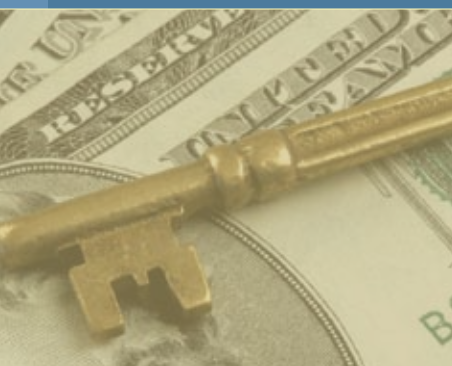
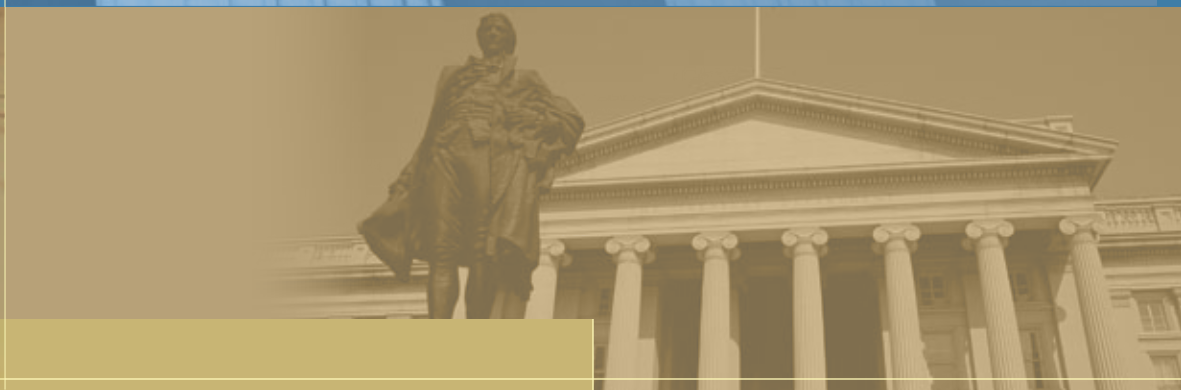


THE DEPARTMENT
OF THE TREASURY



CITIZENS'
REPORT



SUMMARY OF
PERFORMANCE
AND FINANCIAL
INFORMATION

FISCAL YEAR 2010



THE UNITED STATES DEPARTMENT OF THE TREASURY

OUR VISION

Set the global standard in financial and economic leadership

OUR MISSION

Serve the American people and strengthen national security by managing the U.S. Government's finances effectively, promoting economic growth and stability, and ensuring the safety, soundness, and security of U.S. and international financial systems

OUR VALUES

SERVICE

Work for the benefit of the American people

INTEGRITY

Aspire to the highest ethical standards of honesty, trustworthiness, and dependability

EXCELLENCE

Strive to be the best, continuously improve, innovate, and adapt

OBJECTIVITY

Encourage independent views

ACCOUNTABILITY

Responsible for our conduct and work

COMMUNITY

*Dedicated to excellent customer service, collaboration,
and teamwork while promoting diversity*

THE DEPARTMENT
OF THE TREASURY



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MESSAGE FROM THE SECRETARY OF THE TREASURY



November 15, 2010

Over the past two years, the Treasury Department has taken a series of unprecedented steps to pave the way for the nation's recovery from the worst recession in our lifetimes. The Department's top priority has been to serve the American people by strengthening the U.S. economy, helping create jobs, and restoring confidence in our financial system.

Since the last report, we have made important progress on all fronts. Over the past year, in addition to continued implementation of the Recovery Act, we have recovered most of our investments in the financial system; helped usher in a historic law to reform our financial system; crafted important new consumer protections; and significantly increased support for small businesses.

There is much work still to be done to get our economy growing faster. In 2010, the private sector added more than 1.1 million jobs—an average of 112,000 jobs a month for 10 straight months. Treasury will continue to work to build on these positive trends, accelerate job creation, and drive economic recovery.

The financial system today is also much stronger—and looks much different—than it did two years ago. The firms that remain are in a much better position to withstand future stress. Most banks have more capital than before the crisis and more than their global competitors. Overall, private capital has replaced public funds, and the government is winding down its financial system rescue efforts faster than anticipated.

Because of Treasury's careful stewardship of taxpayer dollars and the further strengthening of the financial system, the Troubled Asset Relief Program will likely cost substantially less than originally thought possible. Since its inception, the projected cost of this program has continued to decline dramatically. The Department has stopped committing new funds and has already recovered \$204.1 billion of the total \$387.7 billion that has been disbursed for the program, and has received nearly \$28 billion in additional profits from dividends, interest, warrants, and other transactions. Moving forward, further progress towards replacing public support with private investment will continue to demonstrate Treasury's ongoing commitment to maximize repayments to taxpayers.

In addition to the important efforts to meet our immediate obligations, the Department worked closely with Congress to pass fundamental financial reform. Our financial system helped trigger the most severe economic recession in 70 years. The flaws in that system had to be fixed to protect future generations. In July, after months of negotiations and hard work, Congress passed the *Dodd-Frank Wall Street Reform and Consumer Protection Act*—the most sweeping financial reforms since the Great Depression. The President quickly signed it into law, and Treasury immediately began implementing the new reforms. The Department is now standing up the Consumer Financial Protection Bureau, conducting meetings of the Financial Stability Oversight Council, and putting in place the Office of Financial Research.

Against this backdrop of dramatic change, Treasury continues to pursue its goals of effectively managing U.S. Government finances, helping U.S. and world economies perform at full economic potential, promoting the nation's security through strengthened international financial systems, and efficiently managing the Department's resources.

The Department again received an unqualified opinion on our Treasury consolidated financial statements, and we also received another unqualified opinion on the financial statements of our Office of Financial Stability/Troubled Asset Relief Program, which reflect the financial results of their second year of operations.

We have validated the accuracy, completeness, and reliability of the financial and performance data in this report. Maintaining our commitment to continuous program and operational improvement, the Department also made progress in reducing management control weaknesses and in efforts to achieve federal financial systems and control objectives.

A handwritten signature in blue ink, reading "Timothy F. Geithner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Timothy F. Geithner
Secretary of the Treasury

MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER



November 15, 2010

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

Challenges lie ahead as Treasury works to implement myriad changes contained in major legislation enacted in 2010, including the broad health care reform provisions of the *Patient Protection and Affordable Care Act*; the sweeping financial reforms of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*; and the new loan programs and tax law changes in the *Small Business*

Jobs and Credit Act. These programs, once implemented, will have a significant, positive impact in the lives of millions of Americans.

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

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

The Department received an unqualified audit opinion on both our Office of Financial Stability/TARP and Treasury-wide fiscal year 2010 financial statements. Treasury closed the material weakness on financial management practices at the Departmental level during fiscal year 2010, and made progress toward resolving the four material weaknesses remaining open as of September 30, 2010 [IRS - Modernization Management (due to close by 2011), Computer Security (due to close by 2012), and Unpaid Tax Assessments (due to close by 2015) and FMS - Preparation of the Government-wide Financial Statements (due to close by 2014)].

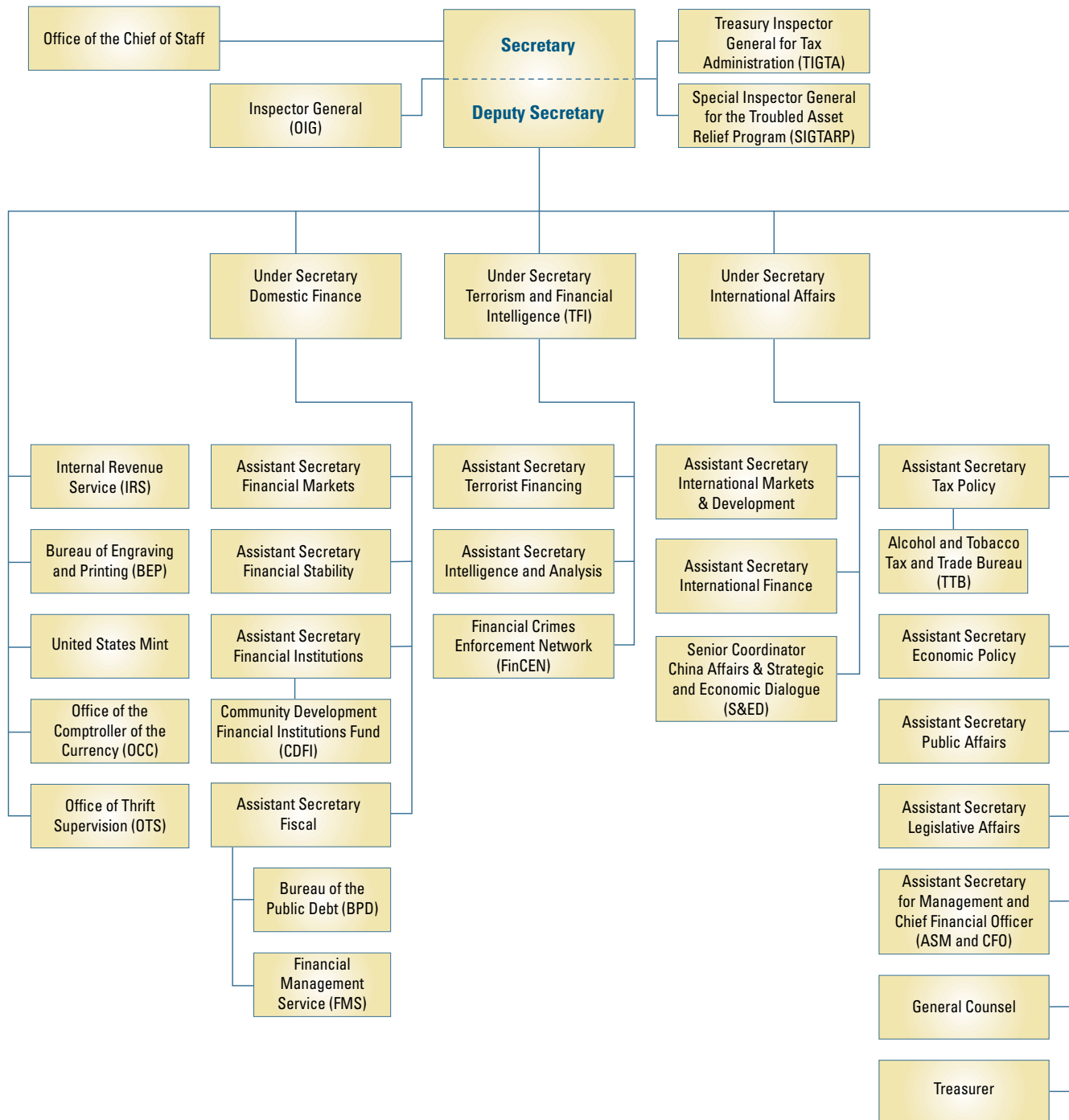
The complexity of systems enhancements is the major impediment to closing these weaknesses. Treasury made significant progress in managing programs included in the Government Accountability Office's High-Risk List and in addressing management and performance challenges identified by the Department's Inspectors General.

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

A handwritten signature in blue ink, appearing to read 'Dan Tangherlini', is positioned above the printed name.

Dan Tangherlini
Assistant Secretary for Management
and Chief Financial Officer

THE DEPARTMENT OF THE TREASURY ORGANIZATIONAL CHART IN FISCAL YEAR 2010



THE TREASURY DEPARTMENT'S 2007-2012 STRATEGIC FRAMEWORK

The Treasury Department's Strategic Framework is a summary of our goals, objectives, and outcomes. This framework provides the basis for performance planning and continuous improvement. The strategic plan can be found at <http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx>

	Page	Strategic Goals	Strategic Objectives	Value Chains**	Value Chain Outcomes
Financial	7	Effectively Managed U.S. Government Finances	Available cash resources to operate the government	Collect Disburse Borrow Account Invest	<ul style="list-style-type: none"> Revenue collected when due through a fair and uniform application of the law at the lowest possible cost Timely and accurate payments at the lowest possible cost Government financing at the lowest possible cost over time Effective cash management Accurate, timely, useful, transparent and accessible financial information
	8	U.S. and World Economies Perform at Full Economic Potential	Improved economic opportunity, mobility and security with robust, real, sustainable economic growth at home and abroad	Strengthen Regulate	<ul style="list-style-type: none"> Strong U.S. economic competitiveness Free trade and investment Decreased gap in global standard of living Competitive capital markets Prevented or mitigated financial and economic crises
Security	11	Prevented Terrorism and Promoted the Nation's Security Through Strengthened International Financial Systems	Pre-empted and neutralized threats to the international financial system and enhanced U.S. national security	Secure	<ul style="list-style-type: none"> Removed or reduced threats to national security from terrorism, proliferation of weapons of mass destruction, narcotics trafficking and other criminal activity on the part of rogue regimes, individuals, and their support networks Safer and more transparent U.S. and international financial systems
Management	12	Management and Organizational Excellence	Enabled and effective Treasury Department	Manage	<ul style="list-style-type: none"> A citizen-centered, results-oriented and strategically aligned organization Exceptional accountability and transparency
** Value Chains – Programs grouped by a common purpose.					

SUMMARY OF PERFORMANCE TOWARD STRATEGIC GOALS

This Citizens' Report summarizes the performance information contained in the fiscal year 2010 Performance and Accountability Report (PAR). The PAR provides complete information on the Department of the Treasury's financial results, performance, audit follow-up, and management challenges. The PAR may be found here: <http://www.treasury.gov/about/budget-performance/annual-performance-plan/Pages/default.aspx>. A full description of performance measures and their results are available in the PAR Appendix here: http://www.treasury.gov/about/organizational-structure/offices/Mgt/Documents/2010%20TREASURY%20Measures_complete.pdf

Treasury must lead the way in developing methods to deliver payments that are safe and secure in a manner that is efficient and reliable.

— TIMOTHY GEITHNER,
United States Treasury Secretary



EFFECTIVELY MANAGED U.S. GOVERNMENT FINANCES

Stewardship of the nation's finances is the cornerstone of the missions of the Internal Revenue Service (IRS), the Bureau of the Public Debt (BPD), the Financial Management Service (FMS), the Alcohol and Tobacco Tax and Trade Bureau (TTB), and Departmental Offices. In fiscal year 2010, the Treasury made significant progress in implementing new tax provisions, increasing the use of paperless transactions, creating a new office to develop a standard electronic invoicing platform and intra-governmental transaction processing systems, and expanding the enforcement of tax laws.

Key Accomplishments

- **Greater Use of Electronic Transactions**

In fiscal year 2010, Treasury increased the use of electronic financial transactions. Under this effort, the IRS increased electronic filing to nearly 70 percent of individual returns filed. FMS continued to expand the use of electronic fund transfers, reaching 85 percent of total dollar amount of government receipts collected electronically. BPD prepared to end paper-based payroll savings bonds and expanded its online savings bond customer base.

- **Improved Outreach and Automated Tools for Better Taxpayer Service**

The IRS continued to improve its automated web tools and services, such as "Where's My Refund?," Earned Income Tax Credit (EITC) assistant, and [online videos](#). Over 213 million tax products were downloaded, an increase of almost 12 percent. The IRS and its partners also assisted in the preparation of 3.1 million returns for the elderly, disabled, and people with limited English proficiency. The IRS improved its response to phone inquiries from 2009 to 2010 by 5.7 percent, reaching a 74 percent level of service.

High Priority Performance Goal: Increase Voluntary Tax Compliance

Reliance on a voluntary compliance tax system requires effective taxpayer services to enable taxpayers to understand and meet their tax obligations and effective enforcement to ensure that all businesses and individuals pay the tax they owe. Improvement of both service and enforcement, along with reforms to simplify the tax law, are essential to ensure the U.S. tax system remains the most effective and fairest voluntary compliance system in the world.

• Expanded Enforcement of Tax Laws to Ensure Tax Compliance

IRS continued to focus its enforcement efforts on pursuing high-income and high net-worth individuals and reducing overseas tax evasion. Enforcement revenue increased 18 percent, audits of high net-worth individuals went up more than five percent, and the IRS doubled its offshore presence. TTB completed more than 250 field visits to verify payment of floor stocks tax on tobacco products, identifying \$10.2 million in additional tax.

• Managed the Government's Debt

The Department strives to maintain the lowest cost of borrowing over time for the government. The ability of Treasury to manage the nation's debt is critical to functioning of government and financial markets. The Department conducted over 290 auctions of \$8.41 trillion in marketable Treasury bills, notes, bonds, and inflation-protected securities. Auctions were oversubscribed, and in this strong demand environment, Treasury extended the average maturity of the debt by six months to 58.6 months. The cost per auction dropped five percent, from \$170,214 to \$162,378 in fiscal year 2010.

• Creation of Office of Financial Innovation and Transformation (OFIT)

Treasury created the OFIT to develop a standard electronic invoicing platform and intra-governmental transaction processing systems. These efforts are designed to lower transaction processing costs and increase the transparency of financial information.

U.S. AND WORLD ECONOMIES PERFORM AT FULL ECONOMIC POTENTIAL

Treasury stimulates economic growth through the development and implementation of policies that strengthen private sector growth, regulate banking and financial markets, create pro-growth tax policies, advocate trade and investment, and foster sustained and broad-based economic development.

The financial crisis of the last two years has required actions to preserve the functioning of financial and housing markets and restore confidence in the integrity of the financial system. Repairing and reforming the financial system remains the Department's highest priority goal. In 2010, Treasury began implementation of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act) and the *Small Business Jobs Act of 2010*, continued ongoing economic recovery initiatives begun in 2008 and 2009, and worked with international partners to reform the international financial system.

High Priority Performance Goal: Repair and Reform the Financial System

Treasury will continue its work to repair and reform the financial system in the following ways:

- Implementing strong, comprehensive regulatory reform to restore stability and accountability to the financial system
- Working to effectively manage and exit in a timely and orderly manner emergency interventions and programs set up in response to the financial crisis
- Developing and implementing programs to support mortgage availability and reduce avoidable foreclosures
- Devising long-term, comprehensive solutions for our nation's system of housing finance

Key Accomplishments

• Began Implementation of the Dodd-Frank Act

The *Dodd-Frank Act*, signed into law in July 2010, introduced wide-ranging financial reforms to better protect consumers, prevent financial firms from taking risks that threaten the economy, and provide the government more effective tools to manage financial crises. These reforms are the most comprehensive update of financial regulations since the Great Depression. To implement the Act, Treasury is establishing new regulatory bodies, including the Consumer Financial Protection Bureau, Financial Stability Oversight Council, Office of Financial Research, and Federal Insurance Office. Treasury will also oversee the closure of the Office of Thrift Supervision (OTS) and integration of its functions into the Office of the Comptroller of the Currency (OCC).

• Supported Enactment of the Small Business Jobs Act of 2010

Treasury and the Small Business Administration led efforts to pass the *Small Business Jobs Act of 2010* to help strengthen the capacity of small businesses to create jobs and support economic recovery. The Act creates a Small Business Lending Fund to provide capital to small banks to support new small business lending and a State Small Business Credit Initiative designed to spur private sector lending through innovative state programs.

• Managed the Troubled Asset Relief Program (TARP) to a Lower Lifetime Cost

TARP, established during the height of the financial crisis to help unfreeze credit and capital markets and restore confidence in the financial system, accomplished its primary goals faster and at a lower cost than anticipated. To date, TARP has disbursed \$387.7 billion in direct loans and equity investments; collected \$204.1 billion in repayments; and reported \$16.7 billion in dividends, interest, and fees, and \$10.9 billion in net proceeds from the sale and repurchase of assets in excess of cost. The Department's most recent analysis suggests that if the proposed restructuring of AIG is completed as announced, the expected lifetime cost of TARP could be less than \$50 billion.

• Prevented Avoidable Foreclosures and Helped Preserve Homeownership

Treasury's housing initiatives have sought to assist responsible homeowners struggling in the aftermath of the recent financial crisis and recession. The Making Home Affordable Program (MHA), which includes the Home Affordable Modification Program (HAMP), has helped more than 1.4 million homeowners enter trial loan modifications and reduce their monthly mortgage payments in the 18 months since the program began. Treasury's Housing Finance Agency Initiative provided funding to more than 90 HFAs to enable them to continue supporting housing markets. Treasury provides support for Fannie





Mae and Freddie Mac through Preferred Stock Purchase Agreements to ensure that each government-sponsored enterprise maintains a positive net worth. To provide for long term stability to housing markets, the Administration is considering reforms to the U.S. housing finance system.

- **Participated in Development of New Global Capital Standards for Banks**

One of the lessons of the financial crisis was that more robust capital standards must be at the heart of efforts to make the financial system stronger and more secure. Treasury played a key role with global partners in strengthening capital standards by announcing new global capital standards – Basel III – in September 2010. The new rules will require banks to hold enough capital to withstand losses similar to those witnessed during the depths of the financial crisis, without turning to the taxpayer for help. Through the G-20 process, the Financial Stability Board, and engagement with international standard setting bodies, Treasury led efforts to ensure that reforms in the international financial system matched the strength of domestic regulatory reform initiatives.

- **Continued Implementation of the American Recovery and Reinvestment Act of 2009**

The Department continued to stimulate the U.S. economy, create and sustain jobs, and build the foundation for long-term economic growth through targeted investments and tax provisions contained in the Recovery Act. Treasury is managing programs that will contribute nearly \$300 billion in benefits to the American people through the year 2019. Some of these benefits include the Making Work Pay Tax Credit, Build America Bonds, First-Time Homebuyer Credit Expansion, and the New Markets Tax Credit program of the Community Development Financial Institutions (CDFI) Fund.

- **Monitored and Mitigated Risks at National Banks and Thrifts**

Through OCC and OTS, Treasury regulates national banks, savings associations, and savings and loan holding companies. Fiscal year 2010 activity focused on monitoring and responding to adverse conditions in credit and financial markets, improving credit risk management at supervised institutions, and monitoring loan portfolios. Ninety percent of national banks were classified as well-capitalized, as were 95 percent of thrifts. OCC completed 96 percent of its licensing applications and notices within established timeframes, one percentage point above 2009. OTS started 97 percent of its safety and soundness exams as scheduled, three percentage points above 2009.

- **Increased Access to Financial Services in Low-Income and Underserved Communities**

The CDFI Fund provides grants, loans, and tax credits to CDFIs, which provide capital, credit, and financial services to underserved populations and economically distressed communities in the United States. Through its various programs and initiatives, the Fund enabled locally-based organizations to further economic development related to affordable housing, small businesses, community facilities, and community development financial services. The CDFI Program competitively awarded \$104.8 million in fiscal year 2010 to 179 CDFIs and organizations. The Fund estimates that 80,796 jobs were created based on its awards. The percent of eligible areas served by one or more CDFI increased from 14.8 percent in 2009 to 16.6 percent in 2010, bringing financial services to more low income communities than the prior year.

The recent financial crisis taught us an enduring lesson. Financial literacy is essential not only to the financial security of millions of American families, but also to the economic health of our nation as a whole.

— TIMOTHY GEITHNER,
United States Treasury Secretary

• Expanded Financial Literacy Programs

The Treasury's Office of Financial Education promotes policies and programs to empower Americans with the knowledge and skills they need to make wise financial choices. Treasury and the Department of Education launched an enhanced nationwide "Financial Capability Challenge" to improve high school students' financial capabilities, and more than 76,000 students and 2,500 educators in all 50 states participated. Treasury also upgraded the Financial Literacy and Education Commission's financial education website, www.MyMoney.gov, to make it a more powerful tool for consumers.

• Produced Coins and Currency Notes to Meet the Nation's Needs

The U.S. Mint delivered 5.4 billion pieces of circulating coins to the Federal Reserve in fiscal year 2010. Bullion sales achieved a record level of 35.8 million ounces. Over the entire fiscal year, BEP delivered 6.4 billion notes to the Federal Reserve, a three percent increase from 2009. BEP unveiled a new \$100 note design and began outreach in anticipation of its release in 2011.

PREVENTED TERRORISM AND PROMOTED THE NATION'S SECURITY THROUGH STRENGTHENED INTERNATIONAL FINANCIAL SYSTEMS

Safeguarding U.S. financial security is the cornerstone of Treasury's Office of Terrorism and Financial Intelligence (TFI), the Treasury Forfeiture Fund, and the Financial Crimes Enforcement Network (FinCEN). In fiscal year 2010, the Department made progress in deterring those who provide financial support to violent extremist groups and disrupting the means and mechanisms by which such groups transmit money, as well as preventing lending and healthcare fraud.

The adoption of UNSCR 1929 has enhanced a global effort to hold Iran accountable for its actions.

— STUART LEVEY,
Under Secretary for Terrorism
and Financial Intelligence



Key Accomplishments

- **Combated the Spread of Nuclear Weapons through Sanctions on Iran**

Treasury played a primary role in the passage of the Iran Sanctions Act and United Nations Security Council Resolution (UNSCR) 1929. Both measures strike at the heart of the Iranian government's ability to fund and develop its nuclear program.

- **Targeted Institutions that Conspired to Defraud the United States**

Through the coordinated work of Treasury and other law enforcement agencies, ABN AMRO agreed to forfeit \$500 million and Credit Suisse agreed to forfeit \$536 million, under deferred prosecution agreements. These represent two of the largest forfeitures in U.S. history.

- **Expanded Terrorist Finance Tracking and Counterterrorism Efforts**

Building on successful finance threat efforts in Iraq, Treasury helped to establish the Afghan Threat Finance Cell (ATFC) to target terrorist and insurgent financing. Additionally, Treasury and the Department of Justice lead negotiations with the EU for the new Terrorist Finance Tracking Program—this program has provided thousands of valuable leads used to prevent terrorist attacks.

- **Tackled Lending Fraud**

In addition to publishing advisories that benefit law enforcement agencies and regulators in preventing mortgage fraud, FinCEN played a pivotal role in the success of Operation Stolen Dreams, a 3 ½ month takedown of \$2.3 billion in mortgage fraud schemes.

MANAGEMENT AND ORGANIZATIONAL EXCELLENCE

Treasury's Assistant Secretary for Management and three Inspectors General lead the Department in ensuring effective stewardship of resources. During fiscal year 2010, Treasury made clear improvement across areas of management: from prudently requesting funding, to establishing a rigorous performance review process.

Key Accomplishments

- **Enhanced Program Performance Management**

Treasury implemented data-driven quarterly performance meetings held by the Deputy Secretary to strengthen bureau missions and goals and foster wise budgeting of taxpayer money.

- **Became More Open to the Public**

Treasury used cutting edge process improvement techniques to comply more rapidly and effectively with *Freedom of Information Act* (FOIA) requests. Further, Treasury took steps towards open government by posting information technology performance data on the Federal IT Dashboard and Data.gov to better inform the American people.



- **Maintained Effective Oversight**

During fiscal year 2010, the required workload of Treasury oversight bodies increased significantly due to various requirements, such as the mandate to analyze certain failed financial institutions and oversight of Recovery Act and Troubled Asset Relief Program (TARP) spending. Treasury maintained effective program oversight to prevent fraud, waste, and abuse without significantly increasing resources.

Significantly Increase the Number of Paperless Transactions with the Public

Treasury is replacing outdated paper-based processes with electronic ones, which are expected to save more than \$400 million and 12 million pounds of paper in the first five years alone. In fiscal year 2010, Treasury began migrating individuals receiving Social Security, Supplemental Security Income, Veterans, and Railroad Retirement Board benefits to electronic payments. The Department also eliminated paper Federal Tax Deposit coupons and the paper purchase option of payroll savings bonds for federal employees, replacing them with electronic transactions.

- **Modernized Equipment and Facilities**

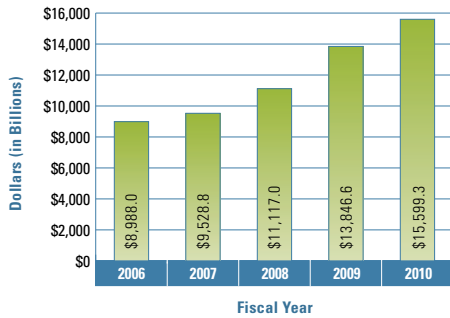
Better technology helps the Department's staff to work more effectively and efficiently. The Department improved technology systems, successfully moving forward the IRS business system modernization and an agency-wide strategy for management of digital content. The Department improved access to physical facilities in compliance with Homeland Security Presidential Directive 12 (HSPD-12), minimizing the number of access badges employees need.

- **Improved "Best Places to Work" Ranking**

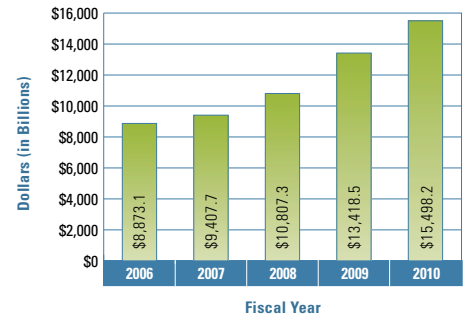
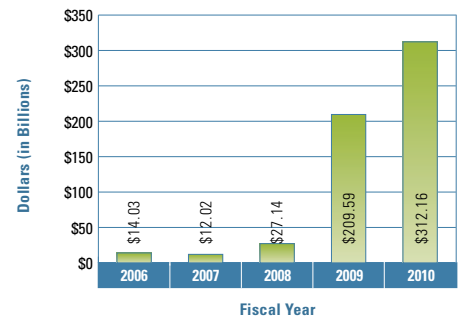
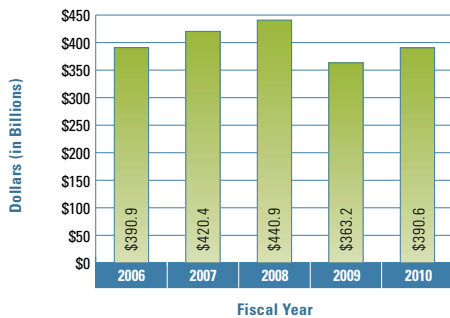
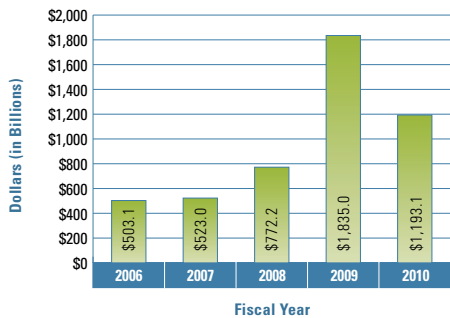
By taking action to address feedback from the government-wide Employee Viewpoint Survey on human capital, Treasury was able to improve its position from 17th to 12th in the Best Places to Work rankings by the Partnership for Public Service. In addition, Treasury implemented changes to the performance management process for senior officials to support more meaningful distinctions in ratings and awards. Treasury's progress helps maintain and motivate top talent to achieve the Department's mission.

FINANCIAL HIGHLIGHTS

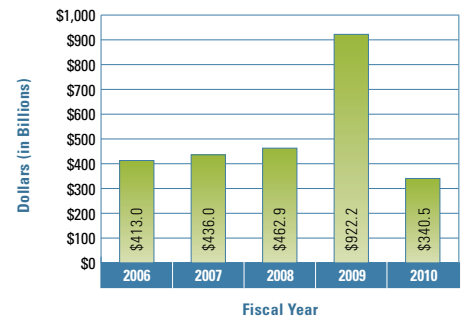
Total Assets



Total Liabilities

Net Federal
Debt Interest
CostsTotal Budgetary
Resources

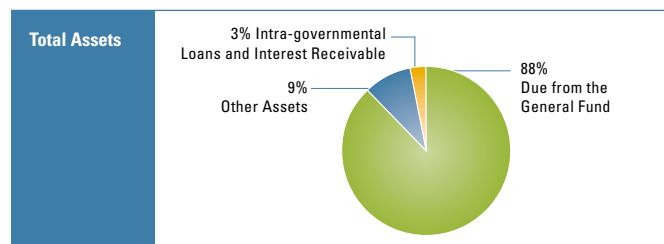
Net Outlays

Net Cash
Revenue
Received

FINANCIAL ANALYSIS

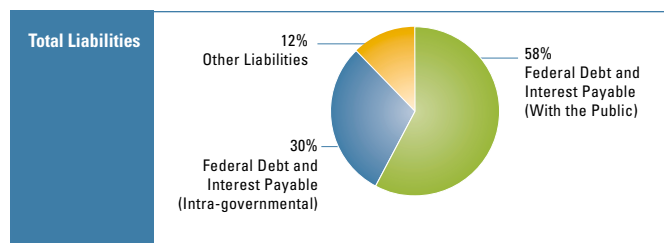
Total Assets. Total assets increased from \$13.9 trillion at September 30, 2009 to \$15.6 trillion at September 30, 2010. The primary reason for the \$1.8 trillion increase is the rise in the federal debt, which causes a corresponding rise in the “Due from the General Fund of the U.S. Government” account (\$13.7 trillion).

The majority of loans and interest receivable (\$552.9 billion) included in “Intra-governmental” assets are the loans issued by the Bureau of the Public Debt to other federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies.



Total Liabilities. Liabilities include federal debt held by the public, including interest, of \$9 trillion; this debt was mainly issued as Treasury Notes. Liabilities also include intra-governmental liabilities totaling \$6 trillion, and include \$4.6 trillion of principal and interest payable to various federal agencies, such as the Social Security Trust Fund. These borrowings do not include debt issued separately by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development.

The increase in total liabilities in fiscal year 2010 over fiscal year 2009 (\$2.1 trillion and 15.5 percent) is the result of increases in borrowings from various federal agencies (\$184.7 billion) and federal debt held by the public, including interest (\$1.5 trillion). Debt held by the public increased primarily because of the need to finance budget deficits.



Net Federal Debt Interest Costs. The increase of \$27.4 billion in net interest paid on the federal debt is due to the increase in the debt. Total federal debt and interest payable increased by \$1.66 trillion in fiscal year 2010.

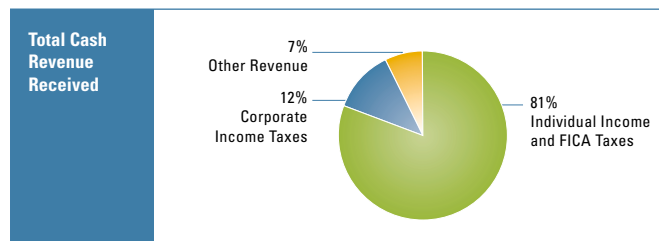
Net Cost of Treasury Operations. The Consolidated Statement of Net Cost presents the Department's gross and net cost for its four strategic programs: financial, economic, security, and management. The majority of the Net Cost of Treasury Operations is in the economic program, which includes TARP activity and investments in the Government Sponsored Enterprises (GSEs). Increased economic program costs accounted for substantially all of the \$102.6 billion increase in the total net cost for fiscal year 2010.

Total Budgetary Resources. The majority of the \$641.9 billion decrease in total budgetary resources for fiscal year 2010 was due to the reduction of TARP activity and investments in the GSEs.

Net Outlays. The majority of the \$581.7 billion decrease in net outlays was due to the reduction of TARP activity and investments in GSEs.

Net Cash Revenue Received. Net cash revenue received on behalf of the U.S. Government increased by \$12.7 billion for fiscal year 2010. This increase can be attributed to an overall improvement in the economy.

Custodial Revenue. Total net cash revenue collected by Treasury on behalf of the Federal Government includes various taxes, primarily income taxes, user fees, fines and penalties, and other revenue. Over 92.7 percent of the revenues are from income and social security taxes.



CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS (in millions):

	2010	2009
Due From the General Fund	\$ 13,655,637	\$ 11,992,719
Other Intra-governmental Assets	1,025,169	923,457
Cash, Foreign Currency, and Other Monetary Assets	375,282	341,308
Gold and Silver Reserve	11,062	11,062
TARP Direct Loans and Equity Investments, Net and Asset Guarantee Program	144,692	239,657
Investments in Government Sponsored Enterprises	109,216	64,679
Investments and Related Interest	12,639	13,565
Credit Program Receivables and Direct Loans, Net	186,396	184,460
Tax, Other Related Interest Receivables, Net	36,976	30,408
Beneficial Interest in Trust	20,805	23,472
Other Assets	21,383	21,814
Total Assets	\$ 15,599,257	\$ 13,846,601
Federal Debt and Interest Payable	\$ 13,623,731	\$ 11,962,385
Other Intra-governmental Liabilities	1,424,976	1,275,613
Liabilities to Government Sponsored Enterprises	359,900	91,937
Other Liabilities	89,554	88,610
Total Liabilities	15,498,161	13,418,545
Unexpended Appropriations	400,557	455,144
Cumulative Results of Operations	(299,461)	(27,088)
Total Net Position	101,096	428,056
Total Liabilities and Net Position	\$ 15,599,257	\$ 13,846,601

CONDENSED STATEMENTS OF NET COST (in millions):

	2010	2009
Net Financial Program Cost	\$ 13,243	\$ 13,055
Net Economic Program (Revenue)/Cost	297,234	195,705
Net Security Program Cost	340	322
Net Management Program Cost	526	509
Total Program Cost before Assumption Changes	311,343	209,591
(Gains)/Losses Due To Changes in Actuarial Assumptions	820	0
Total Net Cost of Treasury Operations	\$ 312,163	\$ 209,591
Net Federal Costs (primarily interest on the Federal Debt)	\$ 346,678	\$ 313,341

CONDENSED STATEMENTS OF CHANGES IN NET POSITION (in millions):

	2010	2009
Beginning Balance	\$ (27,088)	\$ 37,743
Budgetary Financing Sources	503,042	668,894
Other Financing Sources (Uses)	(116,574)	(210,793)
Total Financing Sources	386,468	458,101
Net Cost of Operations	(658,841)	(522,932)
Net Change	(272,373)	(64,831)
Cumulative Results of Operations	\$ (299,461)	\$ (27,088)
Beginning Balance	\$455,144	\$271,968
Appropriations Received	456,970	855,762
Appropriations Used	(502,439)	(668,153)
Other	(9,118)	(4,433)
Total Budgetary Financing Sources	(54,587)	183,176
Total Unexpended Appropriations	400,557	455,144
Net Position - Year End	\$ 101,096	\$ 428,056

CONDENSED STATEMENTS OF BUDGETARY RESOURCES (in millions):

	2010	2009
Unobligated Balances, Brought Forward	\$ 457,588	\$ 284,630
Recoveries of Prior Year Obligations	42,349	8,096
Budget Authority	929,687	1,814,086
Other Budget Authority	(236,543)	(271,778)
Total Budgetary Resources	\$ 1,193,081	\$ 1,835,034
Obligations Incurred	\$ 820,838	\$ 1,387,195
Unobligated Balance	301,811	413,998
Unobligated Balance, Not Available	70,432	33,841
Total Status of Budgetary Resources	\$ 1,193,081	\$ 1,835,034
Total Unpaid Obligated Balances, Net	\$ 158,323	\$ 56,977
Obligations Incurred, Net	820,838	1,387,195
Gross Outlays	(733,710)	(1,248,916)
Recoveries of Prior Year Unpaid Obligations, Actual	(42,349)	(8,096)
Changes in Uncollected Customer Payments Federal	5,087	(28,748)
Total Unpaid Obligated Balance, Net, End of Year	\$ 208,189	\$ 158,412
Net Outlays	\$ 340,510	\$ 922,165

CONDENSED STATEMENTS OF CUSTODIAL ACTIVITY (in millions):

	2010	2009
Individual Income and FICA Taxes	\$ 1,988,760	\$ 2,036,557
Corporate Income Taxes	277,937	225,482
Other Revenues	179,613	139,648
Total Cash Revenue Received	2,446,310	2,401,687
Less Refunds	(469,937)	(437,972)
Net Cash Revenue Received	1,976,373	1,963,715
Beneficial Interest in Trust	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Custodial Revenue	1,980,246	1,986,090
Amounts Provided to Fund the Federal Government	1,975,986	1,963,228
Amounts Provided to Fund Non-Federal Entities	387	487
Non-cash Revenue - Beneficial Interest in Trust	(2,666)	23,472
Accrual Adjustment	6,539	(1,097)
Total Disposition of Custodial Revenue	1,980,246	1,986,090
Net Custodial Revenue Activity	\$ 0	\$ 0

Note: The complete Financial Statements and Auditor's Report are available in the Performance and Accountability Report.

SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES AND HIGH-RISK AREAS

Annually, in accordance with the *Reports Consolidation Act of 2000*, the Treasury Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) identify the most significant management and performance challenges facing the Department. The Government Accountability Office (GAO) identifies high-risk areas biennially. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that must be monitored continuously. Treasury made much progress on these issues in fiscal year 2010, and will continue to focus on resolving them during fiscal year 2011.

TREASURY-WIDE MANAGEMENT CHALLENGES – AS IDENTIFIED BY OIG

Management Challenge	Summary of Major Issues
Transformation of Financial Regulation	<ul style="list-style-type: none"> Implement and enforce the provisions of the <i>Dodd-Frank Wall Street Reform and Consumer Protection Act</i> and other federal consumer financial laws consistently Identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to emerging threats to the financial system; and promote market discipline Assess and report on systemic risks Monitor the insurance industry Streamline and improve supervision of depository institutions and holding companies
Management of Treasury's Authorities Intended to Support and Improve the Economy	<ul style="list-style-type: none"> Protection of the taxpayer from unnecessary risk associated with the implementation and administration of programs intended to support and improve the economy, including the provisions of: <ul style="list-style-type: none"> <i>Small Business Jobs Act of 2010</i> <i>American Recovery and Reinvestment Act of 2009</i> <i>Housing and Economic Recovery Act of 2008</i> <i>Emergency Economic Stabilization Act of 2008</i>
Anti-Money Laundering and Terrorist Financing/ Bank Secrecy Act Reporting	<ul style="list-style-type: none"> Prevent and detect money laundering and terrorist financing U.S. and international financial systems that are safe and transparent Efficient management, safeguarding, and use of Bank Secrecy Act information
Management of Capital Investments	<ul style="list-style-type: none"> Effective use of taxpayer funds for large capital investments

IRS MANAGEMENT CHALLENGES – AS IDENTIFIED BY TIGTA

Management Challenge	Summary of Major Issues
Security	Appropriate physical security and protection of financial, personal, and other information
Modernization	Improve taxpayer service and efficiency of operations
Tax Compliance Initiatives	Improve compliance and fairness in the application of the tax laws
Implementing Health Care and Other Tax Law Changes	Responsiveness to new tax provisions, including tax-related health care provisions of the <i>Patient Protection and Affordable Care Act</i> , the Recovery Act, and adjusting to expiring provisions
Providing Quality Taxpayer Service Operations	Improve taxpayer service
Human Capital	Enable the IRS to achieve its mission
Erroneous and Improper Payments and Credits	Effective use of taxpayer funds
Globalization	Increase outreach efforts to foreign governments on cross-border transactions
Taxpayer Protection and Rights	Apply the tax laws fairly
Leveraging Data to Improve Program Effectiveness and Reduce Costs	Use resources to focus on producing the best value for stakeholders

HIGH-RISK AREAS – AS IDENTIFIED BY GAO

Enforcement of the Tax Laws

Issue: The IRS needs to improve its enforcement of tax laws, not only to catch tax cheats, but also to promote broader compliance by giving taxpayers confidence that others are paying their fair share.

Goal: Improve research on noncompliance, increase the use of third party information reporting, focus on improving standards among tax return preparers, and increase emphasis on international noncompliance.

Challenges and Actions Taken or Planned: During fiscal year 2010, the IRS continued to reduce opportunities for evasion by focusing on the many taxpayers that shift income abroad and engage in offshore tax evasion schemes. The IRS more than doubled its offshore presence. The IRS also began mining the information from participants in its offshore voluntary disclosure program started in 2009. The IRS also targeted specific areas of noncompliance and sought to improve voluntary compliance with extensive research.

IRS Business Systems Modernization

Issue: The Business Systems Modernization (BSM) program is developing and delivering a number of modernized systems to replace the aging business and tax processing systems currently in use. This effort is highly complex and scheduled to be carried out over a numbers of years, ultimately creating a more efficient and effective IRS. Though the IRS experienced delays and cost overruns in the early years of the effort, improved practices and oversight are now contributing to better delivery of outcomes.

Goal: Meet all BSM project milestones within a cost and schedule variance of 10 percent of the initial estimate.

Challenges and Actions Taken or Planned: In fiscal year 2010, IRS modernization efforts continued to focus on core tax administration systems designed to provide more sophisticated tools to taxpayers and to IRS employees. IRS revised its Customer Account Data Engine (CADE) 2 strategy to implement a new taxpayer account database for the 2012 filing season.

Modernizing the Outdated U.S. Regulatory System

Issue/Goal: Efficient and effective implementation of financial regulatory reform legislation.

Challenges and Actions Taken or Planned: The Department began implementing financial regulatory reform legislation and strengthened international economic coordination.



In 2010, the United States Mint began to issue 56 quarter-dollar coins featuring designs depicting national parks and other national sites as part of the United States Mint America the Beautiful Quarters® Program. The first five quarters in the series honor Hot Springs National Park in Arkansas; Yellowstone National Park in Wyoming; Yosemite National Park in California; Grand Canyon National Park in Arizona; and Mount Hood National Forest in Oregon.

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WEBSITE INFORMATION

Treasury On-line	www.treasury.gov
Treasury Performance and Accountability Reports	www.treasury.gov/about/budget-performance/annual-performance-plan/Pages/default.aspx
Alcohol and Tobacco Tax and Trade Bureau	www.ttb.gov
Community Development Financial Institutions Fund	www.cdfifund.gov
Comptroller of the Currency	www.occ.treas.gov
Bureau of Engraving & Printing	www.bep.treas.gov
Financial Crimes Enforcement Network	www.fincen.gov
Financial Management Service	www.fms.treas.gov
Internal Revenue Service	www.irs.gov
U.S. Mint	www.usmint.gov
Bureau of the Public Debt	www.publicdebt.treas.gov
Office of Thrift Supervision	www.ots.treas.gov
The Financial Stability Plan	www.financialstability.gov
Help for America's Homeowners	www.makinghomeaffordable.gov
Recovery Act Spending	www.recovery.gov



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