converted Treasury's \$27.8 billion investment in Series F preferred stock into \$20.3 billion of interest in AIG Special Purpose Vehicles (SPVs), and 168 million shares of AIG common stock. As a result of the restructuring, Treasury under TARP also converted its AIG Series E preferred stock into 925 million shares of AIG common stock.

At the completion of the January 14, 2011, restructuring, Treasury held 1,093 million shares of AIG common stock under TARP and the General Fund held an additional 563 million shares (see Note 6— Non-TARP Investments in American International Group, Inc.) resulting in a combined total of about 1.7 billion shares (or 92.1 percent ownership) of AIG common stock. In fiscal year 2011, Treasury sold 200 million shares of AIG common stock (68 million General Funds shares and 132 million Treasury under TARP shares) for \$5.8 billion, of which the General Fund and Treasury under TARP received \$2.0 billion and \$3.8 billion, respectively. Treasury also received \$11.5 billion in distributions from the AIG SPVs in fiscal year 2011. Treasury received no payments from AIG in fiscal year 2010. At September 30, 2011, Treasury held 960 million shares of AIG common stock under TARP, and the General Fund held an additional 495 million shares, resulting in a combined total of about 1.5 billion shares of AIG common stock with a market value totaling approximately \$31.9 billion, or 76.9 percent of AIG's outstanding common stock on a fully diluted basis, of which TARP owned 50.8 percent. As of September 30, 2011, Treasury also owned preferred units in an AIG SPV with an outstanding balance of \$9.3 billion.

According to 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. On April 1, 2010, Treasury appointed two directors to the Company's Board as a result of non-payments of dividends. The additional two directors increased the total number of AIG directors to 12. The two additional Treasury-appointed directors remained on the Board as of September 30, 2011.

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 makes equity and debt investments in investment vehicles (referred to as Public Private Investment Funds or "PPIFs") established by private investment managers. The equity investment is used to match private capital and will equal not more than 50 percent of the total equity invested. Treasury's debt commitment, at the option of the investment manager, equals 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. During fiscal year 2010, Treasury disbursed \$4.9 billion as equity investment and \$9.2 billion as loans to these eight PPIFs. During fiscal year 2011, Treasury disbursed \$1.1 billion as equity investment and \$2.3 billion as loans to these PPIFs. At September 30, 2010, Treasury had equity investment in PPIFs outstanding of \$4.8 billion and loans outstanding of \$8.9 billion for a total of \$13.7 billion. At September 30, 2011, Treasury had equity investment in PPIFs outstanding of \$5.5 billion and loans outstanding of \$10.4 billion for a total of \$15.9 billion. In addition, as of September 30, 2011, Treasury had legal commitments to disburse up to \$4.3 billion for additional investments and loans in PPIFs.

Automotive Industry Financing Program (AIFP)

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

General Motors (GM)—In fiscal year 2009, Treasury provided \$49.5 billion to Old GM through various loan agreements including the initial loan for general and working capital purposes and the final loan for debtor in possession (DIP) financing while Old GM was in bankruptcy. Treasury assigned its rights in these loans (with the exception of \$1.0 billion which remained in Old GM for wind down purposes and \$7.1 billion that would be assumed) and previously received common stock warrants to a newly created entity New GM. New GM used the assigned loans and warrants to credit bid for substantially all of the assets of GM in a sale pursuant to Section 363 of the Bankruptcy Code (see 11 U.S.C. 363). Upon closing of the Section 363 sale, the credit bid loans and warrants were extinguished and Treasury received \$2.1 billion in 9.0 percent cumulative perpetual preferred stock and 60.8 percent of the common equity interest in New GM. In addition, New GM assumed \$7.1 billion of the DIP loan, simultaneously paying \$0.4 billion (return of warranty program funds), resulting in a balance of \$6.7 billion. The assets received by Treasury as a result of the assignment and Section 363 sale are considered recoveries of the original loans for subsidy cost estimation purposes. During fiscal year 2010, Treasury received the remaining \$6.7 billion as full repayment of the DIP loan assumed. During fiscal year 2011, pursuant to a letter agreement between Treasury and New GM, New GM repurchased its preferred stock for 102.0 percent of its liquidation amount, or \$2.1 billion. As a result of the New GM initial public offering (IPO), in fiscal year 2011, Treasury sold approximately 412 million shares of its GM common stock. Treasury received approximately \$13.5 billion in net proceeds, and its equity stake in General Motors Company decreased from 60.8 percent to 33.3 percent. Market value of the 500 million shares of New GM common stock held (representing 32 percent equity stake in New GM) as of September 30, 2011, was \$10.1 billion. On March 31, 2011, the Plan of Liquidation for Old GM became effective and Treasury's \$1.0 billion loan was converted to an administrative claim. Treasury retains the right to recover additional proceeds but recoveries are dependent on actual liquidation proceeds and pending litigation. Treasury recovered \$0.1 billion in fiscal year 2011 on the administrative claim. Treasury does not expect to recover any significant additional proceeds from this claim.

GMAC LLC Rights Offering—In December 2008, Treasury agreed, in principal, to lend up to \$1.0 billion to Old GM for participation in a rights offering by GMAC (now known as Ally Financial, Inc.) in support of GMAC's reorganization as a bank holding company. The loan was secured by the GMAC common interest acquired in the rights offering. The loan was funded for \$0.9 billion. In May 2009, Treasury exercised its exchange option under the loan and received 190,921 membership interests, representing approximately 35.36 percent of the voting interest at the time, in GMAC in full satisfaction of the loan.

Ally Financial Inc. (formerly known as GMAC Inc.)—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 9 percent 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 of September 30, 2009, Treasury owned \$13.1 billion in preferred shares in GMAC, through purchases and the exercise of warrants, in addition to 35.36 percent of the common equity in GMAC, as described previously under GMAC LLC Rights Offering.

In December 2009, Treasury invested \$2.5 billion in 8 percent Trust Preferred Securities and \$1.25 billion in GMAC's Series F-2 shares which have a \$50 per share liquidation preference and are convertible into GMAC common stock at the option of GMAC or Treasury. Absent an optional conversion, the Series F-2 shares automatically convert to common stock after 7 years from the issuance date. In addition, as part of the December 2009 transactions, Treasury exchanged its preferred membership interests and its 9 percent Mandatory Convertible Preferred Stock for a combination of additional Series F-2 convertible shares and GMAC's common shares. The additional shares in GMAC common stock increased Treasury's ownership in GMAC from 35.36 percent to 56.3 percent.

In May 2010, GMAC changed its corporate name to Ally Financial, Inc. (Ally). As of September 30, 2010, Treasury owned \$2.7 billion of Trust Preferred Securities and \$11.4 billion of Series F-2 Convertible Securities in Ally, through purchases, exchanges, and the exercise of warrants, in addition to 56.3 percent of common equity in Ally. In December 2010, Treasury converted 110 million shares of the Series F-2 preferred stock into 531,850 shares of Ally's common stock.

In March 2011, Treasury sold its Trust Preferred Securities for \$2.7 billion. On March 31, 2011, Treasury announced that it had agreed to be named as a selling shareholder of common stock in Ally's registration statement filed with the Securities and Exchange Commission (SEC) for a proposed initial public offering. Since March 31, 2011, Ally has filed four amendments in response to SEC comments and the public offering has not been made.

At September 30, 2011, Treasury held 981,971 shares of common stock (73.84 percent of Ally's outstanding common stock) and 119 million shares of the Series F-2 preferred securities.

Chrysler Holding LLC (Chrysler)

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

In June 2009, Treasury entered into a credit agreement to lend an additional \$6.6 billion. Also, New Chrysler assumed \$0.5 billion of the General Purpose Loan, and the balance of \$3.5 billion remained outstanding from the Chrysler Holdings. 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.

In fiscal year 2010, pursuant to the terms of a settlement agreement, Treasury received approximately \$1.9 billion and subsequently wrote-off the remaining \$1.6 billion of the General Purpose Loan. As of September 30, 2010, Treasury had loans outstanding from New Chrysler of \$5.1 billion and owned a 9.85 percent equity interest in New Chrysler and additional notes with principal balances of approximately \$0.4 billion. Additionally, as of September 30, 2010, Treasury had an interest in an old Chrysler entity as a result of the \$1.9 billion DIP Loan, recovery of which is subject to the bankruptcy process associated with the Chrysler assets remaining after the sale to New Chrysler. In May 2011, New Chrysler repaid \$5.1 billion, the additional notes totaling \$0.4 billion and all associated interests. New Chrysler's ability to draw the remaining \$2.1 billion loan commitment was terminated. In July 2011, Fiat SpA paid Treasury \$0.6 billion for all of its remaining equity interest and rights relating to New Chrysler. As a result of the fiscal year 2011 transactions, Treasury has no remaining interest in New Chrysler as of

September 30, 2011. Treasury continues to hold a right to receive proceeds from a bankruptcy liquidation trust but no significant cash flows are expected.

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 federally- or state-regulated 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 thereafter. 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 thereafter. For fiscal years 2011 and 2010, repayments totaled \$30.2 billion and \$81.4 billion, respectively.

The Consumer and Business Lending Initiative (CBLI)

The Consumer and Business Lending Initiative is intended to help unlock the flow of credit to consumers and small businesses. The following three programs were established to help accomplish this: Term Asset-Backed Securities Loan Facility (TALF), Small Business Administration (SBA) 7(a) Securities Purchase Program, and the Community Development Capital Initiative (CDCI).

TALF, which was created to help jump start the market for securitized consumer and small business loans, 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 equal to the differences between the TALF loan rate and the FRBNY's fee (spread) as compensation for entering into the put agreement. The accumulation of this fee will be used to fund purchases. In the event there are insufficient funds to purchase the collateral, Treasury committed to invest up to \$20.0 billion in non-recourse subordinate notes issued by the TALF, LLC. On July 19, 2010, the Treasury commitment was reduced to \$4.3 billion. 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, 2011 and 2010, approximately \$11.3 billion and \$29.7 billion of loans due to FRBNY remained outstanding, respectively.

The SBA 7(a) Securities Purchase Program was created to provide additional liquidity to the SBA 7(a) market so that banks are able to make more small business loans. Under this program, Treasury purchases 7(a) Securities collateralized with 7(a) loans (these loans are guaranteed by the full faith and credit of the United States Government) packaged on or after July 1, 2008. As of September 30, 2010, Treasury has entered into trades to purchase about \$0.4 billion, of which about \$0.2 billion had settled. The remaining trades settled by December 30, 2010. In May 2011, Treasury began selling its securities to bond market investors. As of September 30, 2011, Treasury held \$0.1 billion of SBA 7(a) securities.

The CDCI Initiative was created to provide additional low-cost capital to small banks to encourage more lending to small businesses. Under the terms of the initiatives, Treasury purchases senior preferred stock (or subordinated debt) from eligible CDFI financial institutions. The senior preferred stock has an initial dividend rate of 2 percent. CDFIs may apply to receive capital up to 5 percent of risk-weighted assets. To encourage repayment while recognizing the unique circumstances facing CDFIs, the dividend rate will increase to 9 percent after 8 years. CDFIs participating in the CPP, subject to certain criteria, were eligible to exchange, through September 30, 2010, their current CPP preferred shares (subordinated debt) for CDCI preferred shares (subordinated debt). As of September 30, 2010, and 2011, Treasury had \$0.6 billion invested under the CDCI Initiative.

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.

In fiscal year 2009, Treasury invested \$20.0 billion in each of Bank of America and Citigroup under TIP. In December 2009, both institutions repaid the invested amounts along with dividends through the date of repayment. In fiscal year 2010, Treasury received a total of \$1.1 billion in dividends on the Bank of America and Citigroup investments and proceeds of \$1.2 billion from the sale of Bank of America warrants. In fiscal year 2011, Treasury sold its warrants from Citigroup under TIP for \$0.2 billion, and closed the program.

Asset Guarantee Program (AGP)

The AGP provided guarantees for assets held by systemically significant financial institutions that faced a risk of losing market confidence due in large part to a portfolio of distressed or illiquid assets. 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 \$301.0 billion of loans and securities which remained on Citigroup's balance sheet. Treasury's guarantee was limited to \$5.0 billion. As a premium for the guarantee, Citigroup issued approximately \$7.0 billion of cumulative preferred stock (subsequently converted to trust preferred securities with similar terms) with an 8.0 percent stated dividend rate and a warrant for the purchase of common stock; approximately \$4.0 billion and the warrant was issued to Treasury and approximately \$3.0 billion was issued to the FDIC. For fiscal year 2010, the AGP's subsidy income was \$1.5 billion.

On December 23, 2009, the Treasury, Federal Reserve, Federal Deposit Insurance Corporation, and Citigroup terminated this program. The Government parties did not pay any losses under the program and kept \$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. On September 29, 2010, Treasury exchanged its remaining trust preferred securities for other Citigroup trust preferred securities containing market terms to facilitate a sale. On September 30, 2010, Treasury agreed to sell its trust preferred securities held for \$2.2 billion. The sale was settled on October 5, 2010, and additional warrants were sold in January 2011 for \$0.07 billion.

Housing Programs under TARP

The following housing programs under TARP provide stability for both housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes while they get back on their feet or relocate to a more sustainable living situation. These programs fall into three initiatives:

- Making Home Affordable Program;
- Housing Finance Agency Hardest-Hit Fund, and
- Federal Housing Administration Refinance Program.

As of September 30, 2011, and 2010, Treasury has committed up to \$45.6 billion for these programs. Payments made under the housing program under TARP from inception through September 30, 2011, and 2010, amounted to \$2.4 billion and 0.5 billion, respectively.

For more details on the TARP, please see the Treasury's Annual Financial Report.

Note 6. Non-TARP Investments in American International Group, Inc.

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

On September 30, 2010, an AIG Recapitalization Agreement was established for the purpose of restructuring the holdings in AIG. This restructuring was executed on January 14, 2011, converting the Trust's AIG preferred stock into 562.9 million shares of AIG common stock, and the Trust was dissolved (see Note 5 for a discussion of the TARP-related transactions that occurred in connection with the January 14, 2011, restructuring).

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

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

Note 7. Inventories and Related Property, Net

Inventories and Related Property as of September 30, 2011, and 2010

(In billions of dollars)	All			All		
	Defense	Others	Total	Defense	Others	Total
	2011			2010		
Inventory purchased for resale	65.1	0.6	65.7	81.2	0.7	81.9
Inventory and operating material and supplies held for repair	48.3	0.6	48.9	46.5	0.6	47.1
Inventory—excess, obsolete, and unserviceable	7.8	-	7.8	8.4	0.1	8.5
Operating materials and supplies held for use.....	131.4	2.7	134.1	131.6	2.3	133.9
Operating materials and supplies held in reserve for future use	-	0.2	0.2	-	0.4	0.4
Operating materials and supplies—excess, obsolete, and unserviceable	2.2	0.1	2.3	2.6	0.1	2.7
Stockpile materials	-	48.6	48.6	-	49.0	49.0
Stockpile materials held for sale	0.5	0.2	0.7	0.6	0.2	0.8
Other related property	1.7	0.9	2.6	1.0	0.9	1.9
Allowance for loss	(14.5)	(0.3)	(14.8)	(39.7)	(0.3)	(40.0)
Total inventories and related property, net	<u>242.5</u>	<u>53.6</u>	<u>296.1</u>	<u>232.2</u>	<u>54.0</u>	<u>286.2</u>

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. As of September 30, 2011, DOD values approximately 87 percent of its resale inventory using the moving average cost (MAC) method. An additional 9 percent (fuel inventory) is reported using the first-in-first-out method. DOD reports the remaining 4 percent of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. The LAC method is used because DOD's 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 economical 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 expends a significant amount 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 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.

Note 8. Property, Plant, and Equipment, Net

Property, Plant, and Equipment as of September 30, 2011

(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.....	230.2	220.6	118.6	115.5	111.6	105.1
Furniture, fixtures, and equipment.....	945.1	161.6	511.1	98.3	434.0	63.3
Construction in progress.....	46.5	47.5	N/A	N/A	46.5	47.5
Land.....	10.6	11.9	N/A	N/A	10.6	11.9
Internal use software.....	10.0	19.9	6.9	10.7	3.1	9.2
Assets under capital lease.....	1.2	2.9	0.7	1.5	0.5	1.4
Leasehold improvements.....	1.0	6.9	0.5	3.6	0.5	3.3
Other property, plant, and equipment.....	1.2	6.2	-	3.1	1.2	3.1
Subtotal.....	<u>1,245.8</u>	<u>477.5</u>	<u>637.8</u>	<u>232.7</u>	<u>608.0</u>	<u>244.8</u>
Total property, plant, and equipment, net.....		<u>1,723.3</u>		<u>870.5</u>		<u>852.8</u>

Property, Plant, and Equipment as of September 30, 2010

(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.....	207.4	211.6	112.0	110.8	95.4	100.8
Furniture, fixtures, and equipment.....	912.6	159.5	466.9	96.7	445.7	62.8
Construction in progress.....	38.6	41.3	N/A	N/A	38.6	41.3
Land.....	10.5	11.7	N/A	N/A	10.5	11.7
Internal use software.....	9.4	17.6	6.1	9.3	3.3	8.3
Assets under capital lease.....	1.0	3.2	0.6	1.4	0.4	1.8
Leasehold improvements.....	1.0	6.1	0.4	3.2	0.6	2.9
Other property, plant, and equipment.....	1.2	7.8	-	4.2	1.2	3.6
Subtotal.....	<u>1,181.7</u>	<u>458.8</u>	<u>586.0</u>	<u>225.6</u>	<u>595.7</u>	<u>233.2</u>
Total property, plant, and equipment, net.....		<u>1,640.5</u>		<u>811.6</u>		<u>828.9</u>

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

DOD comprises approximately 71.7 percent of the Government's reported property, plant, and equipment net as of September 30, 2011. Refer to the individual financial statements of DOD, DOE, the United States Postal Service (USPS), the Tennessee Valley Authority (TVA), GSA, DHS, and the Department of Interior (DOI), Department of State, VA, and DOT for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 94.5 percent of the Government's total cost of property, plant, and equipment net of \$852.8 billion as of September 30, 2011.

Debt and Equity Securities as of September 30, 2011, and 2010		
(In billions of dollars)	By Agency	
	2011	2010
Debt and Equity Securities:		
Pension Benefit Guaranty Corporation	47.4	49.5
Railroad Retirement Board	21.5	22.7
Exchange Stabilization Fund	15.8	12.6
Tennessee Valley Authority	8.6	8.2
All other	6.4	5.9
Total Debt and Equity Securities	99.7	98.9

These debt and equity securities do not include nonmarketable Treasury securities, which have been eliminated in consolidation. Held-to-maturity debt and equity securities are reported at amortized cost, net of unamortized discounts and premiums. Available-for-sale debt and equity securities are reported at fair value. Trading debt and equity securities 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. As an investment company, NRRIT is subject to different accounting standards that do not require the classifications presented above. NRRIT's total debt and equity securities are presented as a separate line item. Please refer to NRRIT's financial statements for more detailed information concerning this specific investment information. The TVA balance includes \$7.0 billion as of September 30, 2011, and 2010, 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 debt and equity securities. These agencies comprise 93.6 percent of the total reported debt and equity securities of \$99.7 billion as of September 30, 2011.

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 FASB ASC Topic 815, *Derivatives and Hedging*, 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, cashflow, or foreign currency) employed determines the financial statement impact on their statement of operations and net position. Per ASC Topic 815, the fair value of derivative instruments shall be presented on a gross basis when they are subject to master netting agreements.

PBGC uses derivatives to mitigate investment risks, enhance investment returns (derivatives are not used to leverage investment portfolios) and as a liquid and cost efficient substitute for positions in physical securities. PBGC utilizes a no hedging designation which results in the gain or loss on a derivative instrument being recognized currently in earnings. PBGC elects to net its derivative receivables and derivative payables and the related cash collateral received for its non-exchange derivative contracts subject to International Swaps and Derivatives Association, Inc. master agreements. As of September 30, 2011, PBGC had \$0.1 billion of derivatives in an asset position (recorded in other assets). PBGC had \$(0.02) billion of derivatives in an asset position (recorded in other assets) as of September 30, 2010, and \$(0.01) billion of derivatives in a liability position (recorded in other liabilities) as of September 30, 2011, and 2010.

Other than certain derivative instruments in investment funds, TVA uses derivatives purely for hedging purposes and not for speculative purposes. The accounting for changes in fair value of these instruments depends on whether TVA uses regulatory accounting to defer the derivative gains and losses, and whether the derivative instrument qualifies for hedge accounting treatment. As of September 30, 2011, and 2010, respectively, TVA had \$0.4 billion and \$0.2 billion worth of derivatives in an asset position (recorded in other assets), and \$2.1 billion and \$1.6 billion worth of derivatives in a liability position (recorded in other liabilities).

The gain/(loss) on derivatives was \$0.1 billion and \$0.2 billion for PBGC and \$(0.1) billion and \$(0.1) billion for TVA for fiscal years 2011 and 2010, respectively.

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

Note 11. Investments in and Liabilities to Government-Sponsored Enterprises

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

In the lead up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby undermining the entire housing market. This led Congress to pass the HERA. This Act created the FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSEs, if necessary.

On September 7, 2008, FHFA placed the GSEs under conservatorship and Treasury entered into a SPSPA with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to current market instability.

The actions taken by Treasury thus far are temporary, as defined by section 1117 of HERA, and are intended to provide financial stability. The purpose of Treasury's actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress determine what structural changes should be made. The FHFA director may terminate the conservatorship if safe and solvent conditions can be established. Draws under the SPSPAs are designed to ensure the GSEs maintain positive net worth as a result of any net losses from operations, and also meet taxpayer dividend requirements under the SPSPAs. While this arrangement is somewhat circular in the event dividends exceed net income and draws are made to fund dividends, the SPSPAs were structured to ensure any draws result in an increased nominal investment as further discussed below. Per SFFAC No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities. Accordingly, the Federal Government has not consolidated them into the financial statements, but included disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities in the consolidated financial statements.

Senior Preferred Stock Purchase Agreements (SPSPAs)

Under the SPSPAs, Treasury initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and (2) a non-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 10.0 percent per year, payable quarterly. This rate will increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. Dividends of \$15.6 billion and \$12.1 billion were received during fiscal years ended September 30, 2011, and September 30, 2010, respectively. In addition, beginning on March 31, 2011, the GSEs were scheduled to begin paying Treasury a Periodic Commitment Fee (PCF) on a quarterly basis, payable in cash or via an increase to the liquidation preference. The PCF was to initially be established by Treasury on December 31, 2010, based on mutual agreement between Treasury and each GSE in consultation with the Chairman of the Federal Reserve Board, and then subsequently re-established every 5 years thereafter. This fee may be waived by Treasury for up to 1 year at a time, if warranted by adverse mortgage market conditions. Treasury waived the PCF for the calendar year 2011 given that the imposition of the PCF at that time would not fulfill its intended purpose of generating increased compensation to the American taxpayer.

These initial SPSPAs, which have no expiration date, provide that Treasury will disburse funds to the GSEs if at the end of any quarter the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement was originally \$100 billion and, in May 2009, the maximum was raised to \$200 billion. In December 2009, Treasury amended the SPSPAs to replace the \$200 billion per GSE funding commitment cap with a formulaic cap that will allow continued draws for 3 years at amounts that will automatically adjust upwards quarterly by the cumulative amount of any losses realized by either GSE and downward by the cumulative amount of any gains, but not below \$200 billion, and will become fixed at the end of the 3 years. At the conclusion of the 3 year period ending December 2012, the remaining commitment will then be fully available to be drawn per the terms of the agreements (referred to hereafter as the "Adjusted Caps"). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw.

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

The \$316.2 billion contingent liability as of September 30, 2011, represents the total estimated future payments for the life of the agreement under the Adjusted Caps and is the most likely liability estimate. Under this scenario, the estimated ultimate payments made to the GSEs under the SPSPAs total \$485.2 billion. This amount consists of the \$169.0 billion of payments made through September 30, 2011, and the \$316.2 billion liability as of that date. Under an “extreme case” scenario, the estimated ultimate payments made to the GSEs under the SPSPAs total \$545.1 billion.

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 as of September 30, 2011, and 2010. Annual valuations are performed as of September 30 for 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.

Changing Regulatory Environment

On June 20, 2011, FHFA published, in the Federal Register, a final rule to clarify certain terms of conservatorship and receivership operations for the GSEs. This rule was effective July 20, 2011. The key issues addressed in the final rule are the status and priority of claims and the relationships among various classes of creditors and equity-holders under conservatorships or receiverships.

On July 21, 2010, the President signed the Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), into law, which significantly changed the regulation of the financial services industry, including the creation of new standards related to regulatory oversight of financial institutions deemed systemically important; an orderly liquidation mechanism for these institutions; and oversight of derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. The Dodd-Frank Act may result in the GSEs being subjected to new and additional regulatory oversight and standards, which would lead to increased restrictions on their day-to-day business and operations. Also, it contains a provision requiring the Secretary of the Treasury to conduct a study and develop recommendations regarding the options for ending the conservatorship. On February 11, 2011, the President delivered to Congress a report from the Secretary that provided recommendations regarding the options for ending the conservatorship and plans to wind down the GSEs. To date, Congress has not approved a plan to address what will be done with the GSEs.

As of September 30, 2011, and 2010, GSE investments consisted of the following:

Investments in GSE as of September 30, 2011			
(In billions of dollars)	Gross Investments as of 9/30/11	Cumulative Valuation (Loss)	9/30/11 Fair Value
Fannie Mae Senior Preferred Stock	104.5	(26.7)	77.8
Freddie Mac Senior Preferred Stock	66.0	(12.4)	53.6
Fannie Mae Warrants Common Stock	3.1	(2.1)	1.0
Freddie Mac Warrants Common Stock	2.3	(1.7)	0.6
Total GSE Investment	<u>175.9</u>	<u>(42.9)</u>	<u>133.0</u>
Investments in GSE as of September 30, 2010			
(In billions of dollars)	Gross Investments as of 9/30/10	Cumulative Valuation (Loss)	9/30/10 Fair Value
Fannie Mae Senior Preferred Stock	85.9	(29.4)	56.5
Freddie Mac Senior Preferred Stock	63.9	(12.7)	51.2
Fannie Mae Warrants Common Stock	3.1	(2.1)	1.0
Freddie Mac Warrants Common Stock	2.3	(1.8)	0.5
Total GSE Investment	<u>155.2</u>	<u>(46.0)</u>	<u>109.2</u>

Note 12. Other Assets

Other Assets as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Advances and prepayments	112.9	90.8
FDIC Receivable from Resolution Activity	29.3	49.7
NCUA Loans	-	10.1
Regulatory assets	19.7	15.2
Other	17.4	17.5
Total other assets	<u>179.3</u>	<u>183.3</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.

The FDIC has the responsibility for resolving 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 the closing process. FDIC records receivables for resolutions that 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.

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 Topic 980, *Regulated Operations*. The provisions of FASB ASC Topic 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 Topic 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 Topic 980 would no longer be applicable, and all of the deferred costs under that standard would be expensed.

Other items included in "other" 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).

Note 13. Accounts Payable

Accounts Payable as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Department of Defense	26.1	31.1
Department of the Treasury	4.8	5.4
Department of Education	4.2	4.8
Department of Homeland Security	2.9	2.6
General Services Administration	2.7	2.4
Department of Justice	2.5	2.5
Tennessee Valley Authority	2.4	2.4
Department of State	1.9	1.8
Department of Energy	1.8	2.0
Agency for International Development	1.7	2.1
U.S. Postal Service	1.7	1.9
National Aeronautics and Space Administration	1.4	1.3
Department of Housing and Urban Development	1.4	1.0
Department of Transportation	1.2	0.7
Department of Veterans Affairs	1.1	5.0
All other	5.6	5.9
Total accounts payable	<u>63.4</u>	<u>72.9</u>

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

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, 2010	Net Change During Fiscal Year 2011	Balance September 30, 2011	Average Interest Rate	
				2011	2010
Treasury securities (public):					
Marketable securities:					
Treasury bills	1,783.7	(308.1)	1,475.6	0.1%	0.2%
Treasury notes	5,252.6	1,154.4	6,407.0	2.3%	2.6%
Treasury bonds	846.0	170.4	1,016.4	5.8%	6.1%
Treasury inflation-protected securities (TIPS)	593.6	111.7	705.3	1.9%	2.2%
Total marketable Treasury securities	8,475.9	1,128.4	9,604.3		
Nonmarketable securities	546.9	(24.2)	522.7	2.8%	2.8%
Net unamortized premiums/ (discounts)	(33.9)	4.4	(29.5)		
Total Treasury securities, net (public)	8,988.9	1,108.6	10,097.5		
Agency securities:					
Tennessee Valley Authority	23.4	1.0	24.4		
All other agencies	0.3	-	0.3		
Total agency securities, net of unamortized premiums and discounts	23.7	1.0	24.7		
Accrued interest payable	47.4	4.5	51.9		
Total Federal debt securities held by the public and accrued interest	<u>9,060.0</u>	<u>1,114.1</u>	<u>10,174.1</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 (government account series held by deposit and fiduciary funds, 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 2011 and 2010.

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. On December 28, 2009, Public Law 111-123 was enacted, which increased the statutory debt limit to \$12,394.0 billion. On February 12, 2010, Public Law 111-139 was enacted, which increased the statutory debt limit to \$14,294.0 billion. On August 2, 2011, Public Law 112-25 was enacted, which increased the statutory debt limit to \$14,694.0 billion on August 2, 2011, and to \$15,194.0 billion on September 22, 2011. Public Law 112-25 also established procedures to further increase the statutory debt limit. Prior to the enactment of Public Law 112-25, Treasury faced a period that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. As of September 30, 2011, and 2010, debt subject to the statutory debt limit was \$14,746.6 billion and \$13,510.8 billion, respectively. 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, 2011,
and 2010**

(In billions of dollars)	Balance 2010	Net Change During Fiscal Year 2011	Balance 2011
Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund	2,399.1	93.4	2,492.5
Office of Personnel Management, Civil Service Retirement and Disability Fund	780.4	23.4	803.8
Department of Defense, Military Retirement Fund.....	282.0	44.0	326.0
Department of Health and Human Services, Federal Hospital Insurance Trust Fund	279.5	(33.6)	245.9
Social Security Administration, Federal Disability Insurance Trust Fund.....	187.2	(25.2)	162.0
Department of Defense, Medicare-Eligible Retiree Health Care Fund	142.3	19.4	161.7
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund.....	71.0	(0.6)	70.4
Department of Energy, Nuclear Waste Disposal	47.6	1.0	48.6
Federal Deposit Insurance Corporation Funds	47.0	(1.4)	45.6
Office of Personnel Management, Postal Service Retiree Health Benefits Fund	42.1	1.6	43.7
Office of Personnel Management, Employees Life Insurance	37.6	2.1	39.7
Department of the Treasury, Exchange Stabilization Fund.....	20.4	2.3	22.7
Pension Benefit Guaranty Corporation Fund	19.9	1.1	21.0
Office of Personnel Management, Employees Health Benefits Fund.....	16.2	3.0	19.2
Department of State, Foreign Service Retirement and Disability Fund	15.9	0.5	16.4
Department of Transportation, Highway Trust Fund.....	24.5	(8.2)	16.3
Department of Labor, Unemployment Trust Fund	18.7	(2.7)	16.0
National Credit Union Share Insurance Fund	9.3	1.4	10.7
All other programs and funds	97.6	3.5	101.1
Subtotal.....	<u>4,538.3</u>	<u>125.0</u>	<u>4,663.3</u>
Unamortized net (discounts)/premiums	<u>38.4</u>	<u>9.2</u>	<u>47.6</u>
Total intragovernmental debt holdings, net	<u>4,576.7</u>	<u>134.2</u>	<u>4,710.9</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, 2011, and 2010

(In billions of dollars)	Civilian		Military		Total	
	2011	2010	2011	2010	2011	2010
Pension and accrued benefits	1,619.7	1,632.9	1,361.3	1,262.7	2,981.0	2,895.6
Post-retirement health and accrued benefits	342.5	355.5	842.3	904.7	1,184.8	1,260.2
Veterans compensation and burial benefits	N/A	N/A	1,533.7	1,474.8	1,533.7	1,474.8
Life insurance and accrued benefits	44.6	44.0	11.1	11.7	55.7	55.7
FECA benefits	24.2	21.8	8.3	8.3	32.5	30.1
Liability for other benefits	1.6	0.4	2.9	3.5	4.5	3.9
Total Federal employee and veteran benefits payable.....	<u>2,032.6</u>	<u>2,054.6</u>	<u>3,759.6</u>	<u>3,665.7</u>	<u>5,792.2</u>	<u>5,720.3</u>

Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian		Military		Total	
	2011	2010	2011	2010	2011	2010
Actuarial accrued pension liability, beginning of fiscal year	1,632.9	1,529.4	1,262.7	1,177.1	2,895.6	2,706.5
Pension Expense:						
Expected normal costs	36.8	31.8	24.9	24.0	61.7	55.8
Interest on pension liability during the period.....	78.3	93.4	62.6	67.0	140.9	160.4
Prior (or past) service cost from the initiation of a new plan	-	0.1	-	-	-	0.1
Actuarial (gains)/losses (from experience)	(70.6)	(39.8)	0.1	(21.6)	(70.5)	(61.4)
Actuarial (gains)/losses (from assumption changes).....	15.9	90.5	62.0	66.6	77.9	157.1
Total pension expense.....	60.4	176.0	149.6	136.0	210.0	312.0
Less benefits paid.....	73.6	72.5	51.0	50.4	124.6	122.9
Actuarial accrued pension liability, end of fiscal year	<u>1,619.7</u>	<u>1,632.9</u>	<u>1,361.3</u>	<u>1,262.7</u>	<u>2,981.0</u>	<u>2,895.6</u>

Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian		Military		Total	
	2011	2010	2011	2010	2011	2010
Actuarial accrued post-retirement health benefits liability, beginning of fiscal year	355.5	352.2	904.7	825.8	1,260.2	1,178.0
Post-Retirement Health Benefits Expense:						
Prior (and past) service costs from plan amendments	-	(0.1)	(15.9)	-	(15.9)	(0.1)
Normal costs.....	14.5	13.4	24.0	21.4	38.5	34.8
Interest on liability.....	17.8	21.7	45.8	48.0	63.6	69.7
Actuarial (gains)/losses (from experience)	(17.9)	(18.2)	(1.1)	154.7	(19.0)	136.5
Actuarial (gains)/losses (from assumption changes).....	(13.8)	(0.1)	(94.0)	(125.4)	(107.8)	(125.5)
Total post-retirement health benefits expense	0.6	16.7	(41.2)	98.7	(40.6)	115.4
Less claims paid.....	13.6	13.4	21.2	19.8	34.8	33.2
Actuarial accrued post-retirement health benefits liability, end of fiscal year	<u>342.5</u>	<u>355.5</u>	<u>842.3</u>	<u>904.7</u>	<u>1,184.8</u>	<u>1,260.2</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).

Change in Civilian Life Insurance and Accrued Benefits

(In billions of dollars)	2011	2010
Actuarial accrued life insurance benefits liability, beginning of fiscal year	44.0	39.7
Life Insurance Benefits Expense:		
New entrant expense	0.4	0.3
Interest on liability.....	2.1	2.4
Actuarial (gains)/losses (from experience).....	(0.5)	(0.4)
Actuarial (gains)/losses (from assumption changes)	(0.9)	2.5
Total life insurance benefits expense	1.1	4.8
Less costs paid.....	0.5	0.5
Actuarial accrued life insurance benefits liability, end of fiscal year	<u>44.6</u>	<u>44.0</u>

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense

	Civilian				Military	
	2011		2010		2011	2010
	FERS	CSRS	FERS	CSRS		
Rate of interest.....	4.90%	4.60%	5.10%	4.80%	4.80%	5.00%
Rate of inflation	2.40%	2.40%	2.50%	2.50%	2.50%	2.40%
Projected salary increases	3.10%	3.10%	3.50%	3.50%	3.30%	3.60%

Significant Long-Term Economic Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

	Civilian		Military	
	2011	2010	2011	2010
Rate of interest.....	4.90%	5.10%	4.90%	5.00%
Single equivalent medical trend rate	-	-	5.20%	5.80%
Ultimate medical trend rate	4.35%	4.40%	5.25%	5.65%

Significant Long-Term Economic Assumptions Used in Determining Life Insurance Benefits and the Related Expense

	Civilian	
	2011	2010
Rate of interest.....	4.80%	4.90%
Rate of increase in salary.....	3.10%	3.50%

In fiscal year 2010, agencies implemented SFFAS No. 33, *Pension, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, ORB, and OPEB on the Statement of Net Cost. SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of Federal employee pension, ORB, and OPEB liabilities. In addition, SFFAS No. 33 provides a standard for selecting the valuation date for estimates of Federal employee pension, ORB, and OPEB liabilities that will establish a consistent method for such measurements.

DOD’s long-term ultimate medical trend rate for post-retirement health benefits liability is 5.25 percent for fiscal year 2011 and 5.65 percent for fiscal year 2010. For disclosure and comparison purposes, DOD’s estimate of a single equivalent medical trend rate for fiscal year 2011 is 5.2 percent and for fiscal year 2010 is 5.8 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 2050, L 2040, L 2030, L 2020, 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 \$139.3 billion and \$123.6 billion in non-marketable Treasury securities as of September 30, 2011, and 2010, 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 2011, a 3.54 percent interest rate was assumed in year one and 4.03 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
2012	2.10%	3.07%
2013	2.53%	3.62%
2014	1.83%	3.66%
2015	1.93%	3.73%
2016+	2.00%	3.73%

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 liability is due to additional benefit accruals (normal cost), interest on the pension liability, assumption and benefit changes, and actuarial experience. Liabilities in the future will depend on expected changes due to interest and benefit accruals, future benefit changes, assumption changes, and actuarial experience.

This Fund receives income from three sources: monthly normal cost payments from the Services to pay for the current years' 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.

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of Army, Navy, Air Force, and the 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/retiredmilitary/plan/estimate/csbredux.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 capitated payments for 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 2009 through 2011, the average medical care cost per year was \$37.0 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 increased by \$58.9 billion in fiscal year 2011, and increased by \$157.3 billion in fiscal year 2010.

The net cost of Veterans Compensation and Burial benefits is \$58.9 billion and \$223.8 billion for fiscal years 2011 and 2010, respectively. The fiscal year 2010 net cost of \$223.8 billion does not include the \$(66.5) billion cumulative effect of changes in accounting principle from adopting SFFAS No. 33 in fiscal year 2010.

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current Veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the Future.

The Veterans Compensation and Burial benefits liability is a valuation of a long period of estimated cashflows. As a result, changes in economic assumptions can have a dramatic effect on the liability. If those changes to economic assumptions are in different directions from one period to the next, the changes to net cost from period to period are more pronounced as demonstrated over the past several years.

Change in Veterans Compensation and Burial Benefits						
(In billions of dollars)	Compensation		Burial		Total	
	2011	2010	2011	2010	2011	2010
Actuarial accrued liability beginning of fiscal year	1,470.5	1,313.9	4.3	3.6	1,474.8	1,317.5
Prior period adjustments (not restated)	-	(66.4)	-	(0.1)	-	(66.5)
Actuarial accrued liability, beginning of fiscal year, as adjusted	1,470.5	1,247.5	4.3	3.5	1,474.8	1,251.0
Current Year Expense:						
Actuarial (gain)/losses (from experience)	-	122.4	-	-	-	122.4
Actuarial (gain)/losses (from assumption changes).....	58.7	100.6	0.2	0.8	58.9	101.4
Total current year expense	58.7	223.0	0.2	0.8	58.9	223.8
Actuarial accrued liability end of fiscal year	<u>1,529.2</u>	<u>1,470.5</u>	<u>4.5</u>	<u>1,533.7</u>	<u>1,533.7</u>	<u>1,474.8</u>
Significant Economic Assumptions Used in Determining Veterans Compensation and Burial Benefits as of September 30, 2011, and 2010						
			2011		2010	
Rate of interest			4.53%		4.73%	
Rate of inflation.....			2.78%		2.86%	

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, 2011, and 2010		
(In billions of dollars)	2011	2010
Insurance death benefits:		
NSLI	6.2	6.8
VSLI	1.5	1.6
VRI	0.2	0.3
Other	0.6	0.5
Total death benefits.....	<u>8.5</u>	<u>9.2</u>
Death benefit annuities.....	0.1	0.1
Disability income and waiver	0.7	0.6
Insurance dividends payable.....	1.7	1.7
Unearned premiums.....	0.1	0.1
Total veterans life insurance liability.....	<u><u>11.1</u></u>	<u><u>11.7</u></u>

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

The VA supervises Servicemembers 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, 2011, and 2010, were \$89.2 billion and \$80.8 billion, respectively.

Note 16. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Department of Energy:		
Environmental and Disposal Liabilities.....	250.6	250.2
Department of Defense:		
Environmental Restoration	29.4	27.9
Disposal of Weapon Systems Program	24.9	24.3
Environmental Corrective Other	5.7	5.4
Base Realignment and Closure.....	4.8	5.3
Total Department of Defense.....	64.8	62.9
All other agencies	8.7	8.2
Total environmental and disposal liabilities	324.1	321.3

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 \$920.0 million and \$608.0 million for fiscal years 2011 and 2010, 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 ordinance 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 \$2.9 billion and \$2.9 billion for fiscal years 2011 and 2010, 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, 2011, and 2010		
(In billions of dollars)	2011	2010
Federal Old-Age and Survivors Insurance	53.1	51.7
Federal Hospital Insurance (Medicare Part A)	28.6	21.8
Grants to States for Medicaid	26.1	27.2
Federal Supplementary Medical Insurance (Medicare Parts B and D)	25.7	23.3
Federal Disability Insurance	23.9	23.7
Supplemental Security Income	5.2	5.4
Unemployment Insurance	3.2	6.3
All other Benefits Programs	5.2	4.9
Total Benefits Due and Payable	<u>171.0</u>	<u>164.3</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 Unaudited Supplemental Information—Social Insurance section and Note 26—Social Insurance.

Note 18. Insurance and Guarantee Program Liabilities

Insurance and Guarantee Program Liabilities as of September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Insurance and Guarantee Program Liabilities:		
Pension Benefit Guaranty Corporation—Benefit Pension Plans	93.0	90.0
Federal Deposit Insurance Corporation Funds	47.4	72.6
All other insurance and guarantee programs	<u>21.3</u>	<u>13.0</u>
Total insurance and guarantee program liabilities	<u><u>161.7</u></u>	<u><u>175.6</u></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, 2011, and 2010, PBGC had total liabilities of \$106.7 billion and \$102.5 billion, and its total liabilities exceeded its total assets by \$26.0 billion and \$23.0 billion, respectively. In addition, as discussed in Note 22—Contingencies, PBGC reported reasonably possible contingent losses of about \$250.2 billion and \$190.0 billion as of September 30, 2011, and 2010, respectively.

Of the total FDIC amount as of September 30, 2011, and 2010, \$7.2 billion and \$21.3 billion, respectively, represents the recorded contingent liability and loss provision for institutions insured by the Deposit Insurance Fund that are likely to fail. In addition, \$31.5 billion and \$42.8 billion pertain to liabilities due to resolutions of failed or failing institutions and to pending depositor claims as of September 30, 2011, and 2010 respectively. Another \$8.2 billion and \$7.9 billion as of September 30, 2011, and 2010 respectively, 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. As of September 30, 2011, and 2010, the Deposit Insurance Fund had total liabilities of \$69.2 billion and \$107.4 billion, respectively. As of September 30, 2011, total assets exceeded its total liabilities by \$7.8 billion due to the overall improvement in the financial condition of the bank and thrift agency.

Of the \$21.3 billion and \$13.0 billion under all other insurance and guarantee programs as of September 30, 2011, and 2010, respectively, \$10.3 billion and \$4.6 billion, respectively, pertain to the USDA's Federal Crop Insurance Program. The increase in the loss ratio is due to the extreme drought in the Southwest and significant flooding along the Missouri and Mississippi rivers. 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, \$7.4 billion and 6.4 billion relates to the National Credit Union Administration's Temporary Corporate Credit Union Stabilization Fund as of September 30, 2011, and 2010, respectively. This Program guarantees the timely payment of principal and interest on certain unsecured debt of participating credit unions.

Note 19. Other Liabilities

Other Liabilities as of September 30, 2011, and 2010	2011	2010
(In billions of dollars)		
Unearned revenue and assets held for others:		
Unearned fees for nuclear waste disposal (DOE) and other unearned revenue	64.4	74.2
Assets held on behalf of others	<u>69.8</u>	<u>64.9</u>
Subtotal	<u>134.2</u>	<u>139.1</u>
Employee-related liabilities:		
Accrued Federal employees wages and benefits	35.2	42.7
Selected DOE contractors' and D.C. employees' pension benefits	<u>55.0</u>	<u>50.2</u>
Subtotal	<u>90.2</u>	<u>92.9</u>
International monetary liabilities and gold certificates:		
Exchange Stabilization Fund	60.3	60.1
Gold Certificates (Note 2)	<u>11.0</u>	<u>11.0</u>
Subtotal	<u>71.3</u>	<u>71.1</u>
Subsidies and grants:		
Farm and other subsidies	12.5	13.2
Grant payments due to State and local governments and others	<u>18.1</u>	<u>18.1</u>
Subtotal	<u>30.6</u>	<u>31.3</u>
Miscellaneous liabilities:		
Legal and other contingencies	38.0	31.4
Bonneville Power Administration non-Federal power projects and capital lease liabilities, and disposal liabilities	13.5	9.4
Other miscellaneous	<u>49.2</u>	<u>41.3</u>
Subtotal	<u>100.7</u>	<u>82.1</u>
Total other liabilities	<u><u>427.0</u></u>	<u><u>416.5</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 \$30.0 billion and \$28.0 billion as of September 30, 2011, and 2010, respectively. Other unearned revenue includes USPS income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. FDIC collected prepaid assessments from the financial institutions to address the Deposit Insurance Fund's (DIF) liquidity needs of \$20.4 billion and \$33.4 billion in fiscal years 2011 and 2010, respectively. Assets held on behalf of others include funds collected in advance and undelivered defense articles. The Foreign Military Sales program holds \$58.6 billion and \$53.9 billion as of September 30, 2011, and 2010, 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 \$30.2 billion and \$28.3 billion as of September 30, 2011, and 2010, respectively. Also, the Government owed about \$9.7 billion and \$9.7 billion as of September 30, 2011, and 2010, respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

International Monetary Liabilities and Gold Certificates

Consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates, the Secretary of the Treasury, with the approval of the President, may use the Exchange Stabilization Fund to deal in gold, foreign exchange, and other instruments of credit and securities.

Gold Certificates are issued in nondefinitive or book-entry form to the Federal Reserve banks. The Government's liability incurred by issuing the Gold Certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department of the Treasury at the standard value established by law. Upon issuance of Gold Certificates to the Federal Reserve banks, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department of the Treasury's certificates issued are payable to the Federal Reserve banks.

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 \$8.9 billion, and \$9.9 billion as of September 30, 2011, and 2010, 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, 2011, and 2010, DOT, Education, and HHS collectively owed their grantees about \$15.0 billion and \$14.9 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 Tax Revenue for the Year Ended September 30, 2011

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2011	2010	2009	Prior Years
Individual income and tax withholdings	2,102.0	1,357.0	703.9	19.0	22.1
Corporation income taxes	242.8	165.7	62.6	1.9	12.6
Unemployment taxes	56.2	30.4	14.3	11.4	0.1
Excise taxes	75.7	56.3	19.0	0.1	0.3
Estate and gift taxes	9.1	-	6.4	0.7	2.0
Railroad retirement taxes	4.7	3.5	1.2	-	-
Fines, penalties, interest, and other revenue	5.4	5.2	0.1	0.1	-
Customs duties	29.9	29.9	-	-	-
Subtotal	<u>2,525.8</u>	<u>1,648.0</u>	<u>807.5</u>	<u>33.2</u>	<u>37.1</u>
Less: amounts collected for non-Federal entities	<u>(0.9)</u>				
Total	<u>2,524.9</u>				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income and tax withholdings include FICA/SECA and individual income 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, 2011

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2011	2010	2009	Prior Years
Individual income and tax withholdings	344.4	1.1	302.8	26.5	14.0
Corporation income taxes	67.8	6.3	16.6	6.5	38.4
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	2.2	0.8	1.0	0.2	0.2
Estate and gift taxes	1.8	-	-	0.4	1.4
Customs duties	1.3	0.6	0.3	0.1	0.3
Total.....	<u>417.6</u>	<u>8.8</u>	<u>320.8</u>	<u>33.7</u>	<u>54.3</u>

Reconciliation of Revenue to Tax Collections for the Year Ended September 30, 2011, and 2010

(In billions of dollars)	2011	2010
Consolidated revenue per the Statements of Operations and Changes in Net Position	2,363.8	2,216.5
Tax refunds	417.6	468.9
First-time Homebuyers Tax Credit	(2.2)	(8.7)
Making work pay credit	(13.9)	(13.7)
Earned income tax credit and child tax credit imputed revenue	(78.3)	(77.4)
Other tax credits.....	(13.9)	(10.5)
Federal Reserve earnings.....	(82.5)	(75.8)
Nontax-related fines and penalties reported by agencies	(49.5)	(44.0)
Nontax-related earned revenue	<u>(16.2)</u>	<u>(15.9)</u>
Collections of Federal tax revenue	<u>2,524.9</u>	<u>2,439.5</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. First-time Homebuyer Credit, Earned Income Tax Credit and Child Tax Credit, Making work pay credit, and Other tax credits amounts (unaudited) are included in gross cost in the Statements of Net Cost as a component of Treasury. Collections of Federal tax revenue are reported on a gross cash basis. The table above reconciles total revenue to Federal tax collections.

Collections of Federal Tax Revenue for the Year Ended September 30, 2010

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2010	2009	2008	Prior Years
Individual income and tax withholdings	1,988.8	1,315.9	635.9	20.2	16.8
Corporation income taxes	277.9	188.5	75.5	1.6	12.3
Unemployment taxes	45.3	24.9	11.4	8.9	0.1
Excise taxes	73.8	54.9	18.6	0.1	0.2
Estate and gift taxes	19.8	-	7.9	0.9	11.0
Railroad retirement taxes	4.6	3.5	1.1	-	-
Fines, penalties, interest, and other revenue	3.8	3.6	0.1	0.1	-
Customs duties	26.4	26.4	-	-	-
Subtotal	<u>2,440.4</u>	<u>1,617.7</u>	<u>750.5</u>	<u>31.8</u>	<u>40.4</u>
Less: amounts collected for non-Federal entities	<u>(0.9)</u>				
Total	<u>2,439.5</u>				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2010

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2010	2009	2008	Prior Years
Individual income and tax withholdings	366.1	1.3	312.2	35.6	17.0
Corporation income taxes	98.3	2.7	16.2	16.8	62.6
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	2.2	0.6	0.9	0.3	0.4
Estate and gift taxes	0.9	-	0.2	0.4	0.3
Customs duties	1.3	0.7	0.2	0.1	0.3
Total	<u>468.9</u>	<u>5.3</u>	<u>329.8</u>	<u>53.2</u>	<u>80.6</u>

Note 21. Prior-Period Adjustments

Prior-Period Adjustments for the Year Ended September 30, 2011, and 2010

(In billions of dollars)	Changes to Net Position	
	2011	2010
Prior-Period Adjustments		
Department of Veterans Affairs.....	-	66.5
National Aeronautics and Space Administration	-	(3.0)
Other prior-period adjustments	-	(0.1)
Total Prior-Period Adjustments	-	63.4

For fiscal year 2011, as discussed in Note 1.V—Reclassifications, one fund previously reported as an earmarked fund was reclassified to non-earmarked funds and was recorded as a prior period adjustment. As shown in the Statement of Changes in Net Position, this reclassification had no effect on the total net position.

During fiscal year 2010, VA adopted SFFAS 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting Gains and Losses from Changes in Assumptions, and Selecting Discount Rates and Valuation Dates*. This resulted in a \$66.5 billion reduction in the Veterans Compensation and Burial Actuarial Liabilities and an increase to VA's net position by \$66.5 billion. Additionally, NASA reviewed the consumption method in relation to its business processes and operations and determined that it did not reflect NASA's business processes and operations and that the purchase method explained in SFFAS No. 3, *Accounting for Inventory and Related Property*, is the preferred method. Accordingly, NASA reduced its assets and net position by \$3.0 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.¹

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.
Probable Future confirming event(s) are more likely to occur than not. ²	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.
Reasonably possible 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.
Remote Possibility of future event(s) occurring is slight.	No disclosure	No disclosure	No disclosure

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

² 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 \$267.0 billion as of September 30, 2011, and \$224.2 billion as of September 30, 2010. The major programs are identified below:

- PBGC reported \$250.2 billion and \$190.0 billion as of September 30, 2011, and 2010, 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.
- Of the remaining \$16.8 billion for 2011, FDIC reported \$16.5 billion as of September 30, 2011, and \$34.2 billion as of September 30, 2010, 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 \$1,408.6 billion as of September 30, 2011, and \$1,394.8 billion as of September 30, 2010. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major programs are identified below:

- The DHS reported \$1,247.2 billion and \$1,230.0 billion as of September 30, 2011, and 2010, respectively, for the National Flood Insurance Program (NFIP).
- The DOT reported \$90.8 billion and \$98.3 billion as of September 30, 2011, and 2010, respectively for the Federal Aviation Administration (FAA) Aviation Insurance Program.

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 \$6,777.0 billion as of September 30, 2011, and \$5,423.0 billion as of September 30, 2010, for the Deposit Insurance Fund.
- NCUA has estimated insured shares of \$782.4 billion as of September 30, 2011, and \$750.9 billion as of September 30, 2010, for the National Credit Union Share Insurance Fund.

Legal Contingencies

Legal contingencies as of September 30, 2011, and 2010, are summarized in the table below:

(In billions of dollars)	2011			2010		
	Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²		Accrued Liabilities ¹	Estimated Range of Loss for Certain Cases ²	
		Lower End	Upper End		Lower End	Upper End
Legal contingencies						
Probable.....	9.2	9.0	9.7	4.3	4.3	5.2
Reasonably possible		12.4	14.6		118.4	122.6

¹ Accrued liabilities are recorded and presented in the related line items of the balance sheet.
² 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 \$9.2 billion and \$4.3 billion as of September 30, 2011, and 2010, respectively, and are included in “Other Liabilities” on the Balance Sheet. For example, DOI 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 \$4.7 billion and 0.3 billion has been accrued in the financial statements as of September 30, 2011 and 2010, respectively. The Cobell vs. Salazar lawsuit brought against the Interior Department and Treasury Department on behalf of 490,000 individual Indian trust beneficiaries for an historical accounting of their trust accounts and reform of trust management systems. On December 7, 2009, the parties announced that a \$3.4 billion settlement had been reached. On December 8, 2010, the President signed into law H.R. 4783, the Claims Resolution Act of 2010, which authorized and funded the settlement. DOI has accrued the \$3.4 billion in their financial statements. The settlement agreement provides for the distribution of \$1.5 billion directly to individual Indians, the creation of a \$1.9 billion fund to purchase highly fractioned interests in trust lands that stymie and slow the Government’s management, and sets aside up to \$60 million for educational scholarships for Indian children.

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 \$12.4 billion to \$14.6 billion as of September 30, 2011, and from \$118.4 billion to \$122.6 billion as of September 30, 2010.

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:

- Tribal Trust Fund Cases - Numerous cases have been filed in U.S. District Court in which Native American Tribes seek a declaration that the United States has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the 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.

Environmental and Disposal Contingencies

Environmental and disposal contingencies as of September 30, 2011, and 2010, are summarized in the table below:

(In billions of dollars)	Accrued Liabilities ¹	2011 Estimated Range of Loss for Certain Cases ²		Accrued Liabilities ¹	2010 Estimated Range of Loss for Certain Cases ²	
		Lower End	Upper End		Lower End	Upper End
Environmental and disposal contingencies						
Probable	20.0	20.0	20.2	15.8	15.8	16.0
Reasonably possible		0.2	0.2		0.2	0.3

¹ Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.
² 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 \$20.0 billion and \$15.8 billion as of September 30, 2011, and 2010, respectively, and are included in "Other Liabilities" on the Balance Sheet. 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 \$19.1 billion and \$15.5 billion as of September 30, 2011, and 2010, 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 and HHS 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 \$41.4 billion and \$40.2 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2011, and 2010, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the consolidated financial statements.
- Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the States. The Medicaid amounts are \$3.0 billion and \$5.4 billion for fiscal years ending September 30, 2011, and 2010, respectively.

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, 2011, and 2010

(In billions of dollars)	2011	2010
General Services Administration.....	26.7	26.1
U.S. Postal Service	7.3	7.8
Department of Health and Human Services ..	1.5	1.7
Department of State	1.4	1.3
Department of Defense.....	1.2	0.7
Securities and Exchange Commission	0.8	1.1
Department of Agriculture	0.8	1.0
Other Operating Leases.....	4.2	3.9
Total long-term operating leases.....	<u>43.9</u>	<u>43.6</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 commitments that may require future use of financial resources. For example, the Government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are international financial institutions that finance economic and social development projects in developing countries. Callable capital stock shares in the MDBs serve as a supplemental pool of resources that may be 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, 2011, and 2010

(In billions of dollars)

	2011	2010
Undelivered Orders:		
Department of Defense	315.9	348.6
Department of Education.....	229.2	237.5
Department of the Treasury	207.1	144.8
EOP Foreign Military Sales Program	121.4	112.4
Department of Transportation	104.7	102.1
Department of Health and Human Services.....	90.3	92.9
Department of Housing and Urban Development	56.9	64.8
Department of Agriculture	51.7	54.8
Department of Energy	45.7	49.2
Department of Homeland Security	36.3	37.7
Department of State	20.9	19.2
Agency for International Development	15.6	15.7
National Science Foundation	11.6	11.8
Environmental Protection Agency	10.8	11.4
Department of Justice	10.0	11.5
Export-Import Bank of the United States.....	9.7	5.6
All other agencies	62.1	63.8
Total undelivered orders	<u>1,399.9</u>	<u>1,383.8</u>
Other Commitments:		
Callable capital subscriptions for multilateral development banks.....	72.0	63.9
Fuel Purchase Obligations	8.5	7.9
Agriculture Direct Loans and Guarantees	5.9	4.8
Power Purchase Obligations	5.1	5.5
Long-term Satellite and Systems	3.2	3.9
Conservation Reserve Program.....	1.8	1.8
Contract Options and Negotiations	0.0	10.2
All other commitments.....	6.8	6.0
Total other commitments	<u>103.3</u>	<u>104.0</u>

Other Commitments and Risks

The U. S. Government has entered into agreements that could potentially require claims on Government resources in the future. For 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. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) was enacted extending the Program through December 31, 2014. The 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. There were no claims under TRIA as of September 30, 2011, or September 30, 2010.

Note 24. Earmarked Funds

Earmarked Funds as of September 30, 2011 ¹

(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
Assets:						
Cash and other monetary assets	-	-	-	-	-	-
Fund balance with Treasury	(0.6)	0.4	-	0.2	0.4	1.3
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	2,492.5	368.2	803.8	185.9	245.9	62.9
Other Federal assets	26.2	3.6	10.7	1.9	37.0	1.1
Non-Federal assets	1.9	-	0.3	0.5	6.3	1.0
Total assets	<u>2,520.0</u>	<u>372.2</u>	<u>814.8</u>	<u>188.5</u>	<u>289.6</u>	<u>66.3</u>
Liabilities:						
Liabilities due and payable to beneficiaries	53.2	0.3	5.5	0.7	28.6	4.3
Other Federal liabilities	4.7	-	0.1	0.1	33.9	0.3
Other non-Federal liabilities	-	1,361.0	1,533.4	534.0	0.3	329.5
Total liabilities	57.9	1,361.3	1,539.0	534.8	62.8	334.1
Total net position	<u>2,462.1</u>	<u>(989.1)</u>	<u>(724.2)</u>	<u>(346.3)</u>	<u>226.8</u>	<u>(267.8)</u>
Total liabilities and net position	<u>2,520.0</u>	<u>372.2</u>	<u>814.8</u>	<u>188.5</u>	<u>289.6</u>	<u>66.3</u>
Change in net position:						
Beginning net position	2,370.7	(941.0)	(765.6)	(406.9)	261.8	(284.3)
Prior-period adjustment	-	-	-	-	-	-
Beginning net position, adjusted	2,370.7	(941.0)	(765.6)	(406.9)	261.8	(284.3)
Investment revenue	106.9	18.0	35.4	9.2	12.4	1.9
Individual income taxes	496.5	-	-	-	192.1	-
Unemployment and excise taxes ...	-	-	-	-	-	-
Other taxes and receipts	-	-	-	-	0.6	-
Miscellaneous earned revenues	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers)	81.7	87.3	31.3	21.1	16.2	10.3
Non-program expenses	-	-	-	-	-	-
Program net cost	593.7	153.4	25.3	(30.3)	256.3	(4.3)
Ending net position	<u>2,462.1</u>	<u>(989.1)</u>	<u>(724.2)</u>	<u>(346.3)</u>	<u>226.8</u>	<u>(267.8)</u>

¹ 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, 2011 ¹

(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
Assets:						
Cash and other monetary assets	-	-	66.7	0.4	-	67.1
Fund balance with Treasury ..	(0.4)	5.7	-	103.6	-	110.6
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	162.0	70.4	22.7	193.4	-	4,607.7
Other Federal assets	1.8	29.3	0.1	23.0	(67.9)	66.8
Non-Federal assets	3.8	17.5	15.7	88.2	-	135.2
Total assets	<u>167.2</u>	<u>122.9</u>	<u>105.2</u>	<u>408.6</u>	<u>(67.9)</u>	<u>4,987.4</u>
Liabilities:						
Liabilities due and payable to beneficiaries	24.2	25.7	-	5.2	-	147.7
Other Federal liabilities	1.1	30.4	-	96.7	(67.9)	99.4
Other non-Federal liabilities ...	-	0.4	60.4	173.1	-	3,992.1
Total liabilities	<u>25.3</u>	<u>56.5</u>	<u>60.4</u>	<u>275.0</u>	<u>(67.9)</u>	<u>4,239.2</u>
Total net position	<u>141.9</u>	<u>66.4</u>	<u>44.8</u>	<u>133.6</u>	<u>-</u>	<u>748.2</u>
Total liabilities and net position	<u>167.2</u>	<u>122.9</u>	<u>105.2</u>	<u>408.6</u>	<u>(67.9)</u>	<u>4,987.4</u>
Change in net position:						
Beginning net position	166.7	53.5	43.8	148.2	-	646.9
Prior-period adjustment	-	-	-	2.0	-	2.0
Beginning net position, adjustment	166.7	53.5	43.8	150.2	-	648.9
Investment revenue	8.2	3.2	-	6.8	-	202.0
Individual income taxes	84.3	-	-	0.0	-	772.9
Unemployment and excise taxes	-	-	-	108.3	-	108.3
Other taxes and receipts	-	1.9	-	19.1	(0.7)	20.9
Miscellaneous earned revenues	-	-	-	4.9	-	4.9
Other changes in fund balance (e.g., appropriations, transfers) ..	10.3	225.6	-	56.7	-	540.5
Non-program expenses	-	-	-	4.8	-	4.8
Program net cost	<u>127.6</u>	<u>217.8</u>	<u>(1.0)</u>	<u>207.6</u>	<u>(0.7)</u>	<u>1,545.4</u>
Ending net position	<u>141.9</u>	<u>66.4</u>	<u>44.8</u>	<u>133.6</u>	<u>-</u>	<u>748.2</u>

¹ 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, 2010 ¹

(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
Assets:						
Cash and other monetary assets	-	-	-	-	-	-
Fund balance with Treasury	(0.4)	-	-	0.2	-	1.1
Investments in U.S. Treasury Securities, net of unamortized premiums/discounts	2,399.1	318.6	780.4	164.4	279.5	58.4
Other Federal assets	26.7	3.1	10.1	1.8	28.5	1.3
Non-Federal assets	1.9	-	0.4	0.6	1.0	1.0
Total assets	2,427.3	321.7	790.9	167.0	309.0	61.8
Liabilities and net position:						
Liabilities due and payable to beneficiaries	51.7	4.2	5.5	0.7	21.8	4.0
Other Federal liabilities	4.9	0.1	0.1	0.1	25.2	0.4
Other non-Federal liabilities	-	1,258.4	1,550.9	573.1	0.2	341.7
Total liabilities	56.6	1,262.7	1,556.5	573.9	47.2	346.1
Total net position	2,370.7	(941.0)	(765.6)	(406.9)	261.8	(284.3)
Total liabilities and net position	2,427.3	321.7	790.9	167.0	309.0	61.8
Change in net position:						
Beginning net position	2,270.2	(898.8)	(696.0)	(361.4)	292.4	(290.8)
Prior-period adjustment	-	-	-	-	-	-
Beginning net position, adjusted	2,270.2	(898.8)	(696.0)	(361.4)	292.4	(290.8)
Investment revenue	108.4	10.4	36.4	5.3	14.2	1.8
Individual income taxes	552.8	-	-	-	183.6	-
Unemployment and excise taxes	-	-	-	-	-	-
Other taxes and receipts	-	-	-	-	0.6	-
Miscellaneous earned revenue	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers)	14.2	83.5	33.2	21.1	14.8	9.6
Non-program expenses	-	-	-	-	-	-
Program net cost	574.9	136.1	139.2	71.9	243.8	4.9
Ending net position	2,370.7	(941.0)	(765.6)	(406.9)	261.8	(284.3)

¹ 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, 2010 ¹

(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
Assets:						
Cash and other monetary assets	-	-	70.9	0.2	-	71.1
Fund balance with Treasury	(0.4)	2.0	-	104.2	-	106.7
Investments in U.S. Treasury Securities, net of unamortized premiums/discounts.....	187.2	71.0	20.4	198.5	-	4,477.5
Other Federal assets	2.2	25.6	0.1	23.7	(54.9)	68.2
Non-Federal assets	3.4	4.9	12.5	82.7	-	108.4
Total assets	<u>192.4</u>	<u>103.5</u>	<u>103.9</u>	<u>409.3</u>	<u>(54.9)</u>	<u>4,831.9</u>
Liabilities and net position:						
Liabilities due and payable to beneficiaries	24.3	23.3	-	7.9	-	143.4
Other Federal liabilities.....	1.4	26.4	-	86.6	(54.9)	90.3
Other non-Federal liabilities ...	-	0.3	60.1	166.6	-	3,951.3
Total liabilities	25.7	50.0	60.1	261.1	(54.9)	4,185.0
Total net position	166.7	53.5	43.8	148.2	-	646.9
Total liabilities and net position	<u>192.4</u>	<u>103.5</u>	<u>103.9</u>	<u>409.3</u>	<u>(54.9)</u>	<u>4,831.9</u>
Change in net position:						
Beginning net position	186.6	44.0	43.8	162.7	-	752.7
Beginning net position, adjusted.....	-	-	-	-	-	-
Beginning net position	186.6	44.0	43.8	162.7	-	752.7
Investment revenue.....	9.6	3.1	-	5.8	-	195.0
Individual income taxes	93.9	-	-	-	-	830.3
Unemployment and excise taxes	-	-	-	94.2	-	94.2
Other taxes and receipts	-	-	-	30.5	(0.5)	30.6
Miscellaneous earned revenue.....	-	-	-	4.5	-	4.5
Other changes in fund balance (e.g., appropriations, transfers)..	(1.6)	209.7	0.1	97.5	-	482.1
Non-program expenses	-	-	-	1.5	-	1.5
Program net cost	121.8	203.3	0.1	245.5	(0.5)	1,741.0
Ending net position	<u>166.7</u>	<u>53.5</u>	<u>43.8</u>	<u>148.2</u>	<u>-</u>	<u>646.9</u>

¹ 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) (Public Law 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. Public Law 109-435 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 changed the USPS contribution for fiscal year 2009 to \$1.4 billion rather than \$5.4 billion. For fiscal years 2011 and 2010, the USPS contributions were \$0.0 billion and \$5.5 billion, respectively. Per Public Law 109-435 for fiscal years 2011 and 2010, the required USPS contributions were \$5.5 billion. However, Congress extended the \$5.5 billion payment due September 30, 2011, to November 18, 2011, and has subsequently extended the due date to December 16, 2011, per Public Law 112-55.

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* (Public Law No. 108-173). Medicare Part D financing is similar to Part B; it is primarily based on monthly premiums and income from the General Fund of the Treasury, not on payroll taxes. It also receives transfers from States. 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 may be used by the Secretary of Treasury to purchase or sell currencies, to hold U.S. foreign exchange and SDR assets, and to provide financing to foreign governments. Appropriations, U.S. 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 law establishing the ESF account and authorizing the use of its funds is section 10 of the Gold Reserve Act of 1934, as amended (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 preceding table 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, 2011, and 2010, there were approximately 630 and 621 earmarked funds, respectively. The earmarked funds within the "all other" aggregate, along with the agencies that administer them, include the following:

- Railroad Retirement Trust Fund—administered by RRB.
- National Flood Insurance Program—administered by DHS.
- Land and Water Conservation Fund, Reclamation Fund, Water and Related Resources Fund, Lower Colorado River Basin Fund, and Historic Preservation Fund—administered by DOI.
- Government National Mortgage Association (Ginnie Mae) and Recovery Act Funds—administered by HUD.
- National Telecommunications and Information Administration (NTIA) Digital Television Transition and Public Safety Fund and Broadband Technology Opportunities Program-Recovery Act Fund—administered by the Department of Commerce (DOC).
- Decommissioning and Decontamination Fund—administered by DOE.
- Black Lung Disability Trust Fund (BLDTF)—administered by DOL.
- Investor Protection Fund—administered by the Securities and Exchange Commission (SEC).
- Universal Service Fund—administered by the Federal Communication Commission (FCC).
- Crime Victims Fund—administered by DOJ.
- District of Columbia Pensions—administered by Treasury.
- Federal Employees' Life Insurance Fund—administered by OPM.
- Superfund (Hazardous Substance) and Leaking Underground Storage Tanks—administered by Environmental Protection Agency (EPA).

Unemployment Trust Fund (UTF) and Excise Taxes

In addition to the previous listed earmarked funds within the "all other" aggregate, there are 11 other earmarked funds, also within the "all other" aggregate that represent all the earmarked unemployment and excise tax revenues shown on the consolidated Statement of Operations and Changes in Net Position. The Unemployment Trust Fund represents all the earmarked unemployment tax revenues and the remaining 10 other earmarked funds represent all the earmarked excise tax revenues.

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.

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, 2011, and 2010, UTF unemployment tax revenues were \$56.1 billion and \$45.2 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 represent 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, represent 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, 2011, and 2010, Highway Trust Fund excise tax revenues were \$36.9 billion and \$35.0 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 entities, 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, 2011, and 2010, Airport and Airway Trust Fund excise tax revenues were \$11.5 billion and \$10.6 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 Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (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.

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, 2011, and 2010

(In billions of dollars)	2011	2010
FRTIB-Thrift Savings Plan	281.6	264.0
Department of the Interior	3.8	3.7
All other	5.8	4.9
Total fiduciary net assets.....	<u>291.2</u>	<u>272.6</u>

In accordance with the requirements of SFFAS No. 31, *Accounting for Fiduciary Activities*, 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. Refer to Note 14—Federal Debt Securities Held by the Public and Accrued Interest for more information on Treasury securities.

As of September 30, 2011, total fiduciary investments in Treasury securities and in non-Treasury securities are \$143.9 billion and \$145.1 billion, respectively. As of September 30, 2010, total fiduciary investments in Treasury securities and in non-Treasury securities are \$127.5 billion and \$143.4 billion, respectively. As of September 30, 2011, and 2010, the total fiduciary fund balance with Treasury is \$1.2 billion and \$0.8 billion, respectively. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in Note 19—Other Liabilities.

As of September 30, 2011, and 2010, collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all Government entities represent \$4.0 billion and \$2.9 billion, respectively, 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, 2011, and 2010, the TSP held \$281.6 billion and \$264.0 billion, respectively, in net assets, which included \$139.3 billion and \$123.6 billion, respectively, of U.S. Government Securities (amounts are unaudited). The most recent audited financial statements for the TSP are as of December 31, 2010, and 2009. As of December 31, 2010, and 2009, the TSP held \$281.0 billion and \$244.4 billion, respectively, in net assets, which included \$124.7 billion and \$114.9 billion, respectively, of U.S. Government Securities. These 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, 2011, and 2010.

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, 2010, and 2009, there were approximately 4.4 million and 4.3 million participants in the TSP, respectively, with approximately 2.9 million and 2.8 million, respectively, 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. DOI maintains separate Financial Statements for these trust funds which were prepared using the cash or modified cash basis of accounting, a comprehensive basis of accounting other than GAAP. The independent auditors' reports were qualified as it was not practical to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances. 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 on the previous page 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, 2011, and 2010, including FRTIB and DOI, there are a total of 15 and 15 Federal entities, respectively, with fiduciary activities with a grand total of 58 and 58 fiduciary funds, respectively. For further information relating to the fiduciary activities of the 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
- National Endowment for the Arts (2011 only)
- Government Accountability Office, and
- Peace Corps (2010 only).

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 and RRB and the annual financial report for 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) of the open group measures 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 Survivors and 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 15 years of age 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 amount 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.

(In billions of dollars)	2011	2010	2009	2008	2007
Social Security.....	2,609	2,540	2,419	2,238	2,048
Medicare:					
HI	272	304	321	312	300
SMI Part B	71	76	59	53	38
SMI Part D	1	1	1	3	1
Railroad Retirement	26	25	22	33	32
Black Lung.....	(6)	(6)	(6)	(10)	(10)

¹ 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 Unaudited 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 Trust 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. Generally, 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 Unaudited 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.

Affordable Care Act (ACA)

The Affordable Care Act improves the financial outlook for Medicare substantially; however, the effects of some of the new law's provisions on Medicare are not known at this time, with the result that the projections are very uncertain, especially in the longer-range future. For example, the ACA initiative for aggressive research and development has the potential to reduce Medicare costs in the future; however, as specific reforms have not yet been designed, tested, or evaluated, their ability to reduce costs cannot be estimated at this time, and thus no specific savings have been reflected in the projections for the initiative.

Another important example involves lower payment rate updates to most categories of Medicare providers in 2011 and later. These updates will be adjusted downward by the increase in productivity experienced in the economy overall. Since the provision of health services tends to be labor-intensive and is often customized to match an individual's specific needs, most categories of health providers have not been able to improve their productivity to the same extent as the economy at large. Over time, the productivity adjustments mean that the prices paid for health services by Medicare will grow about 1.1 percent per year more slowly than the increase in prices that providers must pay to purchase the goods and services they use to provide health care services. Unless providers could reduce their cost per service correspondingly, through productivity improvements, or other steps, they could eventually become unwilling or unable to treat Medicare beneficiaries.

It is possible that providers can improve their productivity, reduce wasteful expenditures, and take other steps to keep their cost growth within the bounds imposed by the Medicare price limitations. Similarly, the implementation of payment and delivery system reforms, facilitated by the ACA research and development program, could help constrain cost growth to a level consistent with the lower Medicare payments. These outcomes are far from certain, however. The feasibility of such sustained improvements is debatable. Without fundamental changes in current health care delivery systems and payment mechanisms the Medicare price constraints would probably become unworkable in which case Congress would likely override them, much as they have done to prevent the reductions in physician payment rates otherwise required by the sustainable growth rate formula in current law.

The reductions in provider payments reflected in these updates, if implemented for all future years as required under current law, could have secondary impacts, for beneficiary access to care; utilization, intensity and quality of services; and other factors. These possible impacts are speculative, and at present there is not consensus among experts as to their potential scope. Further research and analysis will help to better inform this issue and may enable the development of specific projections of secondary effects under current law in the future.

Because knowledge of the potential long-range effects of the productivity adjustments, delivery and payment innovations, and certain aspects of the Affordable Care Act is so limited, in August 2010, the HHS Secretary working on behalf of the Medicare Board of Trustees, established an independent panel of technical of expert actuaries and economists to review the assumptions and methods used by the Medicare Trustees to make projections of the financial status of the trust funds. The members of the Panel were selected in October 2010 and began their deliberations in November 2010. They were asked to focus their immediate attention on the long-range Medicare expenditure growth rate assumption. In its interim report, the Panel found that the long-range Medicare growth rate assumptions used in the 2010 Medicare Trustees Report and in the 2010 Statement of Social Insurance for the current-law projections were not unreasonable in light of the provisions of the Affordable Care Act. The Panel recommended the continued use of a supplemental analysis, similar to the illustrative projection in the 2010

Medicare Trustees Report, for the purpose of illustrating the higher Medicare costs that would result if the reduction in physician payment rates and the productivity adjustments to most other provider payment updates are not fully implemented as required under current law.¹

The Panel members noted the extreme difficulty involved in developing long-range Medicare cost growth assumptions, due to the many uncertainties that surround not only the long-term evolution of the U.S. health care system but also the system's interaction with the provisions of the Affordable Care Act. The Medicare Trustees will continue their efforts, with the assistance of the panel, to develop possible improvements to the cost growth assumptions underlying the 2010 Medicare Trustee Report.

The SOSI projections are based on current law. Therefore, the productivity adjustments are assumed to occur in all future years, as required by the Affordable Care Act. In addition, an almost 30 percent reduction in Medicare payment rates for physician services in January 2012 is assumed to be implemented as required under current law, despite the virtual certainty that Congress will continue to override this reduction. Therefore, it is important to note that the actual future costs for Medicare are likely to exceed those shown by these current-law projections.

The extent to which actual future Part A and Part B costs exceed the projected current-law amounts due to changes to the productivity adjustments and physician payments depends on both the specific changes that might be legislated and on whether Congress would pass further provisions to help offset such costs. As noted, these examples only reflect hypothetical changes to provider payment rates.

It is likely that in the coming years Congress will consider, and pass, numerous other legislative proposals affecting Medicare. Many of these will 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.

The Medicare Board of Trustees, in their annual report to Congress, references an alternative scenario to illustrate the potential understatement of costs under current law. This alternative scenario assumes that the productivity adjustments are gradually phased out over the 16 years starting in 2020 and that the physician fee reductions are overridden. 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. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation affecting the productivity adjustments and physician payments under Medicare and of the broad range of uncertainty associated with such impacts. The table below contains a comparison of the Medicare 75-year present values of income and expenditures under current law with those under the alternative scenario illustration.

¹ The Interim Report of the Technical Panel of the Medicare Trustees Report is available at <http://aspe.hhs.gov/health/medpanel/2010/interim1103.shtml>

Medicare Present Values (in billions) (Unaudited)		
	2011 Consolidated SOSI	Illustrative Alternative Scenario ^{1, 2}
Income		
Part A.....	\$15,104	\$15,104
Part B ³	5,086	7,740
Part D ⁴	2,484	2,484
Total Income	\$22,674	\$25,328
Expenditures		
Part A.....	\$18,356	\$23,640
Part B.....	18,940	28,744
Part D.....	9,950	9,950
Total Expenditures	\$47,246	\$62,334
Part A	\$3,252	\$8,536
Part B	13,854	21,004
Part D	7,466	7,466
Excess of Expenditures over Income	\$24,572	\$37,006
<p>¹ These amounts are not presented in the 2011 Trustees' Report.</p> <p>² At the request of the Trustees, the Office of the Actuary at CMS has prepared an illustrative set of Medicare Trust Fund projections that differ from current law. No endorsement of the illustrative alternative to current law by the Trustees, CMS, or the Office of the Actuary should be inferred.</p> <p>³ Excludes \$13,854 billion and \$21,004 of General Revenue Contributions from the 2011 Consolidated SOSI projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part B income on a consolidated Governmentwide basis.</p> <p>⁴ Excludes \$7,466 billion of General Revenue Contributions from both the 2011 Consolidated SOSI projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part D income on a consolidated Governmentwide basis.</p>		

As expected, the differences between the current-law projections and the illustrative alternative are substantial for Part A and Part B. All Part A fee-for-service providers are affected by the productivity adjustments, so the current law projections reflect an estimated 1.1 percent reduction in annual Part A cost growth each year. If the productivity adjustments were gradually phased out, as illustrated under the alternative scenario, the present value of Part A expenditures is estimated to be roughly 29 percent higher than the current-law projection. As indicated above, the present value of Part A income is unchanged under the alternative scenario.

The Part B expenditure projections are significantly higher under the alternative scenario than under current law, both because of the assumed gradual phase-out of the productivity adjustments and the assumption that the scheduled physician fee reductions would be overridden and based on annual increases in the Medicare Economic Index. The productivity adjustments are assumed to affect more than half of Part B expenditures at the time their phase-out is assumed to begin. Similarly, physician fee schedule services are assumed to be roughly 30 percent higher under the alternative scenario than under current law at that time. The combined effect of these two factors results in a present value of Part B expenditures under the alternative scenario that is approximately 52 percent higher than the current-law projection.

The Part D projections are unaffected under the alternative projection because the services are not impacted by the productivity adjustments or the physician fee schedule reductions.

Social Security and Medicare—Demographic and Economic Assumptions

The Boards of Trustees² 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 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’ reasonable estimate³ 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.

² 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.

³ Statement of Federal Financial Accounting Standard (SFFAS) No. 33: *Pensions, Other Retirement Benefits, and Other Postemployment Benefits*: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates, effective for fiscal years beginning after September 30, 2009, revised SFFAS No. 17: *Accounting for Social Insurance*, paragraphs 25, 27 (2), and 27 (4), by replacing the term “best estimate” with “reasonable estimate.”

Table 1A
Social Security – Demographic and Economic Assumptions

Demographic Assumptions					
Year	Total Fertility Rate ¹	Age-Sex Adjusted Death Rate ² (per 100,000)	Net Immigration ³ (persons)	Period Life Expectancy at Birth ⁴	
				Male	Female
2011	2.07	766.5	895,000	75.9	80.6
2020	2.05	707.8	1,195,000	77.1	81.4
2030	2.02	648.7	1,115,000	78.2	82.4
2040	2.00	596.6	1,070,000	79.3	83.3
2050	2.00	550.8	1,050,000	80.3	84.1
2060	2.00	510.5	1,040,000	81.3	84.9
2070	2.00	474.9	1,030,000	82.1	85.7
2080	2.00	443.2	1,030,000	82.9	86.4

Economic Assumptions						
Year	Real Wage Differential ⁵ (percent)	Average Annual Wage in Covered Employment ⁶ (percent change)	CPI ⁷ (percent change)	Real GDP ⁸ (percent change)	Total Employment ⁹ (percent change)	Average Annual Interest Rate ¹⁰ (percent)
2020	1.1	3.9	2.8	2.1	0.5	5.7
2030	1.2	4.0	2.8	2.2	0.5	5.7
2040	1.2	4.0	2.8	2.2	0.5	5.7
2050	1.2	4.0	2.8	2.2	0.5	5.7
2060	1.1	3.9	2.8	2.1	0.5	5.7
2070	1.1	3.9	2.8	2.1	0.4	5.7
2080	1.2	4.0	2.8	2.1	0.4	5.7

¹ 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 2035.

² 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.

³ 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.

⁴ 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.

⁵ 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.

⁶ 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.

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

⁸ The real GDP is the value of total output of goods and services produced in the U.S., expressed in 2005 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁹ Total employment represents the 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.

¹⁰ 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 ¹	Age-Sex Adjusted Death Rate ² (per 100,000)	Net Immigration ³ (persons)					
2011	2.07	766.5	895,000					
2020	2.05	707.8	1,195,000					
2030	2.02	648.7	1,115,000					
2040	2.00	596.6	1,070,000					
2050	2.00	550.8	1,050,000					
2060	2.00	510.5	1,040,000					
2070	2.00	474.9	1,030,000					
2080	2.00	443.2	1,030,000					

Economic Assumptions								
Year	Real Wage Differential ⁴ (percent)	Average Annual Wage in Covered Employment (percent change)	CPI ⁵ (percent change)	Real GDP ⁶ (percent change)	Per Beneficiary Cost (percent change) ⁷			Real Interest Rate ⁸ (percent)
					HI	SMI		
						Part B	Part D	
2011	2.9	4.1	1.2	2.7	2.3	3.7	3.1	1.5
2020	1.1	3.9	2.8	2.1	3.3	5.5	6.5	2.9
2030	1.2	4.0	2.8	2.2	4.6	4.9	5.7	2.9
2040	1.2	4.0	2.8	2.2	4.9	4.5	5.4	2.9
2050	1.2	4.0	2.8	2.2	3.9	4.1	5.1	2.9
2060	1.1	3.9	2.8	2.1	3.7	4.1	4.8	2.9
2070	1.1	3.9	2.8	2.1	3.6	3.9	4.6	2.9
2080	1.2	4.0	2.8	2.1	3.3	3.7	4.4	2.9

¹ 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 is assumed to be reached in 2035.

² 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.

³ 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.

⁴ 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.

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

⁶ The real GDP is the value of total output of goods and services produced in the U.S., expressed in 2005 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

⁷ 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.

⁸ 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 interchange 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 is 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' reasonable 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 218,000 in 2011 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 44,000 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.

**Table 2
Railroad Retirement Demographic Actuarial Assumptions (Sources)**

Mortality Rates ¹	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
Total Termination Rates ²	Termination for spouses	2007 RRB Spouse Total Termination Table
	Termination for disabled children	2004 RRB Total Termination Table for Disabled Children
Widow Remarriage Rate ³	1997 RRB Remarriage Table	
Retirement Rates ⁴	Age retirement	See the Valuation Report.
	Disability retirement	See the Valuation Report.
Withdrawal Rates ⁵	See the Valuation Report.	

¹ These mortality tables are used to project the termination of eligible employee benefit payments within the population.

² Total termination rates are used to project the termination of dependent benefits to spouses and disabled children.

³ This rate is used to project the termination of spousal survivor benefits.

⁴ 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.

⁵ 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.

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 0.0 percent in 2012 and medical cost increases 3.2 percent in 2012, and ranges from 3.6 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.

Public Law 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. Public Law 110-343 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.

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation and the prior valuation) in the present value of future revenue less future expenditures for current and future participants (the open group measure) over the next 75 years (except Black Lung is projected only through September 30, 2040, because the projection period will terminate on September 30, 2040). The reconciliation identifies several components of the changes that are significant and provides reasons for the changes. The following disclosures relate to the Statement of Changes in Social Insurance Amounts including the reasons for the

components of the changes in the open group measure during the reporting period from the end of the previous reporting period for the Federal Government's social insurance programs.

Social Security

All estimates relating to the Social Security program in the Statement of Changes in Social Insurance Amounts are presented as incremental to the prior change. As an example, the present values shown for economic data and assumptions, represent the additional effect that these new data and assumptions have, once the effects from the demography and the change in the valuation period have been considered.

Assumptions Used for the Components of the Changes for the Social Security Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Social Security Trustees Reports for those years. Table 1A summarizes these assumptions for the current year.

Present values as of January 1, 2010, are calculated using interest rates from the intermediate assumptions of the 2010 Social Security Trustees Report. All other present values in the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2011. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data and assumptions are presented using the interest rates under the intermediate assumptions of the 2010 Social Security Trustees Report. Since interest rates are an economic estimate and all estimates in the Statement of Changes in Social Insurance Amounts are incremental to the prior change, all other present values in the Statement of Changes in Social Insurance Amounts are calculated using the interest rates under the intermediate assumptions of the 2011 Social Security Trustees Report.

Changes in Valuation Period

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2010-84) to the current valuation period (2011-85) is measured by using the assumptions for the prior period and applying them, in absence of any changes, to the current valuation period. Changing the valuation period removes a small negative net cashflow for 2010 and replaces it with a much larger negative net cashflow for 2085. The present value of future net cashflows (including or excluding the combined OASI and DI Trust Fund assets at the start of the period) was therefore decreased (made more negative) when the 75-year valuation period changed from 2010-84 to 2011-85.

Changes in Demographic Data and Assumptions

The ultimate demographic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting demographic values were changed. The economic recovery has been slower than was assumed for the prior valuation period.

- The inclusion of final mortality data for 2007 results in lower starting death rates and faster near-term declines in death rates at older ages for the current valuation period.
- Revised historical estimates of net other immigration and final data on legal immigration for 2009 are also used in the current valuation. Based on estimates from the Department of Homeland Security for 2007 and 2008 and due to the weak U.S. economy since 2008, net other immigration levels for 2007-10 are assumed negative for the current valuation period. These levels are significantly lower than the positive estimates used in the prior valuation period.
- Birth rates projected through 2026 are slightly lower in the current valuation; preliminary birth data for 2008 and 2009 was lower than was expected for the prior valuation.
- Updated starting values of population levels were incorporated in the current valuation.

Except for updating starting values of population levels, inclusion of each of these demographic data sets decreases the present value of future net cashflows.

The following demographic methods were changed in the current valuation.

- The method for determining the initial projected rates of mortality decline was changed to place greater emphasis on recent experience. These initial rates of decline are now determined using the most recent 10 years of historical data, rather than the most recent 20 years. This change increased the rate of decline in death rates at older ages for years following the year of final data (2007) up to the year the ultimate rates of decline are fully in effect (2035).
- The historical estimates of the other immigrant population by age and sex were improved, resulting in greater consistency between the other immigrant population and the total population.

Both of these changes to demographic methods decrease the present value of future net cashflows.

Changes in Economic Data and Assumptions

The ultimate economic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting economic values and near-term economic growth rate assumptions were changed. The economic recovery has been slower than was assumed for the prior valuation period.

- For the current valuation period, OASDI taxable earnings are considerably lower for the starting year, 2010, than were projected for the prior valuation period. Even though earnings grow faster after 2010 through 2019, the projected level of earnings is lower through 2018 for the current valuation period.
- Unemployment rates are slightly higher over first few years of the projection for the current valuation period.
- The real interest rate is lower over first few years of the projection for the current valuation period.

Inclusion of each of these economic revisions decreases the present value of future net cashflows.

A change to the methodology for projecting labor force participation was implemented in the current valuation period. The assumed effect of gains in life expectancy on labor force participation for persons over 40 was doubled, significantly increasing projected participation rates at higher ages. Disability prevalence was added as an input variable to the labor force model for persons over normal retirement age, partially offsetting increases in the labor force due to changes in life expectancy. Inclusion of these changes to labor force participation projections increase the present value of future net cashflows.

Changes in Methodology and Programmatic Data

Several methodological improvements and updates of program-specific data are included in the current valuation and the most significant are identified below.

- Disabled worker mortality and termination rates were updated to reflect a more recent historical period. Inclusion of these updates decrease the present value of future net cashflows.
- The historical sample of new beneficiaries, which serves as the basis of average benefit levels, was updated from a 2006 sample to a 2007 sample. Inclusion of this update increases the present value of future net cashflows.

Changes in Law or Policy

There were no legislative changes, included in the current valuation and not in the prior valuation, that are projected to have a significant effect on the present value of the 75-year net cashflows.

Medicare

All estimates relating to the Medicare program in the Statement of Changes in Social Insurance Amounts are presented as incremental to the prior change. As an example, the present values shown for demographic assumptions, represent the additional effect that these assumptions have, once the effects from the change in the valuation period and projection base have been considered.

Assumptions Used for the Components of the Changes for the Medicare Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Medicare Trustees Reports for those years. Table 1.B summarizes these assumptions for the current year.

Present values as of January 1, 2010, are calculated using interest rates from the intermediate assumptions of the 2010 Medicare Trustees Report. All other present values in the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2011. Estimates of the present value of changes in social

insurance amounts due to changing the valuation period, projection base, and demographic assumptions are determined using the interest rates under the intermediate assumptions of the 2010 Medicare Trustees Report. Since interest rates are economic assumptions, the estimates of the present values of changes in economic assumptions are presented using the interest rates under the intermediate assumptions of the 2011 Medicare Trustees Report.

Changes in Valuation Period

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2010-84) to the current valuation period (2011-85) is measured by using the assumptions for the prior valuation period and applying them, in the absence of any other changes, to the current valuation period. Changing the valuation period removes a small negative net cashflow for 2010 and replaces it with a much larger negative net cashflow for 2085. The present value of future net cashflow was therefore decreased (made more negative) when the 75-year valuation period changed from 2010-84 to 2011-85.

Change in Projection Base

Actual revenue and expenditures in 2010 were different than what was anticipated when the 2010 Medicare Trustees Report projections were prepared. Part A revenue was lower than estimated and Part A expenditures were higher than anticipated, due to the impacts of the economic recession. Part B total revenue and expenditures were lower than estimated based on actual experience. For Part D, actual revenue and expenditures were both slightly lower than prior estimates. The net impact of the Part A, B, and D projection-base changes is a slight decrease in the future net cashflow.

Changes in Demographic Data and Assumptions

The demographic assumptions used in the Medicare projections are the same as those used for the Old-Age, Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at the Social Security Administration (SSA).

The ultimate demographic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting demographic values were changed.

- The inclusion of final mortality data for 2007 results in lower starting death rates and faster near-term declines in death rates at older ages for the current valuation period.
- Revised historical estimates of net other immigration and final data on legal immigration for 2009 also are used in the current valuation. Based on estimates from the Department of Homeland Security for 2007 and 2008, and due to the weak U.S. economy since 2008, net other immigration levels for 2007 – 2010 are assumed negative for the current valuation period. These levels are significantly lower than the positive estimates used in the prior valuation period.
- Birth rates projected through 2026 are slightly lower in the current valuation; preliminary birth data 2008 and 2009 was lower than expected for the prior valuation.

These changes have little impact on the present values of future expenditures and revenue.

Changes in Economic and Other Health Care Assumptions

The economic assumptions used in the Medicare projections are the same as those used for the Old-Age, Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at the Social Security Administration (SSA).

The ultimate economic assumptions for the current valuation period are the same as those for the prior valuation period. However, the starting economic values and near-term economic growth rate assumptions were changed. The economic recovery has been slower than was assumed for the prior valuation period.

- For the current valuation period, HI taxable earnings are considerably lower for the starting year, 2010, than were projected for the prior valuation period. The projected level of taxable earnings grows more slowly through 2017 for the current valuation period.
- Unemployment rates are slightly higher over the first few years of the projection for the current valuation period.

The interest rates assumed in the short-range period are lower for the current valuation period.

Inclusion of each of these economic revisions decrease the present value of future net cashflow.

The health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation:

- Utilization rates for certain hospitals were lowered,
- Components of price updates for home health agency services were lowered.
- Slightly lower residual assumptions were used for certain Part B services in the short-range period.
- Slight refinement in the Part B application of the *Affordable Care Act* multifactor productivity adjustments were used in the long-range period, which lowers expenditures.
- The utilization assumed for beneficiaries assumed to switch from Medicare Advantage to fee-for-service was lowered.
- The utilization assumed for beneficiaries assumed to switch from fee-for-service to Medicare Advantage was increased.
- Assumed utilization of skilled nursing facility and home health agency services was increased.
- The projected growth in prescription drug spending in the United States was reduced.

These changes had a net negative impact on the future net cashflow for total Medicare. For Part A, these changes resulted in a net increase to the present value of both revenue and expenditures, with an overall increase on the future net cashflow. For Part B, these changes resulted in a net increase to the present value of both revenue and expenditures with an overall decrease on the future net cashflow.

Changes in Law or Policy

Although Medicare legislation was enacted since the prior valuation date, most of the provisions have a negligible impact on the present value of the 75-year revenue, expenditures, and net cashflow. However, the enacted changes to the physician payment update very slightly increased the present value of expenditures, and decreased the 75-year present value of future net cashflow.

Railroad Retirement

The largest change in the open group measure of the Railroad Retirement social insurance program is due to changes in economic data and assumptions. Although ultimate economic assumptions remained the same, select economic assumptions were updated in 2011 along with the following other components of changes in the open group measure.

Changes in Valuation Period

The change in the valuation period (from 2010-2084 to 2011-2085) had a minimal effect on the social insurance open group measure.

Changes in Demographic Data and Assumptions

Demographic assumptions were not changed between 2010 and 2011. Changes in demographic data had a minimal effect on the open group measure.

Changes in Economic Data and Assumptions

Ultimate economic assumptions were not changed from last year's report, but the select economic assumptions were. The actual COLA of 0.0 percent was used for 2011 in place of the 0.5 percent COLA assumed for 2011 in last year's Statement of Social Insurance. A wage increase rate of 2.4 percent was used for 2010 rather than the assumed 4 percent wage increase rate used for 2010 in last year's Statement of Social Insurance. Also, the actual 2010 investment return of 14.4 percent was higher than the assumed 7.5 percent investment rate used for 2010 in last year's Statement of Social Insurance. Economic data and assumptions for Cost of Living Adjustments, wage increase rate, and investment return were updated in 2011 and had the greatest effect on the open group measure.

Changes in Methodology and Programmatic Data

There were no changes in methodology and programmatic data.

Changes in Law or Policy

There were no changes in law or policy.

Black Lung

The significant assumptions used in the projections of the Black Lung social insurance program presented in the Statement of Social Insurance are the number of beneficiaries, life expectancy, coal excise tax revenue estimates, the tax rate structure, Federal civilian pay raises and medical cost inflation. These assumptions also affect the amounts reported on the Statement of Changes in Social Insurance Amounts. From fiscal year 2010 to fiscal year 2011, the decrease in the assumptions about coal excise tax revenues represents the largest decrease in the open group measure. From fiscal year 2010 to fiscal year 2011, the coal excise tax revenue projections were revised downward to reflect current year experience and a decrease in future collections. From fiscal year 2010 to fiscal year 2011, the increase in the assumptions about beneficiaries, including costs (not associated with medical inflation or Federal civilian pay raises), number, type, age, and life expectancy represents the largest increase in the open group measure. From fiscal year 2010 to fiscal year 2011, the assumptions about the beneficiaries were revised downward to reflect current year experience and a decrease in future expenditures. From fiscal year 2010 to fiscal year 2011, the increases and decreases with respect to changes in assumptions for Federal civilian pay raises for income benefits, medical cost inflation for medical benefits, and administrative costs were based on revisions to reflect current year experience and future costs. From fiscal year 2010 and fiscal year 2011, the change in economic assumption about the interest rate represents the change in the discount rate from 3.75 percent to 3.375 percent. There were no changes in law or policy from fiscal year 2010 to fiscal year 2011.

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 a 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.

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 PP&E 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, VA, State, DOD, National Archives and Records Administration, and Web sites 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.