

DEPARTMENT OF THE TREASURY

# AGENCY FINANCIAL REPORT

FISCAL YEAR 2025





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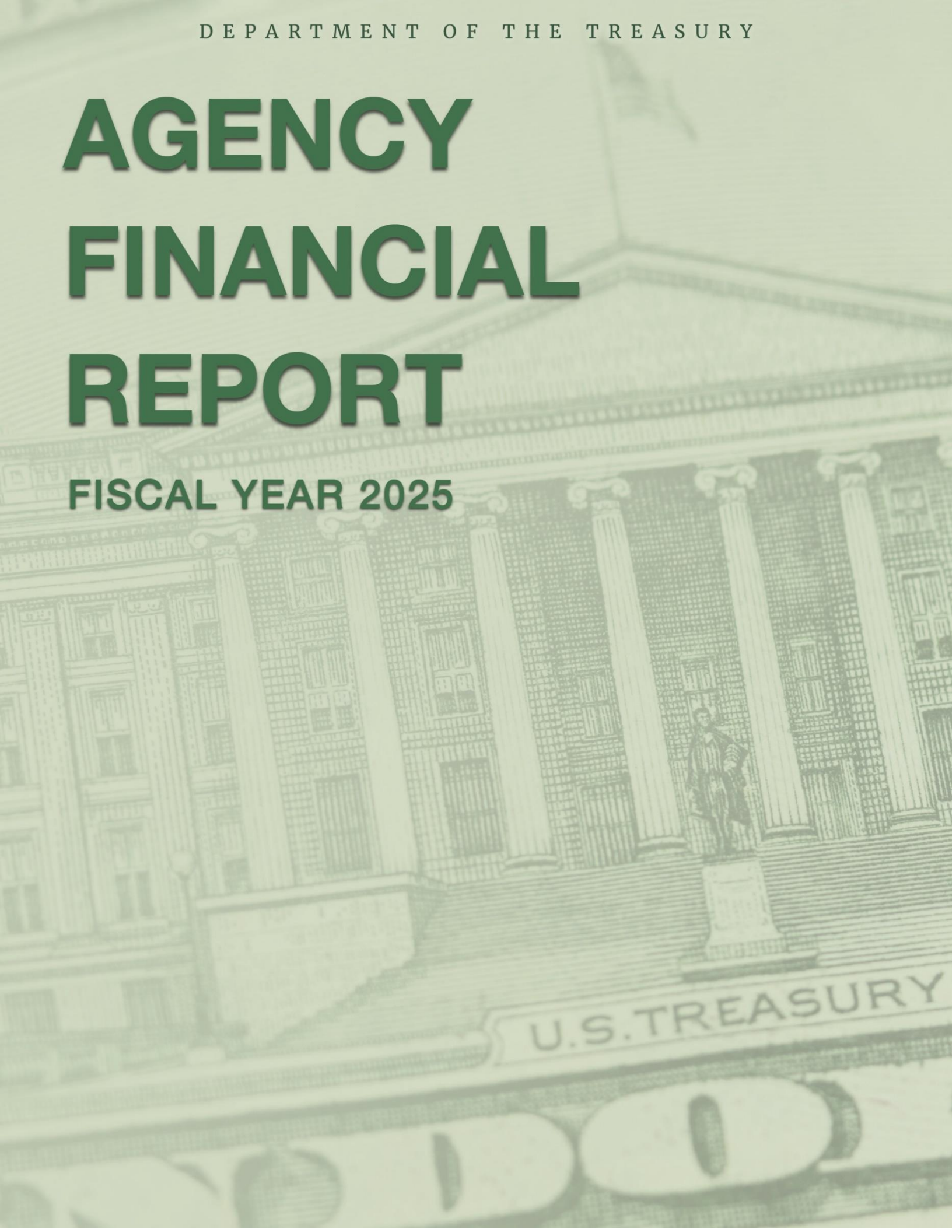
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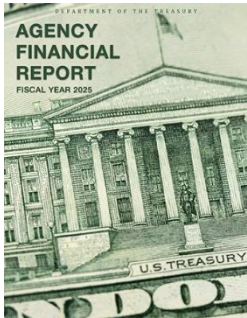
DEPARTMENT OF THE TREASURY

# AGENCY FINANCIAL REPORT

FISCAL YEAR 2025



## ABOUT THIS REPORT



Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2025 presents the Department of the Treasury's (Treasury, Department, or our) financial information in relation to our mission and the resources entrusted to us. The AFR also highlights our priorities, accomplishments, and challenges

implementing programs that promote conditions for sustaining economic growth and stability at home and abroad, protecting the integrity of our nation's financial system, and effectively managing the United States (U.S.)

government's finances and resources. In accordance with the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements*, we produce the following reports: (i) an *AFR* issued on January 27, 2026, and (ii) an *Annual Performance Report* (APR) submitted with our congressional budget justification, to be issued by February 1, 2026. The AFR will be available online at <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report>. The APR will be available online at <https://www.treasury.gov/about/budget-performance/Pages/cd-index.aspx>.

## HOW THIS REPORT IS ORGANIZED

Our AFR provides financial and performance information for the FY beginning October 1, 2024, and ending on September 30, 2025. The AFR demonstrates our commitment to our mission and accountability to

Congress and the American people. This report presents Treasury's operations, accomplishments, and challenges. The AFR begins with a message from the Secretary of the Treasury, Scott Bessent. This introduction is followed by three main sections.

### Part 1: Management's Discussion and Analysis

Provides a high-level overview of our organizational structure, strategic framework, programmatic and financial performance, and management assurances related to Treasury's internal controls.

### Part 2: Financial Section

Begins with a message from the Assistant Secretary for Management and Deputy Chief Financial Officer, followed by the Independent Auditors' Report, audited financial statements and notes, and supplementary information.

### Part 3: Other Information

Contains various information including Management and Performance Challenges identified by the Inspectors General and Management's response, along with information related to tax gap and tax burden, improper payments, and other relevant information.

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## MESSAGE FROM THE SECRETARY OF THE TREASURY

### MISSION STATEMENT

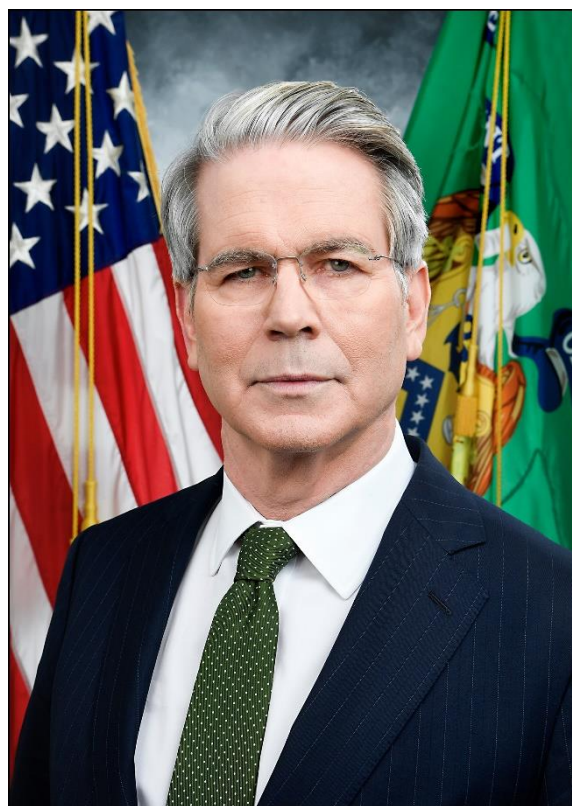
*Maintain a strong economy and create economic and job opportunities by promoting conditions that enable economic growth and stability at home and abroad; strengthen national security by combating threats and protecting the integrity of the financial system; and manage the U.S. government's finances and resources effectively.*

This year's Agency Financial Report offers an important moment to reflect on the Treasury Department's continued progress in advancing our mission. As we look to the year ahead, we remain committed to pursuing a bold vision for a stronger, fairer, and more secure America—one that ensures lasting opportunity and stability for all.

#### **Increase Main Street Growth and Affordability**

Treasury continued close coordination with federal banking regulators to ensure that regulatory decisions are grounded in common sense principles and responsive to the needs of Main Street. Working with partner agencies, we advanced a targeted reform agenda that recalibrated leverage capital requirements, ended the use of politicized reputation risk, focused supervision on material financial risks, started an interagency process on Bank Secrecy Act/Countering the Financing of Terrorism reforms, tailored regulations and supervisory processes for community banks, and continued the effort to modernize the capital framework to promote safety and soundness and financial stability while supporting innovation and economic growth.

In alignment with the President's Executive Orders, Treasury also advanced key actions to reinforce U.S. leadership in digital financial technology. As chair of the President's Working Group on Digital Asset Markets, Treasury led the development of a strategic roadmap to maintain American leadership in the digital asset ecosystem, clarified the permissibility of digital asset



activities within the federal banking system, and supported the passage and implementation of the *Guiding and Establishing National Innovation for U.S. Stablecoins Act*, which established a consistent federal framework for payment stablecoins.

As the federal government's largest payments operator, Treasury continued to modernize and digitize federal payments. Under Executive Order 14247, *Modernizing Payments To and From America's Bank Account*, we expanded the use of electronic payments, launched

initiatives to improve how millions of Americans transact with the government, and began pilots aimed at better serving unbanked and underbanked communities.

Treasury advanced the *One Big, Beautiful Bill* initiative, fulfilling President Trump's commitments to Main Street while strengthening key programs, national security, and U.S. manufacturing. The bill delivers permanent, pro-growth tax cuts for families, workers, and job creators. It also protects vital programs, cuts waste, fraud, and abuse, and supports continued economic growth for Americans at every income level.

Collectively, these accomplishments reflect Treasury's commitment to maintain a resilient financial system, strengthen consumer protection, advance innovation, foster economic growth, and ensure that federal financial operations meet the needs of the American people.

### **Improve Stewardship of Taxpayer Dollars**

Financial fraud and improper payments undermine the integrity of federal programs and diminish public trust. In FY 2025, Treasury made significant progress in addressing these risks through implementation of Executive Orders 14247, *Modernizing Payments to and from America's Bank Account*, and 14249, *Protecting America's Bank Account Against Fraud, Waste, and Abuse*. In coordination with the Office of Management and Budget, the Bureau of the Fiscal Service advanced policy reforms and streamlined processes that expanded agency use of the Do Not Pay Working System, improving the federal government's ability to prevent improper payments before disbursement.

Treasury also implemented new verification requirements under EO 14249 and broadened the use of advanced analytics to detect anomalies and fraud risks earlier in the payment lifecycle. These enhancements—combined with ongoing modernization of federal disbursement systems—are strengthening both the integrity and efficiency of government payments.

As Treasury accelerates the transition from paper checks to electronic payments, with appropriate exceptions, we

are reducing opportunities for fraud and theft while ensuring that federal payments reach Americans more quickly and reliably. These accomplishments demonstrate Treasury's continued commitment to safeguarding taxpayer dollars and upholding the confidence Congress and the public place in federal financial operations.

### **Enhance National Security**

Treasury continues to strengthen the deployment of its national security authorities to respond more rapidly and effectively to emerging threats, while improving performance measurement and expanding information sharing with federal, state, local, and private-sector partners. These efforts are essential to safeguarding the U.S. financial system and supporting the national security priorities established by Congress.

As chair of the U.S. delegation to the Financial Action Task Force, Treasury led U.S. engagement with international counterparts to enhance global safeguards against the financing of weapons of mass destruction and terrorist activity. We advanced U.S. priorities to expand financial inclusion, modernize standards for domestic and cross-border payments, and counter increasingly sophisticated sanctions-evasion schemes that undermine both U.S. and global security.

In FY 2025, Treasury also executed a series of targeted actions—spanning sanctions, regulatory measures, and financial intelligence operations—against foreign adversaries, illicit networks, and malign actors seeking to misuse the international financial system. These actions directly supported congressional mandates, disrupted funding streams for hostile activities, and reinforced the integrity and resilience of the global financial architecture.

Treasury remains committed to ensuring our national security tools remain agile, well-resourced, and aligned with the evolving threat landscape.

### **Improve the Efficiency and Effectiveness of Treasury Operations**

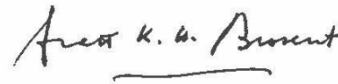
From the start of the Administration, President Trump has emphasized improving government efficiency, strengthening accountability, and eliminating unnecessary bureaucracy. In alignment with these priorities, the Department of the Treasury has undertaken significant reforms to modernize its workforce and enhance operational performance.

Through the Treasury Deferred Resignation Program, the Department responsibly reduced its workforce by 20 percent and achieved the staffing levels required under the FY 2026 President's Budget—without resorting to disruptive measures. This targeted strategy preserved critical skillsets and hard-to-fill positions, ensuring continuity in Treasury's ability to provide essential government services.

In FY 2025, Treasury also established the Treasury Common Services Center to consolidate human resources, information technology, acquisition, and travel support

functions across the Department. This consolidation streamlines transactional operations, increases organizational agility through interoperable systems, and is projected to generate more than \$1 billion in savings—funds that can be redirected to core mission activities that directly benefit the American people.

Finally, Treasury is pleased to report an unmodified audit opinion on its FY 2025 consolidated financial statements. Our internal review confirms that the Department's financial and performance data have been validated as complete and reliable. These results reflect Treasury's continued commitment to transparency, accountability, and effective stewardship of taxpayer dollars.



Scott Bessent  
Secretary of the Treasury  
January 27, 2026



## PART 1:

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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## TREASURY AT A GLANCE

### FOUNDATION

After the American Revolution, Congress realized that funding a war without proper infrastructure and financial discipline presented an enormous challenge to our country's economic stability. Out of the necessity to levy and collect taxes and manage the U.S. government's finances, Congress established the Department of the Treasury on September 2, 1789. President George Washington appointed Alexander Hamilton as Treasury's first Secretary. Since then, more than 75 Secretaries have led the Department.

Throughout its history, Treasury served as the foundation for other federal agencies. For example, the U.S. Postal Service, U.S. Customs Service, Secret Service, Federal Law Enforcement Training Center, and U.S. Coast Guard were all, at one time, under our jurisdiction.



▲ U.S. Department of the Treasury building, Washington, D.C.



▲ The Treasury building in the late 1800s. The Treasury building colonnade from the southeast side shows the bustle of traffic on 15th Street as bicyclists passed in front of the Treasury building.

### TODAY'S TREASURY AND HOW WE SERVE THE NATION

Treasury is responsible for the nation's debt management, cash production, disbursement of Social Security benefit payments, tax collection, and federal agency financing. We are a trusted policy advisor to the President, formulating and recommending domestic and international financial, economic, and tax policies. Our contributions to policy development shape America's economic health and security.

We also perform a critical and far-reaching role in enhancing national security by targeting rogue regimes, terrorist networks, and other illicit actors. We do this by deploying our national security tools and authorities—including sanctions—to identify, disrupt, and dismantle national security and foreign policy threats, while also protecting the U.S. and international financial system from abuse by illicit actors.

We also leverage our relationships with our federal partners and work closely with the private sector to develop strategies to identify, detect, and prevent threats to our economic stability.

Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. Through our efforts to enhance economic growth and promote access to credit, we support job creation to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We also continue to play a key and influential role in the government's service to the American people, adapting to meet the nation's needs.

Globally, Treasury represents the U.S. in important economic forums and international financial institutions, including the Group of Seven (G7) and the Group of Twenty (G20), which hold annual summits with heads of state to discuss global economic and foreign policy issues. We hold significant responsibility promoting stability and growth in the global economy via our leadership roles in the International Monetary Fund, the World Bank, regional development banks, and other multilateral organizations, such as the Financial Stability Board and the Financial Action Task Force.

While Treasury adapts to meet the changing needs of our nation, our core mission remains unchanged since 1789. We remain steadfast in our commitment to promote conditions that enable economic growth and stability at home and abroad, to protect the integrity of the financial system, and to effectively manage the U.S. government's finances and resources. We remain the principal steward of the U.S. economy by collecting revenue, meeting financial obligations, and financing government operations.

## ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and two offices of the Inspectors General. The Departmental Offices are primarily responsible for headquarters operations and formulating policy, while the bureaus are the operating divisions within the organization. Our organizational information is available on our website:

<https://home.treasury.gov/about/general-information/role-of-the-treasury>.

### DEPARTMENTAL OFFICES



**Domestic Finance** works to unleash the full potential of the U.S. economy to improve the lives of Americans on every rung of the economic ladder. It seeks to foster economic growth through regulatory reforms that ensure the financial system delivers for both Wall Street and Main Street. Domestic Finance also manages the finances of the U.S. government, including the Treasury's debt management and the collections and disbursement of public monies.



**Terrorism and Financial Intelligence** uses unique policy, intelligence, enforcement, and regulatory tools and authorities to disrupt and disable terrorists, criminals, and other national security threats while also safeguarding the financial system against abuse by illicit actors.



**International Affairs** protects economic prosperity and national security by working to foster a most favorable external environment for sustained jobs and economic growth. It also supports open investment policies through the Committee on Foreign Investment in the United States.



**Tax Policy** develops and implements tax policies, reviews regulations and guidance to administer the Internal

Revenue Code, and provides revenue estimates for proposals and receipt estimates for the President's Budget.



**Economic Policy** reports on economic developments and assists in the determination of appropriate economic policies. It also reviews and analyzes domestic economic issues and financial market developments.



The **Treasurer of the United States** serves as a principal advisor to the Secretary, including coordinating Tribal relations across the Department, directly overseeing the U.S. Mint and the Bureau of Engraving and Printing, and liaising with the Federal Reserve.



The **Office of Management and Chief Financial Officer** manages the Department's financial resources and oversees Treasury-wide programs, including human capital, organizational performance, enterprise risk management, information technology, real property management and emergency preparedness, acquisition, and data.



Other offices within Departmental Offices include **General Counsel**, **Legislative Affairs**, and **Public Affairs**.

## INSPECTORS GENERAL



Two Inspectors General—the [Office of Inspector General \(OIG\)](#) and the [Treasury Inspector General for Tax Administration \(TIGTA\)](#)—provide independent audits, investigations, and oversight of Treasury and our programs.

## BUREAUS



The [Alcohol and Tobacco Tax and Trade Bureau \(TTB\)](#) collects federal excise taxes on alcohol, tobacco, firearms, and ammunition, while enforcing and administering laws covering the production, use, and distribution of alcohol and tobacco products.



The [Bureau of Engraving and Printing \(BEP\)](#) develops and produces U.S. currency notes, as well as secure documents for government use.



The [Financial Crimes Enforcement Network \(FinCEN\)](#) safeguards the financial system from illicit activity, combats money laundering and the financing of terrorism, and promotes national security through the strategic use of financial authorities and the collection, analysis, and dissemination of financial intelligence.



The [Bureau of the Fiscal Service \(BFS\)](#) promotes financial integrity and operational efficiency by operating the U.S. government's collections and deposit systems and providing central payment services to the American public on behalf of federal agencies. It also manages the collection of delinquent debt, borrows funds needed to operate the U.S. government through the sale of marketable and special-purpose U.S. Treasury securities, and accounts for the resulting debt. Additionally, it delivers administrative shared financial management services to federal agencies and conducts government-wide accounting and reporting.

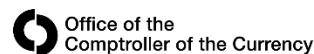


The [Internal Revenue Service \(IRS\)](#) determines, assesses, and collects U.S. tax revenue and helps taxpayers understand their tax responsibilities, while aiming to prevent tax-related fraud.



UNITED STATES MINT

The [United States Mint \(U.S. Mint\)](#) designs, mints, and issues U.S. circulating coins, as well as numismatic and bullion coins and strikes, Congressional gold medals, and other medals of national significance. It maintains physical custody and protection of most of the nation's gold and silver assets.



The [Office of the Comptroller of the Currency \(OCC\)](#) charters, regulates, and supervises national banks and federal savings associations, as well as federal branches and agencies of foreign banks, to ensure that they operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

## TREASURY STRATEGIC MANAGEMENT

### FRAMEWORK

*The Government Performance and Results Act (GPRA)* and the *GPRA Modernization Act of 2010* require agencies to identify goals, report progress against targets, and conduct data-driven reviews. These practices allow stakeholders within and outside the organization to assess the organization's health and impact, as well as promote effective decision-making and improve the execution of its strategies and resource allocations. In this spirit, we developed a framework using best-in-class organizational performance practices to help achieve our strategic goals and objectives.

### ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Our organizational performance reviews provide a regular forum for open dialogue and coordination between the bureaus and the Departmental Offices' management and leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. We review agency results quarterly to measure progress on our goals. Also, as required by the *Program Management Improvement Accountability Act*, we integrate portfolio

reviews of programs within our performance review cycle activities. Through our Strategic Objective Annual Review (SOAR) process, we conduct an annual exercise to validate our supporting objectives as well as analyze performance results across Treasury components to identify a set of strategic objectives as priority focus areas for the following year. The *Foundation for Evidence-Based Policy Act* further advances the U.S. government's evidence-building functions. In this past fiscal year, we continued to implement the evidence-building requirements by leveraging our strategic management framework, including the SOAR, and to discuss our evidence-building efforts and learning agenda.

At designated points throughout the fiscal year, we assess annual priorities, evaluate progress against goals and objectives, discuss new strategies to improve program outcomes, and align our available funding to maximize results for the agency. We describe our process and framework for managing our strategic objectives and performance outcomes in Table 1 on the following page.

TABLE 1: TREASURY ANNUAL ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

| Sessions       | Fall<br>(October – November)                                                                                                                                                                                                                                           | Winter<br>(February – March)                                                                                                                                                                                                                                                                            | Spring<br>(April – May)                                                                                                                                                                                                                                                                                   | Summer<br>(June – July)                                                                                                                                                                                                                                                                 |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | <b>Bureau Organizational Health &amp; Priorities</b>                                                                                                                                                                                                                   | <b>Strategic Objective Annual Review (SOAR)</b>                                                                                                                                                                                                                                                         | <b>Cross-cutting Risks/Challenges; Critical Programs and Projects</b>                                                                                                                                                                                                                                     | <b>Budget; Check-In for Critical Program and Projects</b>                                                                                                                                                                                                                               |
| Chair          | Deputy Secretary, Assistant Secretary for Management/Performance Improvement Officer (ASM/PIO); Strategic Goal Leads                                                                                                                                                   | Strategic Goal Leads                                                                                                                                                                                                                                                                                    | ASM/PIO                                                                                                                                                                                                                                                                                                   | ASM/PIO and Budget Officer, Strategic Goal Leads                                                                                                                                                                                                                                        |
| Goals/Outcomes | <ul style="list-style-type: none"> <li>Review prior year's performance at the bureau level</li> <li>Recognize successes</li> <li>Set priorities for year ahead</li> <li>Identify shortfalls and risks; accountability</li> <li>Assess organizational health</li> </ul> | <ul style="list-style-type: none"> <li>Evaluate cross-agency progress toward strategic objectives (including progress of critical programs and projects)</li> <li>Identify/validate Treasury priorities and/or strategic shifts</li> <li>Outline potential topics for annual review with OMB</li> </ul> | <ul style="list-style-type: none"> <li>Issue-based sessions: Dive deep on cross-cutting issues identified in the SOAR, identify near-term improvement strategies</li> <li>Program-based sessions: check in on critical programs identified in the SOAR that need Treasury leadership attention</li> </ul> | <ul style="list-style-type: none"> <li>Align funding to performance impacts and risk mitigation</li> <li>Strengthen IT acquisition, budgeting, and accountability</li> <li>Check-in on critical program and project health and review list of critical programs and projects</li> </ul> |

## FY 2025 PRIORITY AREAS

Table 2 shows the alignment of our FY 2025 priority areas discussed in the following Performance Overview section to the major programs as presented in our Consolidated Statement of Net Cost.

**TABLE 2: CONSOLIDATED STATEMENT OF NET COST BY MAJOR PROGRAM ELEMENT**

| Priority Area |                                                     | FY 2025 Areas of Focus                                                          |
|---------------|-----------------------------------------------------|---------------------------------------------------------------------------------|
| Economic      | Main Street Growth and Affordability                | Grow Economy                                                                    |
|               |                                                     | Modernize U.S. Financial System                                                 |
|               |                                                     | Rebalance Global Trade                                                          |
|               | Celebrate American Achievement and Be a Model Host  |                                                                                 |
| Financial     | Stewardship of Taxpayer Dollars                     | Manage U.S. Debt                                                                |
|               |                                                     | Improve Payment Integrity                                                       |
|               |                                                     | Modernize Taxpayer Experience                                                   |
| Security      | National Security                                   | Strengthen Integrity of the Global Financial System and Address Foreign Threats |
|               |                                                     | Secure the Homeland                                                             |
|               |                                                     | Expand Investment Security                                                      |
|               |                                                     | Defend Against Cyber Threats                                                    |
| Management    | Efficiency and Effectiveness of Treasury Operations | Improve Enterprise Problem-solving                                              |
|               |                                                     | Improve Processes and Project Management Capability                             |
|               |                                                     | Reshape and Optimize Workforce                                                  |
|               |                                                     | Deliver High-quality Common Service to Treasury Enterprise                      |

## PERFORMANCE OVERVIEW

We carry great responsibility for fostering prosperity and security for the American people. We play a critical role in the U.S. economy and globally to meet the needs of the nation. The *Treasury Strategic Plan 2026 – 2030* will chart a course to guide our responsibilities to taxpayers. The following performance overview reflects our accomplishments and challenges in fostering Main Street growth and affordability, stewarding taxpayer dollars, strengthening national security, and improving the efficiency and effectiveness of Treasury operations. It also reflects our role in promoting American achievement and serving as a model host during international events, including the International Federation of Association Football World Cup, Olympics and Paralympics, and the U.S. presidencies of the G20 and G7, all in service to our country.

### Main Street Growth and Affordability

Treasury plays an important role in unleashing the full potential of the U.S. economy and improving the lives of Americans on every rung of the economic ladder. We aim to help the Administration increase prosperity and abundance for the American people by tackling the affordability crisis currently facing our country, unleashing access to capital, and rebalancing the global system.

Our first priority is growing the American economy. By sustaining three percent annual gross domestic product growth, we will build wealth that creates a prosperous society for all Americans.

In the financial sector, we are pursuing a fundamental reset of financial regulation to ensure the financial system delivers for both Wall Street and Main Street.

Internationally, Treasury plays a leadership role in global financial forums; we will use our votes and economic strength to protect our sovereignty and restore balance to our economic relationships.

### GROW THE ECONOMY

We developed the Administration's tax legislative proposals and worked closely with Congress through the legislative process to draft, refine, and negotiate tax provisions of the *One Big Beautiful Bill*, P.L. 119-21 (OB BB) to ensure alignment with sound tax policy principles.

We analyzed the revenue effects of legislative tax proposals and assisted the Administration in its negotiations with Congress leading up to the passage of



Source: Adobe Stock

#### Tax Legislation

We developed the Administration's tax legislative proposals and worked closely with Congress through the legislative process to draft, refine, and negotiate tax provisions of the *One Big Beautiful Bill* to ensure alignment with sound tax policy principles.

the OB BB. Our analyses helped to optimize the design of the legislative proposals to meet complex policy goals and achieve the President's promise to deliver a fair tax system for American businesses and workers.

In addition to supporting the passage and implementation of the OB BB in FY 2025, we implemented other Administration priorities, including Executive Order (EO) 14219, *Ensuring Lawful Governance and Implementing the President's "Department of Government Efficiency" Deregulatory Initiative*, taking deregulatory action on 105 unnecessary, obsolete, or superseded items of tax guidance.

## MODERNIZE THE U.S. FINANCIAL SYSTEM

We are leading a comprehensive and assertive effort across the Administration to empower our nation's financial system to finance the economy's pursuit of job growth, wealth creation, and prosperity for all Americans.

To that end, we play an important role in coordinating with banking regulators to ensure that regulation supports sustainable economic growth while fostering safety and soundness and financial stability.

In addition to these efforts, pursuant to the President's EOs, we took key actions to strengthen American leadership in digital financial technology. We played a leading role in the work of the President's Working Group on Digital Asset Markets, including developing the working group's report that laid out a roadmap to position America as the leader in digital asset markets. We took several actions to clarify the permissibility of digital asset activities in the U.S. banking system to foster a dynamic and diverse financial system that serves all. We supported the passage of the *Guiding and Establishing National Innovation for U.S. Stablecoins Act*, P.L. 119-27 (GENIUS Act) and have been charged with implementing key elements of this legislation to create a federal regulatory framework for payment stablecoins.

As the largest user of the U.S. payments system, issuing nearly 1.3 billion payments per year totaling more than \$5.4 trillion, we have taken further steps to digitize the nation's payments. Our initiatives under EO 14247,

*Modernizing Payments To and From America's Bank Account*, will impact how millions of Americans receive and make payments to the government. This EO promotes operational efficiency by requiring the transition to electronic payments with limited exceptions and accommodations. In collaboration with federal agencies, we have successfully launched a public awareness campaign and are piloting electronic payment options to serve unbanked and underbanked communities. In FY 2026, we expect to see measurable decreases in check disbursements.

## REBALANCE GLOBAL TRADE

Across the international economic system today, we see trade imbalance. Throughout FY 2025, we took significant steps alongside partner agencies to restore equilibrium to the global financial system and the institutions designed to uphold it by expanding U.S. leadership and bringing back fairness to the international economic system. We are working closely with interagency partners on all ongoing agreements on reciprocal trade to secure favorable outcomes, and this effort is expected to continue through FY 2026.

On December 1, 2025, the U.S. assumed the presidency of the G20, and will cohost the Finance Track with the Federal Reserve. We have twin aims of streamlining the G20 and advancing policy goals that unleash economic growth and prosperity by limiting the burdens of regulations, unlocking affordable energy, and pioneering new technologies.

## Stewardship of Taxpayer Dollars

Treasury manages the finances of the U.S. government, including raising funding for government programs. We are committed to working to restore the U.S. government to a fiscally sustainable trajectory; reduce fraud, waste, and abuse in government payments; and modernize the systems we use to administer taxes.

### MANAGE U.S. DEBT

Borrowing amounts necessary for expenditures authorized by law is our core responsibility. We engage with global investors and other market participants, including the primary dealers—a group of large financial institutions that are authorized to trade directly with the Federal Reserve and play a key role in Treasury auctions—and the Treasury Borrowing Advisory Committee, to inform our borrowing plans. In FY 2025, we issued \$30 trillion of securities. After paying off maturing securities, we raised \$2 trillion of new cash to finance the continued operations of the U.S. government. In FY 2025, we also successfully navigated a debt limit impasse, which ended when the OBBB raised the debt limit by \$5 trillion, avoiding a costly default.

In addition, we support market liquidity through a buyback program that provides regular opportunities for dealers to sell back to Treasury off-the-run Treasury securities—those issued in previous auction cycles and which are now less actively traded. In FY 2025, we announced plans to further enhance the buyback program. The buyback program also provides us with an additional tool for cash management.

### IMPROVE PAYMENT INTEGRITY

Financial fraud and improper payments threaten the integrity of federal programs and undermine trust in government. In FY 2025, the Bureau of the Fiscal Service (BFS) began implementing EOs 14247, *Modernizing Payments To and From America's Bank Account*, and 14249, *Protecting America's Bank Account Against Fraud, Waste, and Abuse*. To assist agencies in preventing and detecting fraud and improper payments, BFS, in collaboration with OMB advanced policy and



Source: Adobe Stock

#### Financial Stewardship

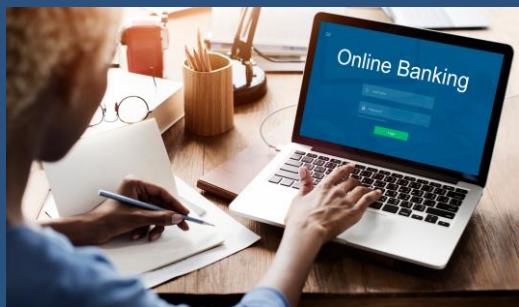
In FY 2025, we issued \$30 trillion of securities. After paying off maturing securities, we raised \$2 trillion of new cash to finance the continued operations of the U.S. government.

streamlined the process to expand agency use of the Do Not Pay Working System (Do Not Pay).

Specifically, on June 17, 2025, OMB delegated to the Secretary of the Treasury the authority to designate additional databases to Do Not Pay for the purposes of assisting in preventing improper payments. To implement this delegated authority, BFS has developed a standard operating procedure that expedites the onboarding of Do Not Pay databases while meeting the applicable privacy, security, and legal requirements. With this delegated authority, BFS will prioritize acquiring and integrating high-value databases that will substantially assist in preventing improper payments. On August 20, 2025, OMB issued M-25-32, *Preventing Improper Payments and Protecting Privacy Through Do Not Pay*, to further strengthen agencies' abilities to expeditiously and flexibly access Do Not Pay while preserving important privacy safeguards. Accordingly, BFS has updated the Do Not Pay agency onboarding process—streamlining every step to better ensure that agencies can access Do Not Pay services more efficiently and effectively while safeguarding privacy and security.

Moreover, in FY 2025, BFS implemented payment verification processes, per EO 14249, and enhanced its research and development of analytic capabilities to

identify anomalies in federal payments and detect fraud risk in the end-to-end payment process as early as possible. These efforts, together with broader reforms addressing the federal payments process, advance both the integrity and efficiency of government disbursements.



Source: Adobe Stock

### Electronic Payments

BFS has advanced the elimination of paper checks for federal disbursements by conducting executive outreach to the largest check-producing agencies, providing solutions to overcome barriers, and driving meaningful progress toward greater use of electronic payments.

Building on this foundation, BFS has also focused on reducing Non-Treasury Disbursing Office (NTDO) payments. Consolidating disbursing functions within Treasury not only strengthens accountability and fraud prevention but also generates economies of scale and improves the government's cash management. In FY 2025, we issued revocation notices to the three remaining agencies with delegated authority to act as NTDOs—the U.S. Department of State, U.S. Department of Defense's Defense Finance and Accounting Service, and Department of Health and Human Services. BFS is working with these agencies to execute transition plans to Treasury disbursing, including staffing and system changes.

In addition, BFS has advanced the elimination of paper checks for federal disbursements by conducting executive outreach to the largest check-producing agencies, providing solutions to overcome barriers, and driving meaningful progress toward greater use of electronic payments. This engagement has led to robust agency

outreach to check payees through mailers and Treasury check inserts as well as procedural and policy updates emphasizing electronic payments as the government's primary payment method.

In FY 2025, BFS also made significant progress to enhance controls and partner with agencies to more readily track transactions in the General Fund. Specifically, BFS created and released the Daily Treasury Account Symbol (TAS) Balance Report, which provides agencies with daily information on their transactions to make informed decisions, improve operational efficiency, and strengthen fiscal accountability. Agencies consistently monitor the Daily TAS Balance Report to ensure funds are available before incurring obligations and certifying disbursements. BFS conducts account analyses to identify those that are consistently negative and may not have adequate funding to continue disbursing, and alerts agencies when uncorrected negative fund balances could result in the rejection of payment vouchers, per the requirements of Section 4(b)(i) of EO 14249.

### MODERNIZE TAXPAYER EXPERIENCE

We delivered a successful 2025 tax filing season, which began on January 27, 2025, and ended April 19, 2025.

We responded to 8.9 million Accounts Management phone calls, accomplished an average wait time of three minutes, achieved a Customer Service Representative Level of Service of 87 percent, and offered the customer callback feature to about 2.6 million taxpayers, saving taxpayers over 742,000 hours of phone hold time.

Beyond these improvements, we continued to improve service time and reliability. Automation reduced the time needed to process amended returns from 16 weeks to three days.

In FY 2025, we continued our IRS modernization efforts, which will improve taxpayer experience. Specifically, we made progress with the planning and phased development of several strategic initiatives that will modernize our technology infrastructure and core operations. This effort includes the Unified Application Program Interface initiative to enhance data

discoverability, accelerate system development, and improve information sharing across our programs. We are also building the Developer Experience Platform, which will standardize and automate software development, testing, and deployment across the enterprise.

Through the Zero Paper initiative, we are preparing to reduce the physical handling of incoming tax documents by shifting paper submissions to third-party processing sites, where documents will be scanned and converted to metadata using artificial intelligence and robotic automation. These initiatives, combined with ongoing efforts to enhance cybersecurity, modernize infrastructure, and expand digital intake, underscore our commitment to becoming more agile, resilient, and data-driven.

Additionally, we implemented new screening tools to detect potential identity theft and prevent the issuance of fraudulent refunds. As of May 2025, we confirmed more

than 91,000 identity theft tax returns and prevented the issuance of approximately \$1 billion in fraudulent refunds.



Source: Adobe Stock

### Payment Integrity

We implemented new screening tools to detect potential identity theft and prevent the issuance of fraudulent refunds. As of May 2025, we confirmed more than 91,000 identity theft tax returns and prevented the issuance of approximately \$1 billion in fraudulent refunds.

## National Security

We disrupt global and domestic threats by deploying our national security tools, including policy, enforcement, intelligence, and regulatory tools and authorities. We aim to disrupt threats quickly and effectively, while more explicitly measuring and articulating our successes and sharing information with public and private partners.



Source: Adobe Stock

### Targeting Adversaries

In FY 2025, we took key targeted actions against adversaries. To undermine Russia's war economy, we imposed sanctions targeting the Russian energy industry.

To dismantle threats beyond our borders, we use our tools and authorities to bankrupt rogue states and terrorist organizations, while also preserving the U.S. dollar as the world's preeminent reserve currency.

To dismantle threats within our borders, we close regulatory gaps, and use shared intelligence supported by prosecutorial actions to bankrupt cartels and disrupt trafficking and other criminal organizations.

We monitor inbound and outbound investments to curtail the flow of U.S. dollars to adversaries generating threats to national security in critical industries. Specifically, we enhanced our programs, implemented a Known Investor program, and enhanced risk assessments.

In addition, we manage the risk of and response to cyber and virtual threats to protect Treasury's assets and those

of the financial sector by increasing engagement with partners and enhancing Treasury systems' resiliency.

### STRENGTHEN INTEGRITY OF THE GLOBAL FINANCIAL SYSTEM AND ADDRESS FOREIGN THREATS

Strengthening the global financial system requires several lines of effort, including, but not limited to, working with international partners, coordinating global Anti-Money Laundering/Countering the Financing of Terrorism standards, and increasing transparency in both the domestic and international financial systems to combat abuse. In FY 2025, as the chair of the U.S. delegation to the Financial Action Task Force (FATF), we worked closely with FATF to improve responses to terrorist financing risks, financing of weapons of mass destruction, and combatting sanctions evasion schemes. In addition, we strengthened responses to financial inclusion and improved standards for domestic and cross-border payments. We also worked through FATF to revise recommendations related to a risk-based approach to assessing and mitigating money laundering and terrorist financing risks, including ensuring preventive or mitigation measures are commensurate with the risks identified.

In FY 2025, we took key targeted actions against adversaries. To undermine Russia's war economy, we imposed sanctions targeting the Russian energy industry, specifically major Russian oil companies. These actions covered more than 180 vessels, oil traders, oilfield service providers, and maritime insurers. We also placed 275 individuals and entities related to Russia's military base or sanctions evasion on the Specially Designated Nationals and Blocked Persons List.

In addition, we targeted Iran's oil smuggling and shadow banking network, including an international network tied to a front company for Iran's Ministry of Defense. Our response affected dozens of individuals, companies, and vessels that facilitate illicit shipments, denting Iran's ability to raise revenue for its malign activities and foreign proxies.



SOURCE: ADOBE STOCK

### Illicit Proceeds Funding Criminal Enterprises

We issued guidance to financial institutions (in the form of advisories and financial trend analysis reports) highlighting the various ways cartels generate and launder illicit proceeds to fund their criminal enterprises, including through bulk cash smuggling, crude oil smuggling, and exploiting Chinese money laundering networks.

To address the Iran-backed Houthis, we sanctioned dozens of targets, including companies and vessels supplying oil and gas to Yemen's Houthis. In addition, we took targeted action to disrupt fentanyl supply chains globally.

## SECURE THE HOMELAND

In FY 2025, the Financial Crimes Enforcement Network (FinCEN) advanced our objective to secure the homeland by harnessing the full scope of authorities under the *Bank Secrecy Act* and other legal authorities to implement the Administration's priorities related to pursuing the elimination of international cartels, securing our borders, combating terrorist financing, and disrupting cyber-enabled fraud and other illicit activity.

We issued guidance to financial institutions (in the form of advisories and financial trend analysis reports) highlighting the various ways cartels generate and launder illicit proceeds to fund their criminal enterprises, including through bulk cash smuggling, crude oil smuggling, and exploiting Chinese money laundering networks. Financial institutions file highly useful Suspicious Activity Reports that we and our law

enforcement and national security partners use to target cartel activity.

We also deployed our tools to gather information critical to law enforcement efforts. For example, we issued a Geographic Targeting Order to further monitor the money laundering and other illicit activities of Mexico-based cartels and other criminal actors operating along the southwest border of the United States.

We also issued unprecedented orders identifying three Mexico-based financial institutions as being of primary money laundering concern in connection with illicit opioid trafficking, prohibiting certain transmittals of funds. These orders were the first actions by Treasury pursuant to the *Fentanyl Sanctions Act* and the *FEND Off Fentanyl Act*.

We also deployed our tools to protect Americans from various fraudulent schemes, including elder financial exploitation, pig butchering, and business email compromise. For example, we issued a notice of proposed rulemaking pursuant to Section 311 of the *USA PATRIOT Act* that identifies a Cambodia-based group as a financial institution of primary money laundering concern related to fraud, and proposes imposing special measures intended to sever its access to the U.S. financial system. Through the Rapid Response Program at FinCEN, in FY 2025 alone, we interdicted \$182.2 million and repatriated \$95.5 million to victims of cyber-enabled fraud.

## EXPAND INVESTMENT SECURITY

The Committee on Foreign Investment in the United States (CFIUS) and the Outbound Investment Security Program (Outbound) play critical roles in protecting national security while upholding the nation's commitment to an open investment policy that strengthens the economy. Among other things, these programs play a key role in protecting technologies, sensitive data, and critical infrastructure from foreign investment that could be detrimental to our national security, and preventing other countries from exploiting our investment to develop sensitive technologies that counter our capabilities. Both CFIUS and Outbound operate through rules-based processes, so their reviews

are predictable and not based on arbitrary decisions. These processes provide transparency and predictability for foreign investors, U.S. businesses, and U.S. investors. These programs are instrumental in encouraging allies and partners to similarly prioritize efficient and effective investment security tools. In FY 2025, we announced plans to establish a fast-track process to facilitate greater investment in U.S. businesses from ally and partner sources. This process will include the launch of a Known Investor portal where CFIUS can collect information from foreign investors before a filing.

## DEFEND AGAINST CYBER THREATS

Reducing cybersecurity risk across the financial sector requires a shared understanding of critical services, recognition of sector-specific security and resilience challenges, and strong collaboration among stakeholders.

In FY 2025, we expanded Project Fortress, a “whole-of-sector” effort to improve the security and resiliency of the financial services sector. The program leverages existing capabilities and new offerings, such as the Automated Threat Information Feed. It provides financial institutions with tailored cyber threat data from the U.S. government, offering members deeper insight into sector-specific risks. We also developed a new sub-feed on cyber-enabled fraud to help participants detect and disrupt fraudulent activity earlier in its lifecycle.

As part of Project Fortress, our Office of Intelligence and Analysis leads the T-Suite, which facilitates cooperation between government and cleared industry representatives to address cyber threats to financial infrastructure. We also expanded participation in the Cybersecurity and Infrastructure Security Agency’s Cyber Hygiene program, which scans internet-facing systems for known vulnerabilities and provides actionable feedback. These efforts resulted in a 20 percent increase in financial sector participation.

Our Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) also works with organizations, including the Conference of State Bank Supervisors (CSBS) and the National Credit Union Administration, to tailor exercises that emphasize cross-state and regional coordination. In May 2025, we, along with CSBS,

developed a multistate exercise to test how financial institutions and state regulators would coordinate response and recovery following a cross-border cyber incident. OCCIP and the FSOC Secretariat also hosted an interagency exercise in June focusing on agency preparedness for a major cyber incident targeting critical market infrastructure.

In accordance with EO 14306, *Sustaining Select Efforts to Strengthen the Nation's Cybersecurity and Amending Executive Order 13964 and Executive Order 14144*, OCCIP refocused its strategic priorities on combating foreign state cyber threats, cyber fraud, and advancing technologies, such as post-quantum cryptography and artificial intelligence, for the financial sector.

On the global stage, we continue to play a leading role in the G7 Cyber Experts Group (CEG), a multi-year forum for coordinating cybersecurity policy across G7 jurisdictions. In FY 2025, we helped develop a CEG statement on the risks and opportunities of artificial intelligence in financial sector cybersecurity, along with a road map for migrating to post-quantum cryptography.

In FY 2025, our Office of the Chief Information Officer (OCIO) continued to consolidate cybersecurity operations and processes to strengthen incident response and



Source: Adobe Stock

### Strengthening Cybersecurity

In accordance with EO 14306, *Sustaining Select Efforts to Strengthen the Nation's Cybersecurity and Amending Executive Order 13964 and Executive Order 14144*, OCCIP refocused its strategic priorities on combating foreign state cyber threats, cyber fraud, and advancing technologies, such as post-quantum cryptography and artificial intelligence, for the financial sector.

improve efficiency. The Departmental Offices Security Operations Center (SOC) and Computer Incident Response Center transitioned into the Treasury SOC (TSOC). OCIO also unified enterprise cybersecurity functions under one organization, streamlining assessment and authorization processes. To advance this effort, we awarded the Providing Treasury Enterprise Cybersecurity Technology and Services (PROTECTS) blanket purchase agreement, the enterprise vehicle for cybersecurity operations across the Department. PROTECTS provides a flexible, streamlined acquisition framework under Treasury's Resiliency initiative.

During FY 2025, OCIO also increased Multi-Factor Authentication implementation to 89.3 percent—our

highest level to date. We also prioritized High Value Assets—critical systems and data whose compromise could significantly affect national security, the economy, or public trust—by migrating several to the cloud to enhance protection against evolving threats. To strengthen cross-bureau resilience, OCIO partnered with a large cybersecurity firm to conduct a Treasury-wide cyber tabletop exercise with more than 100 participants.

We continued to support government, domestic, and international partners by releasing two Treasury Early Warning Indicators, providing advanced threat intelligence on nation-state actors.

## Efficiency and Effectiveness of Treasury Operations

Treasury serves a critical role in the lives of all Americans. We must honor the trust that our citizens place in us by doing our work as efficiently and effectively as possible – by improving our governance, core processes, workforce, and the way we do business.

On governance, we are working to change how we collaborate with our partners to solve the long-standing systemic challenges this country faces and nimbly tackle new and emerging opportunities. To do so, we are removing information siloes and improving coordination among our experts to improve our decision-making and build healthier organizations.

On core processes, we are taking steps to reduce waste and increase quality for the functions on which our customers rely most—including tax administration, payments, and other key services that we provide to citizens and other agencies.

Regarding the workforce, we are optimizing the composition and skill level of our workforce to build a culture of collaboration, reward success, and support modernized operations. We provide tools and resources to help employees develop additional knowledge, skills, and experience to deliver for the American people.

We are improving the way we do business, to lower costs and increase service levels for common administrative functions. To achieve our goals, we are building better tools for our organizations, creating spaces that enable the mission, and making it easier for employees to do their critical work.

### IMPROVE ENTERPRISE PROBLEM-SOLVING

We improved our organizational health data and tools, enabling leadership to make better decisions, develop effective response strategies to risk, and resolve shared challenges. Our quarterly organizational performance reviews provide a regular forum for open dialogue and coordination between Department, bureau, and office leadership. They bring together different perspectives to set and align priorities, identify and solve problems, review performance goals, and drive evidence-based

decisions and results. Through an assessment of our organizational health, we identified enterprise strengths and challenges, areas for targeted improvements, and areas where we needed to better explore and define issues. In FY 2025, we began developing an organizational health business intelligence tool, which will strengthen our organizational health analysis, leading to enhanced enterprise problem-solving and a healthier department.

### IMPROVE PROCESSES AND PROJECT MANAGEMENT CAPABILITY

To optimize our core processes that underpin the success of primary programs, operation, or mission, we developed a tool to identify and prioritize the core processes that we should address first. We also developed a maturity model framework to assess and improve our core processes, as well as create a prioritization and assessment tool to assess core processes maturity levels.

We continued efforts to strengthen continuous improvement practices for core processes and policies through process improvement capability building. In FY 2025, 336 individuals completed a Fundamentals of Continuous Process Improvement training, and achieved an 81 percent certification rate of eligible Green Belt candidates.

### RESHAPE AND OPTIMIZE WORKFORCE

To build and maintain a workforce capable of meeting current and future challenges, we led change through targeted human capital initiatives driven by Administration priorities. EO 14210, *Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative*, drove our workforce reshaping efforts. We effectively and efficiently established an enterprise program and IT solution to deploy the Office of Personnel Management's (OPM) Deferred Resignation Program (DRP) as well as a supplemental Treasury DRP. These two programs reduced our workforce size by 20 percent, minimizing the need to conduct extensive workforce reshaping activities. We partnered with OPM

to acquire authorization for voluntary early retirement authority to support workforce reshaping efforts.

As part of optimizing the workforce, the IRS is aligning its organizational structure to support strategic goals, optimize staffing levels, and use team-based models to improve flexibility and responsiveness. At the same time, the IRS is investing in programs to help employees adapt to new tools, processes, and expectations. These efforts are part of a broader strategy to improve compliance outcomes while building a modern, data-driven, and taxpayer-focused enforcement environment.

Additionally, our workforce optimization efforts included support of return to in-person work. After adjusting for the DRP participants and approved in-person exemptions, 92.8 percent of the total workforce now reports to physical office locations. We also made significant advancements to comply with updated performance management requirements, limiting performance improvement periods to 30 business days, implementing new supervisory standards and new Senior Executive Service certification requirements, and converting the performance rating cycle to a fiscal year. We also developed guidance, training, and process and system updates to certify the fitness of employees at the end of their probationary period.

We modernized our human capital management system by better aligning human capital and budget processes to ensure we address leadership priorities in the highest-needed areas.

## DELIVER HIGH-QUALITY COMMON SERVICES TO THE TREASURY ENTERPRISE

In FY 2025, we established the Treasury Common Services Center (TCSC) within the Office of Management. The TCSC will bring together human resources processing, common information technology functions, and operational services, such as acquisition and travel, into a unified service delivery model. By centralizing and elevating these critical mission enablers, we share best practices across the agency, leading to a common “Treasury Way” of providing support services. This

centralized approach will enable us to focus even more intently on our core mission, which will increase operational efficiency, customer satisfaction with administrative services, resiliency, and our organizational capacity.

Additionally, we continue to advance a comprehensive, data-driven approach to managing our nationwide portfolio of real property assets. This strategy is closely aligned with federal requirements under OMB Memorandum M-25-25, which sets a 60 percent space utilization goal, and the *Utilizing Space Efficiently and Improving Technologies Act*, which emphasizes modernization and efficient workspace usage across government agencies. Our approach balances mission readiness with fiscal responsibility, building efficiency, and evolving workforce needs. With an average occupancy rate of 48 percent across our portfolio, we are making measurable progress toward our 60 percent utilization target. These outcomes reflect our commitment to real property optimization and the responsible stewardship of taxpayer resources.



Source: Adobe Stock

### Workforce Optimization

Additionally, our workforce optimization efforts included support of return to in-person work. After adjusting for the DRP participants and approved in-person exemptions, 92.8 percent of the total workforce now reports to physical office locations.

## Celebrate American Achievement and Be a Model Host

The 250th anniversary of the signing of the Declaration of Independence is a historic milestone and an opportunity to celebrate American manufacturing and instill national pride through the sales of numismatics products and public outreach events that reflect on our nation's past and honor the contributions of all Americans. Treasury has unique opportunities to showcase American achievement through the U.S. presidencies of the G20 and G7, and will leverage hosting responsibilities for the FIFA World Cup and the Olympics and Paralympics to further celebrate America250. These major events, along with other anniversary activities, will also allow the Secretary to continue actively engaging with the public through outreach to broaden Americans' understanding of economic policies.

In the past years, we produced and sold several commemorative coins recognizing pivotal moments and individuals in American history. In FY 2025, we recognized the Marine Corps' significant contributions to the security and protection of the U.S. Additionally, we developed designs in support of our FY 2026 coin/medal programs that highlight Americans and American accomplishments, to include the 2026 FIFA World Cup commemorative coin program, Semi-quincentennial coins and medals and several Congressional Gold Medals—the nation's highest civilian honor. Additionally, we produced and sold 2024 and 2025 American Innovation \$1 Coin sets, as well as bags and rolls of the individual \$1 coins.

## FY 2025 Operational Performance Measures

In FY 2025, we continued to deliver value to our customers, the American taxpayer. Our performance measures present data on service and operational outcomes for our core programs. Table 3 contains performance results for key measures we use to assess our performance in core services and operations—programs that are critical to the proper functioning of the U.S. government. A full discussion of performance for all our programs is included in the Annual Performance Report.

**TABLE 3: SELECT PERFORMANCE MEASURES**

| Bureau/Office | Measure<br>(Responsible Bureau/Office)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | FY 25<br>Result | FY 25 Target     | FY 25<br>Result vs Target |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|---------------------------|
| IRS           | <b>Timeliness of Critical Individual Filing Season Tax Products to the Public (%)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>97.3%</b>    | <b>91%</b>       | <b>Exceeded</b>           |
|               | This measure represents the percent of on-time release of critical individual filing season (CIFS) tax products to the public, such as forms, schedules, instructions, and publications. Timeliness of CIFS tax products to the public was 97.3 percent and exceeded plan of 91 percent because no major tax legislation impacting filing season preparation was passed. 110 out of 113 CIFS tax products were available to the public seven calendar days before the official IRS start of the (individual) filing season. In most years, the Tuesday after the Martin Luther King Jr. holiday is the official IRS tax season start date. This year, the official IRS tax season start date was pushed to January 27, allowing an additional week to complete and release tax products to the public.                                                                                                                                                                                |                 |                  |                           |
|               | <b>Enterprise Self-Assistance Participation Rate (ESAPR)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>96.6%</b>    | <b>94%</b>       | <b>Exceeded</b>           |
|               | This measure represents the percent where a taxpayer uses one of the IRS's self-assistance service channels ( <i>e.g.</i> , automated calls, web services) versus needing support from an IRS employee ( <i>e.g.</i> , face-to-face, telephone, paper correspondence).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                 |                  |                           |
|               | The ESAPR of 96.6 percent exceeded the fiscal year plan of 94 percent. In FY 2025 total self-assisted services were 2.3 billion, assisted services were 99.1 million, and total FY 2025 services rose to 2.9 billion. The increase in self-assisted services was due to growth in taxpayer's use of Where's My Refund and the Interactive Tax Assistance tools, and third-party transcript requests. Using the self-assistance services, taxpayers made almost 234.8 million electronic payments and set up nearly 2.8 million online payment agreements.                                                                                                                                                                                                                                                                                                                                                                                                                             |                 |                  |                           |
|               | <b>Percent of Aged Hardware</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>13.1%</b>    | <b>&lt;20.0%</b> | <b>Exceeded</b>           |
| TTB           | This measure shows the quantity of IT hardware in operation past its useful life as a percentage of total hardware in use. The percent of aged hardware was 13.1 percent which surpassed the target ceiling of 20 percent for FY 2025. The program anticipates sustaining its existing portfolio balance, maintaining risk alignment, and delivering end-of-year risk outcomes consistent with current fiscal year results.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                 |                  |                           |
|               | <b>Customer Service Representative (CSR) Level of Service (LOS) (%)</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>60.5%</b>    | <b>60%</b>       | <b>Exceeded</b>           |
|               | This measure shows the relative success rate of taxpayers that call for Customer Account Services seeking assistance from a Customer Service Representative. Customer Service Representative Level of Service includes telephone lines answered by Accounts Management Customer Service Representatives only. From October 1, 2024, through September 30, 2025, Customer Service Representative Level of Service was 60.5 percent, which was 0.7 percent above the annual target of 60 percent. The level of service for the 2025 filing season was 87.0 percent. Customer service representatives answered around 18.6 million calls in FY 2025. Customer service representative phone demand, which includes services offered and disconnects, was around 33.7 million. In FY 2025, around 13.8 million taxpayers were offered a callback and 8.6 million (62.3 percent) accepted. This resulted in around 4.1 million hours saved for the taxpayer, providing a better experience. |                 |                  |                           |
| TTB           | <b>Percentage of Permit Applications Processed within Service Standards</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>82%</b>      | <b>85%</b>       | <b>Unmet</b>              |

| Bureau/Office                   | Measure<br>(Responsible Bureau/Office)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | FY 25<br>Result | FY 25 Target   | FY 25<br>Result vs Target |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|---------------------------|
|                                 | This measure represents the overall rate at which the TTB is meeting its annual service standard (75 days for FYs 2020 – 2025) for all original permit applications and registrations. The measure reflects the efficiency and consistency of TTB's permitting process and supports effective communication with industry members regarding TTB's level of service. In FY 2025, TTB issued 82 percent of applications within its 75-day service standard, falling shy of its 85 percent target. With sustained high application volume, to restore performance to target levels, TTB is undertaking a major initiative to simplify permit application requirements, streamline internal processes, and migrate its legacy IT system to a modern platform. The initial release is planned for FY 2026. |                 |                |                           |
| BFS                             | <b>Percentage of Treasury Payments Made Electronically</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>96.96%</b>   | <b>97.03%</b>  | <b>Unmet</b>              |
|                                 | This measure provides the percentage of the total payments disbursed electronically. In FY 2026, BFS will continue to identify, test, and expand digital payment options, making them available to people and businesses interacting with federal agencies. This will include revising guidance, processes, and regulations as necessary to allow for limited paper exceptions for government payments.                                                                                                                                                                                                                                                                                                                                                                                               |                 |                |                           |
|                                 | <b>Percentage of Total Federal Government Receipts Initiated Electronically</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | <b>88.8%</b>    | <b>84.5%</b>   | <b>Met</b>                |
|                                 | This measure provides the percentage of total federal government revenue collection dollars initiated electronically.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                 |                |                           |
| Mint                            | <b>Seigniorage per Dollar Issued</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>0.06</b>     | <b>0.10</b>    | <b>Unmet</b>              |
|                                 | Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to the Federal Reserve Banks. Seigniorage per dollar issued fell short of the target primarily due to the circulating product denomination mix ordered by the Federal Reserve Banks, coupled with increased metal costs during FY 2025.                                                                                                                                                                                                                                                                                                                                                                                                                                         |                 |                |                           |
| BEP                             | <b>Manufacturing Costs – Dollar Costs per Thousand Notes Produced</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>\$70.35</b>  | <b>\$81.04</b> | <b>Exceeded</b>           |
|                                 | Manufacturing Costs for Currency (dollar cost per 1,000 notes produced) is an indicator of manufacturing efficiency and effectiveness of program management. The measure is based on contracted price factors, productivity improvements, as well as the mix of denominations ordered. Actual performance against standard costs depends on BEP's ability to meet spoilage, efficiency, and capacity utilization goals.                                                                                                                                                                                                                                                                                                                                                                               |                 |                |                           |
| Management                      | <b>Percent of Procurement Dollars spent on Small Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>38.22%</b>   | <b>36.8%</b>   | <b>Exceeded</b>           |
|                                 | This measure is the percentage of eligible small business procurement dollars obligated toward small businesses (or our overall small business goal) and highlights our efforts to ensure that small businesses have the maximum practicable opportunity to provide goods and services to the federal government. We exceeded meeting our FY 2025 small business goal of 37 percent. We overperformed and exceeded the socio-economic small business goal.                                                                                                                                                                                                                                                                                                                                            |                 |                |                           |
| Office of International Affairs | <b>Percentage of CFIUS Cases Reviewed within Statutory Timeframes, reported by calendar year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>N/A</b>      | <b>100%</b>    | <b>N/A</b>                |
|                                 | This measure tracks compliance with statutory deadlines for completing national security reviews of transactions notified to the CFIUS to ensure that the CFIUS process is timely and efficient. We report results on a calendar-year basis, at which time the comparison can be made of actual results versus target.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                 |                |                           |

| Bureau/Office                                     | Measure<br>(Responsible Bureau/Office)                                                                                                                                                                                                                                                                                                                                                                                                                | FY 25<br>Result | FY 25 Target | FY 25<br>Result vs Target |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|---------------------------|
| Office of Terrorism and<br>Financial Intelligence | <b>Number of New or Modified<br/>Sanctions Programs Established by<br/>Executive Order or Congressional<br/>Mandate</b>                                                                                                                                                                                                                                                                                                                               | <b>5</b>        | <b>N/A</b>   | <b>N/A</b>                |
|                                                   | This indicator tracks the number of new or modified sanctions programs that we implement and enforce. However, the indicator does not capture the levels of relative complexity for each sanction program or the complexity of individual national security objectives that sanctions attempt to achieve. We do not set targets for new or modified sanctions programs since the existence of a sanctions program is not itself a measure of success. |                 |              |                           |

## ENTERPRISE RISK MANAGEMENT

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, provides guidance to federal managers to effectively manage risks to achieve strategic objectives. Management, together with the Chief Risk Officer (CRO), is responsible for establishing a governance structure to implement a robust process of risk management and internal control, as well as an enterprise-wide risk profile. Successful implementation requires us to establish and foster an open and transparent culture that encourages personnel to communicate information about potential risks and other concerns that impact our programs and operations.

The CRO meets regularly with senior leaders to discuss top risks to critical programs, systems, projects, and priorities, including response strategies. This includes the Bureau Deputies Council, which serves as the Department's Enterprise Risk Management (ERM) Committee. The ERM Council, chaired by the Deputy CRO, brings together risk managers from each of our bureaus on a bimonthly basis to share best practices and discuss risks. The Enterprise Strategy, Performance and Risk team in the Office of Strategy, Planning, and Performance Improvement works with our bureaus and policy offices to monitor and annually update our risk profile and helps ensure our risk profile is well integrated with Treasury's strategic direction.

The Deputy CRO also leads an interagency ERM community of practice, including officials from more than 50 federal agencies. This group originated from our efforts to support agencies' implementation of ERM. This government-wide working group meets bimonthly to discuss common risks and various methods of implementing ERM programs.

### RISKS AND CHALLENGES

We have identified the following cross-cutting risks.

**Eroding Mission Capability:** Human capital challenges related to knowledge management and workforce planning, if not adequately addressed, will erode our mission capability.

**Evolving Cyber Risks:** We and financial sector partners face increasing attacks from cyber criminals and state actors attempting to disrupt operations, extort, or steal data from sensitive systems. The tactics, techniques, and procedures these threat actors employ are constantly evolving.

**Limited Data Accessibility:** If we are not able to leverage data as a strategic asset, then poor data quality may deteriorate our decision-making and impede our ability to generate evidence for effective use. Lack of accessibility and reliability of data, and the inability to interpret data compounded by process inefficiencies may hinder our ability to use and share data and evidence to support decision-making.

**Vendor Management:** If our offices and bureaus are unable to effectively monitor contract execution and budget, we may fail to execute our mission, lose funding, and lose the public's confidence in us.

**Organizational Change Management:** If we are unable to build a resilient leadership and culture, we may be unable to respond to significant change without affecting core mission delivery. Given budget constraints and the rapid pace of change, both predictable and unexpected changes could significantly impact critical projects and priorities.

## FY 2026 STRATEGIC OUTLOOK

Our FY 2026 – 2030 Strategic Plan will be published in early 2026. The plan will describe the long-term goals and objectives we aim to achieve during this Administration, building from the progress made and challenges identified in FY 2025.

Looking ahead, we will shape our strategic goals around five key priority areas: (1) main street growth and affordability; (2) stewardship of taxpayer dollars; (3) national security; (4) efficiency and effectiveness of Treasury operations; and (5) celebrate American achievement and be a model host.

To achieve progress on these priorities, we will continue to manage the Department's work under the OBBB and GENIUS Act, as well as priorities described in various EOs.



Source: Adobe Stock

### Looking Ahead

Our FY 2026 – 2030 Strategic Plan will be published in early 2026. The plan will describe the long-term goals and objectives we aim to achieve during this Administration, building from the progress made and challenges identified in FY 2025.

## FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

The financial highlights below are an analysis of the information included in our consolidated financial statements that appear within Part 2, “Financial Section” of this report. Our principal financial statements have been prepared to report the agency’s financial position, and results of operations, pursuant to the requirements of 31 USC 3515(b). These consolidated financial statements have been prepared from the books and our records in accordance with federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB.

The consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements are for a component of the U.S. government, a sovereign entity.

The chart below presents key financial statement line items as of and for the fiscal year ended September 30, 2025.

**TABLE 2: SUMMARY FINANCIAL INFORMATION** (*dollars in billions*)

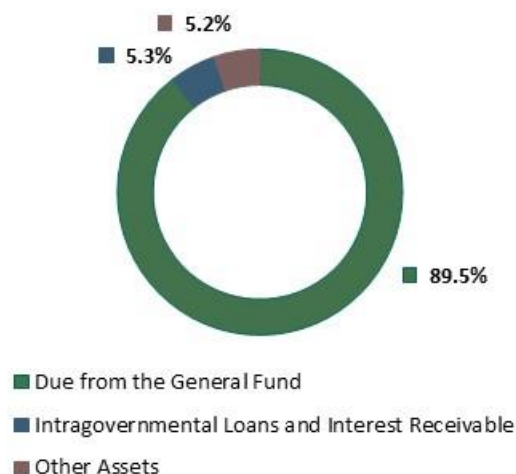
|                                                            | 2025               |
|------------------------------------------------------------|--------------------|
| Total Assets                                               | \$ <b>42,058.0</b> |
| Total Liabilities                                          | \$ <b>41,449.2</b> |
| Total Net Position                                         | \$ <b>608.8</b>    |
| Total Net Cost of Treasury Operations                      | \$ <b>99.2</b>     |
| Federal Debt Interest Costs, Net                           | \$ <b>1,164.7</b>  |
| Other Federal Costs, Net                                   | \$ <b>18.7</b>     |
| GSEs Non-Entity Cost (Revenue), Net                        | \$ <b>(68.7)</b>   |
| Total Net Cost of Treasury Operations and Non-Entity Costs | \$ <b>1,199.0</b>  |
| Total Budgetary Resources                                  | \$ <b>1,643.3</b>  |
| Agency Outlays, Net                                        | \$ <b>1,190.8</b>  |
| Net Revenue Received (Custodial)                           | \$ <b>4,704.8</b>  |

**Financial Overview.** Our financial performance as of and for the fiscal year ended September 30, 2025, reflects several significant accounting events. Most notably, the outstanding federal debt, including interest, rose by \$2.2 trillion, to \$37.6 trillion, to finance the U.S. government’s operations.

Additionally, our “Total Net Cost of Treasury Operations and Non-Entity Costs” for FY 2025 includes \$1.2 trillion of federal debt interest costs, net, corresponding to the increase in federal debt as mentioned above.

Additionally, we recognized \$68.7 billion of revenue from our investments in two Government-Sponsored Enterprises (GSEs)—the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac)—pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to Note 11 of the Consolidated Financial Statements).

**Total Assets** of \$42.1 trillion at September 30, 2025, consist of a receivable due from the General Fund of the U.S. government (General Fund) of \$37.7 trillion, intra-governmental loans and interest receivable of \$2.2 trillion, and fund balance and various other assets totaling \$2.2 trillion (Figure 1).



**Figure 1: FY 2025 Total Assets (Composition)**

Our Due from the General Fund receivable of \$37.7 trillion primarily represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental “*Loans and Interest Receivable*” of \$2.2 trillion represents loans issued primarily by the BFS to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. During FY 2025, there were increased borrowings from the Department of Education, the Agency for International Development, the Department of Housing and Urban Development, and the Department of Energy, as well as decreased borrowings from the Small Business Administration—to fund their programs.

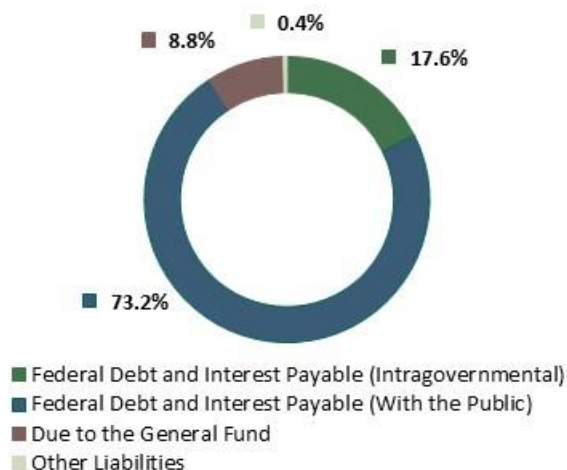
Other assets of \$2.2 trillion primarily include “Fund Balance,” “Cash, Foreign Currency, and Other Monetary Assets,” “Taxes Interest, and Other Receivables, Net,” “Advances and Prepayments,” and “Investments in Government Sponsored Enterprises.”

The “*Investments in Government Sponsored Enterprises*” of \$374.5 billion increased by \$68.7 billion during FY 2025 primarily driven by fair value valuation gains and growth in the liquidation preference of the senior preferred stock (discussed below).

The “*Advances and Prepayments*” of \$39.0 billion consists of advances primarily paid to state, local, territorial, and Tribal governments pursuant to the COVID-19 related

legislation enacted during FY 2021 and FY 2020. During FY 2025, there were \$77.3 billion of liquidations of these advances as programs continue winding down (refer to Note 10 within the Consolidated Financial Statements).

The “*Taxes, Interest, and Other Receivables, Net*,” of \$93.9 billion is primarily comprised of federal taxes receivable. During FY 2025, there was \$48.8 billion of decreased unpaid transition taxes on foreign earnings pursuant to Internal Revenue Code Section 965(h) (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).



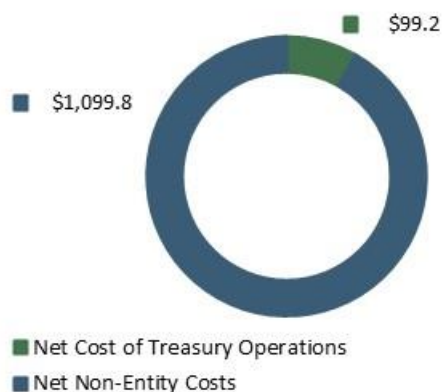
**Figure 2: FY 2025 Total Liabilities (Composition)**

**Total Liabilities** of \$41.4 trillion at September 30, 2025, principally consist of the federal debt held by the public, including interest, of \$30.3 trillion (Figure 2), which was mainly issued as Treasury Notes, Bonds, and Bills. Liabilities also include intra-governmental liabilities totaling \$10.9 trillion (of which \$7.3 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling \$211.8 billion.

Federal debt, including interest, held by the public and other federal agencies together totaled \$37.6 trillion at the end of FY 2025. Federal debt is needed to finance the U.S. government’s operations and grew by \$2.2 trillion during FY 2025.

**Total Net Position** of \$608.8 billion at September 30, 2025, represents the combined total of our cumulative results of operations and unexpended

appropriations at the end of the fiscal year. During FY 2025, we received \$1.2 trillion in appropriations to fund our programs. During the fiscal year, we expended \$1.3 trillion in appropriated funds, some of which represents multi-year funding that carried forward from FY 2024. Additionally, we had \$36.5 billion of rescissions and other adjustments.

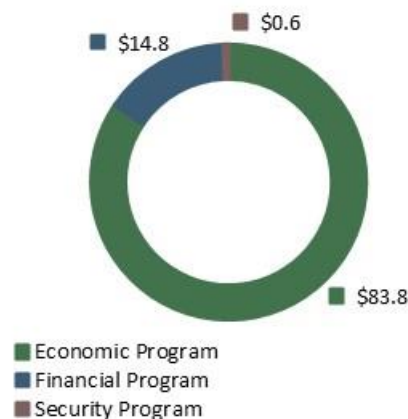


**Figure 3: FY 2025 Total Net Cost of Treasury Operations and Net Non-Entity Costs (in billions)**

**Total Net Cost of Treasury Operations and Non-Entity Costs** is presented on our Consolidated Statement of Net Cost (Figure 3). “*Net Cost of Treasury Operations*” represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that are consolidated with the Department. “*Net Non-Entity Costs*” represents the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include “*Federal Debt Interest Costs, Net*” (net of interest revenue from loans), “*Other Federal Costs, Net*,” “*GSEs Non-Entity Revenue, Net*,” and other federal costs and revenues.

“*Total Net Cost of Treasury Operations and Non-Entity Costs*” totaled \$1.2 trillion for FY 2025. During FY 2025, “*Net Cost of Treasury Operations*” totaled \$99.2 billion, and included increased net costs associated with our entity operations of \$25.1 billion, primarily related to the increased costs associated with the liquidation of advances provided under our pandemic relief programs. “*Net Non-Entity Costs*” consisting of net costs associated with our non-entity operations totaled \$1.1 trillion, and included \$1.2 trillion of net federal debt interest costs,

and offset by \$68.7 billion of revenue from our GSE investments.



**Figure 4: Net Cost of Treasury Operations by Strategic Program (in billions)**

**Net Cost of Treasury Operations** is presented on our Consolidated Statement of Net Cost based on the costs and revenues associated with three major program segments for achieving Treasury’s mission—Economic, Financial, and Security (Figure 4). The following is a description of each program segment as it relates to our mission.

**Table 3: Program Segments by Treasury Mission**

| Program Segments  | Treasury Mission                                                                                                                                                                                                                                 |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Economic Program  | Promoting economic prosperity and maintaining stability, encouraging sustainable and global economic growth                                                                                                                                      |
| Financial Program | Managing the government’s finances and resources effectively, protecting the integrity of financial systems that are critical to the nation’s financial infrastructure, and fostering improved governance in financial institutions              |
| Security Program  | Enhancing national security by implementing economic sanctions against foreign threats to the U.S., identifying and targeting the financial support networks of national security threats, and improving the safeguards of the financial systems |

#### **Federal Debt Interest Costs, Net (a non-entity cost)**

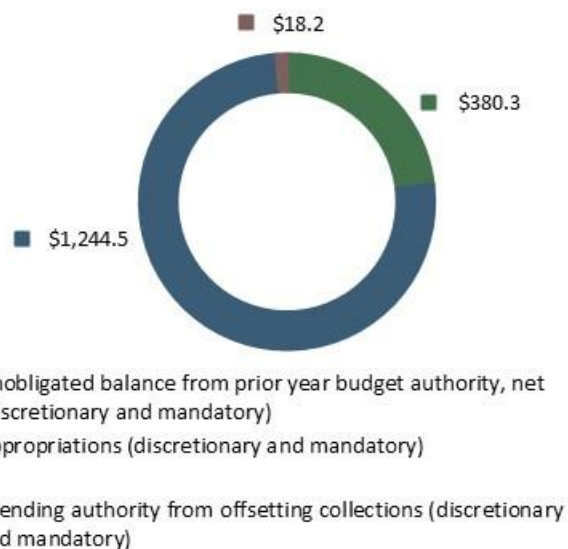
totaling \$1.2 trillion for FY 2025 primarily reflect interest expense on the federal debt, net of interest income on

loans. This net cost is driven primarily by changes in outstanding debt held by the public.

**Other Federal Costs, Net (*a non-entity cost*)** of \$18.7 billion in FY 2025 consist primarily of interest expense incurred on uninvested credit program funds held on behalf of other federal agencies and costs related to judgment fund and contract dispute claims.

**GSEs Non-Entity Revenue, Net (*a non-entity revenue*)** is reported as a net revenue totaling \$68.7 billion for FY 2025. GSE non-entity revenue is driven by fair value changes to our GSE investments and changes to the liquidation preference of our GSE senior preferred stock. The asset value of our GSE investments was \$374.5 billion in FY 2025, comprising \$295.9 billion in senior preferred stock, which includes a current year fair value valuation loss of \$2.0 billion, and \$78.6 billion of common stock warrants, inclusive of a \$70.7 billion current year fair value valuation gain. The net fair value valuation gain of \$68.7 billion is reflected in the current fiscal year's net costs of non-entity operations.

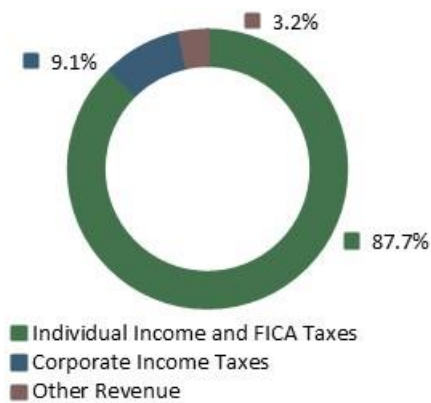
Pursuant to amendments to the SPSPAs that, among other things, increased the GSEs' capital reserve amounts, the GSEs will not pay a quarterly dividend until they achieve their regulatory minimum capital requirement. We received no cash dividends for the fiscal year ended September 30, 2025, as the GSEs had not achieved their capital requirement as of the fiscal year ended (refer to Note 11 to the Consolidated Financial Statements). As compensation to Treasury for the replacement of the dividend, the SPSPA amendments provide for the liquidation preference of the GSEs' senior preferred stock to increase by a specified amount until each GSE has achieved its capital reserve requirement. The liquidation preference of our senior preferred stock increased in value by \$26.7 billion in FY 2025, pursuant to the amended SPSPA. The GSEs agreed that, at the end of each fiscal quarter, through and including the capital reserve end date, our liquidation preference will be increased by an amount equal to the increase in the GSEs' net worth amount, if any, during the immediately prior fiscal quarter.



**Figure 5: Total Budgetary Resources (*in billions*)**

**Total Budgetary Resources** of \$1.6 trillion in FY 2025 (Figure 5), consists primarily of \$1.2 trillion in discretionary and mandatory appropriations received to fund our operations. These appropriations also include our permanent and indefinite authority received to disburse tax refunds, refundable tax credits, and interest on public debt securities. In FY 2025, we carried forward \$380.3 billion in budget authority from the prior fiscal year which may be used in our current year operations. Our budgetary resources also include \$18.2 billion in spending authority from offsetting collections, which are amounts we collect in reimbursements and fees that we are authorized to use in carrying out program activities for specific purposes.

**Agency Outlays, Net** of \$1.2 trillion consist of payments made and amounts received to support Treasury's programs and mission, and also include interest payments on public debt as discussed above.



**Figure 6: FY 2025 Total Revenue Received (Custodial)  
(Composition)**

**Total Revenue Received (Custodial)** represents the revenue we collect on behalf of the U.S. government, and includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 6). Over 90 percent of these revenues (not including refunds) are related to income and social security taxes. During FY 2025, we collected \$4.7 trillion in individual income and FICA taxes, \$486.4 billion in corporate income taxes, and \$169.2 billion in other custodial revenues.

## MANAGEMENT ASSURANCES

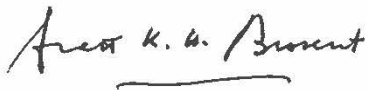
### THE SECRETARY'S ASSURANCE STATEMENT

The Department of the Treasury's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, Treasury's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2025. In addition, we can provide reasonable assurance that, as of September 30, 2025, we are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA, with the exception of the significant deficiency related to the financial management systems that support the IRS's accounting for unpaid assessments.

However, as a result of this significant deficiency, we have assessed that our financial management systems were not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) as of September 30, 2025.

We continue to make progress in remediating the IRS's significant deficiency related to unpaid assessments and are committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses, and meet federal financial management systems requirements. Additional information on the lack of compliance can be found in Part 3, Section A, of this report.



Scott Bessent  
Secretary of the Treasury  
January 27, 2026

## ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### FMFIA

#### Background

The FMFIA requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

- obligations and costs comply with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

OMB Circular A-123 provides the implementing guidance for FMFIA and defines management's responsibility to establish and assess internal controls. The Circular also requires federal agencies to adhere to the U.S.

Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, and to evaluate and report on the effectiveness of the organization's internal controls to achieve: (1) the objectives of effective and efficient operations; (2) reliable reporting for internal and external use; and (3) compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems conform with federal financial management systems requirements (FMFIA Section 4).

#### Analysis of Controls

The Secretary relies on the annual assurances of our principal bureaus and offices (components), which are supported in part by a comprehensive risk-based internal control evaluation plan. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented, and operating effectively.

As part of the evaluation process, we considered results of this extensive testing and assessment across the Department, various other internal reviews, and independent audits the OIG and GAO conducted.

#### Internal Control over Financial Reporting

In accordance with OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, we also conducted an assessment of our internal controls over financial reporting. Our components assessed the effectiveness of their internal controls to support reliable financial reporting through testing the design and operating effectiveness of key internal controls for material transactions. Based on the results of this assessment we can provide reasonable assurance regarding the effectiveness of our internal control over financial reporting as of September 30, 2025.

### FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

#### FFMIA

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

FFMIA Section 803(c)(1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on a review of relevant factors. We assess our financial management systems annually for conformance with the requirements of the OMB Circular A-123, Appendix D, *Management of Financial Management Systems – Risk and Compliance*, and other federal financial management system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, (the "Compliance Framework") in OMB Circular A-123,

Appendix D, which is a risk- and evidence-based assessment model that leverages existing audits, evaluations, and reviews that auditors and agency management already perform. The Compliance Framework is an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In applying the Compliance Framework, we assess available information from audit reports and other relevant and appropriate sources, such as the *Federal Information Security Modernization Act* (FISMA) compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, we concluded that our financial management systems were not substantially compliant with federal financial management system requirements as of September 30, 2025, due to a significant deficiency at the IRS.

The IRS's significant deficiency is due to limitations in the ability of its financial management systems to classify unpaid assessments and report tax receivables in accordance with federal accounting standards. The IRS is fully committed to enhancing its financial systems and focusing its efforts to meet federal financial management system requirements.

## Financial Management Systems

Our financial management systems framework consists of two foundational components: (1) financial and mixed systems maintained by our components; and (2) the Treasury-wide Financial Analysis and Reporting System (FARS). Our bureaus process and record detailed financial transactions and submit summary-level data to the FARS, which maintains the key financial data necessary for Treasury-wide consolidated financial reporting. This framework satisfies the financial, operational, and reporting needs of our reporting entities, as well as our internal and external reporting

requirements. The FARS framework plays a key role in our efforts to obtain an unmodified audit opinion.

The FARS includes the following financial applications:

- Treasury Information Executive Repository (TIER) — a financial data repository we use to consolidate and validate bureau financial data and to support external financial reporting requirements; and
- TIER Financial Statements (TFS) — a reporting application we use to produce monthly and annual financial statements, notes, and other supporting reports.

Our components submit summary-level financial data to TIER monthly. The TFS application uses the bureau data to produce financial statements and report on a Treasury-wide and component-level basis.

Seventeen of our bureaus and offices use centralized financial management, budget formulation, and performance management, and IT hosting provided by the BFS Administrative Resource Center (ARC).

Additionally, the Treasury Executive Office for Asset Forfeiture (TEOAF) has fully migrated to ARC's shared services as of FY 2025. This effort has modernized and updated TEOAF's core financial management system, procurement system, and related support services. The shared service approach enables bureaus and offices to access core financial systems without maintaining separate technical and system architectures. ARC also provides administrative services in the areas of financial management reporting and transaction processing, human resources, procurement, and travel to our bureaus and offices as well as to other federal entities to support core business activities. Using shared services reduces the need for Treasury to maintain duplicative financial management systems, thereby promoting efficiency and cost savings while enhancing the quality, timeliness, and accuracy of financial management processes.

## Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating current bureau financial management systems, as well as the current FARS applications, to support new financial

management requirements and to support management's data-driven financial decision making.

Along with bureau financial systems, the TIER and TFS applications form a unified financial governance solution that focuses on improving financial processes and controls. These systems and applications help to reduce operating costs; enable us to provide assurance over financial data quality; and allow us to ensure that we can provide timely, transparent, and well-controlled financial information. In FY 2025, we launched a multi-phase initiative to optimize the TIER user experience, modernizing the user interface to align with our digital transformation standards. Enhancements including the integration of real-time dashboards make essential data instantly available to users and improve the efficiency of the TIER application, laying the groundwork for scalable future enhancements that leverage modern user experience principles.

We address security using a proactive, risk-based approach that ensures there are controls in place to identify, protect, detect, respond, and recover if our systems become compromised. If attacks are successful, our goal is to contain the incident while still accomplishing the organization's mission and protecting the data for which our organization has been entrusted. We maintain an information security program for our financial systems consistent with applicable FISMA requirements, OMB policy and guidance, and NIST standards and guidelines.

Our systems undergo annual security assessments, and we remediate security weaknesses we identify through those assessments by developing and implementing plans of action and milestones. Between assessments we utilize dashboards and workflows within our governance, risk, and compliance tool to evaluate and disposition any new risks as they are identified. We monitor bureau conformance with government-wide information technology security targets and provide roll-up reports quarterly to OMB. Representatives of the OIG evaluate our compliance with FISMA annually.

We continue to focus on financial innovation and transformation. In FY 2025, we observed increased adoption of the Government Invoicing (G-Invoicing) solution across government, with \$40.7 billion of Intragovernmental Buy/Sell Transactions processed. BFS continues to partner closely with federal agencies and system vendors to enhance G-Invoicing.

In FY 2025, BFS systems continued to meet milestones associated with the Platform Evolution Program (PEP), which is a BFS-wide technology transformation initiative that includes migrating applications to a cloud infrastructure and modernizing legacy systems. This enterprise priority is in response to Section 3 of Executive Order 14028, *Improving the Nation's Cybersecurity*. We successfully migrated the Intragovernmental Payment and Collection System in July 2025 and the Central Accounting Reporting System in August 2025. Additionally, ARC implemented five new Robotic Process Automation systems to improve efficiency, timeliness, and quality in its service operations and business processes.

## IMPROPER PAYMENTS

### Background

*The Payment Integrity Information Act of 2019* (PIIA) requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. An improper payment is any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments).

### Risk Assessments and Results

In FY 2025, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We perform our assessment of each program on a three-year rotational schedule, excluding the Earned Income Tax Credit (EITC), the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC), and the net Premium Tax Credit (PTC), using the 11 qualitative risk factors identified in OMB Circular A-123, Appendix

C, *Requirements for Payment integrity Improvement*. We assessed risks related to the amounts of payments we processed relative to the OMB specified threshold amounts which define programs susceptible to significant improper payments. As a result of prior risk assessments, we determined that the EITC, the AOTC, the ACTC, and the net PTC are susceptible to significant improper payments.

The EITC, AOTC, ACTC, and net PTC are refundable tax credits that offset the income tax taxpayers owe. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2025, 32.7 percent (\$21.1 billion) of the total EITC payments of \$64.7 billion were improper. For the AOTC, the IRS estimates that for FY 2025, 30.7 percent (\$1.5 billion) of the total payments of \$5.0 billion were improper. For the ACTC, the IRS estimates that for FY 2025, 13.6 percent (\$4.5 billion) of the total payments of \$33.4 billion were improper. For net PTC, the IRS estimates that for FY 2025, 31.6 percent (\$0.8 billion) of the total payments of \$2.6 billion were improper. The IRS has a robust enforcement program for its refundable tax credits, which consist of examinations and audits, math error notices, and document matching.

We are reporting improper payment estimates for these four refundable tax credits in accordance with OMB Circular A-123, Appendix C. However, it is our position that refundable tax credits are more appropriately

addressed in the Tax Gap (see Part 3, Section B: *Tax Gap and Tax Burden*, of this report), which is how we manage noncompliance.

Certain COVID-19 pandemic relief programs were determined to be susceptible to significant improper payments. Because of their short-term nature, we did not report estimates of improper payments for these programs. However, these programs continue to conduct risk assessments in accordance with OMB guidelines. In addition, we are actively identifying and attempting to recover those payments deemed to be improper under these programs.

Additional information on refundable tax credits, COVID-19 pandemic relief programs, and improper payment reporting can be found in Part 3, Section D: *Payment Integrity*.

## Payment Recapture Audits

The PIIA requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends \$1 million or more annually, if conducting such audits would be cost-effective. We performed the payment recapture activities in accordance with OMB Circular A-123, Appendix C. Details on our improper payments and recoveries can be found at <https://paymentaccuracy.gov/>.



## PART 2:

### FINANCIAL SECTION

|                                                                                                    |     |
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## MESSAGE FROM THE ASSISTANT SECRETARY FOR MANAGEMENT AND DEPUTY CHIEF FINANCIAL OFFICER

In fiscal year 2025, Treasury advanced a bold, results-driven management agenda focused on safeguarding taxpayer dollars and ensuring the federal government operates with maximum efficiency and accountability. Consistent with President Trump's commitment to restoring strong fiscal stewardship, Treasury led efforts across the government to boost productivity, eliminate waste, and modernize outdated processes and systems.

Treasury embraced the Administration's call to streamline and reform federal operations, championing innovative approaches that strengthen performance, reduce burdens on American families and businesses, and position the Department to meet the demands of a 21st-century economy.

This year, we received an unmodified audit opinion on our consolidated financial statements for the 26th consecutive year—an achievement that reflects our enduring dedication to transparency and responsible financial management. While our financial systems are complex, we remain firmly committed to resolving outstanding system deficiencies and driving continuous improvement across all management functions.

As we lead Treasury's management programs and reform initiatives, we will continue to operate with the discipline, efficiency, and accountability that American taxpayers expect—delivering on our mission while ensuring the strongest value for the nation.



John W. York  
Assistant Secretary  
for Management



Carole Y. Banks  
Deputy Chief Financial  
Officer

John W. York  
Assistant Secretary for Management  
January 27, 2026

Carole Y. Banks  
Deputy Chief Financial Officer  
January 27, 2026

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# INSPECTOR GENERAL'S TRANSMITTAL LETTER



OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C. 20220

January 27, 2026

## INFORMATION MEMORANDUM FOR SECRETARY BESSENT

**FROM:** Loren J. Sciurba /s/  
Deputy Inspector General

**SUBJECT:** Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Year 2025

## INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the certified independent public accounting firm KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2025, and for the year then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*.

## RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a significant deficiency in internal control over financial reporting at the Internal Revenue Service representing a significant deficiency for Treasury as a whole;
- noncompliance with certain requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) related to federal financial management systems requirements; and
- no instances of reportable noncompliance with laws, regulations, contracts and grant agreements tested.

## EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements; conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated January 27, 2026, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesy and cooperation extended to KPMG and my staff during the audit. If you wish to discuss this report, please contact me at (202) 927-5869 or Pauletta Battle, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: John W. York  
Assistant Secretary for Management

Carole Y. Banks  
Deputy Chief Financial Officer



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Deputy Inspector General  
Department of the Treasury

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Department of the Treasury (Department), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statement of net cost, consolidated statement of changes in net position, statement of custodial activity, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audit and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2025, and its net cost, changes in net position, budgetary resources, and custodial activity for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets constituting 0.33 percent, of the Department's consolidated total assets at September 30, 2025; net cost of operations constituting 18.82 percent, of the Department's consolidated net cost of operations for the year then ended; budgetary resources constituting 2.64 percent of the Department's combined budgetary resources for the year then ended; and custodial revenue constituting 99.37 percent of the Department's total custodial revenue for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter*

As discussed in Note 11, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 11, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences



between the estimated value of these investments and commitments as of September 30, 2025, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

#### *Other Matter - Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

#### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We, and the other auditors, have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our, and the other auditors' inquiries, the basic consolidated financial statements, and other knowledge we, and the other auditors, obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the *Table of Contents*, *Message from the Secretary of the Treasury*, the *Message from the Assistant Secretary for Management and Deputy Chief Financial Officer*, and the *Other Information* but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

### **Other Reporting Required by Government Auditing Standards**

#### *Report on Internal Control Over Financial Reporting*

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2025, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We and the other auditors identified certain deficiencies in internal control, described below, that we and the other auditors consider to be a significant deficiency.

#### *Significant Deficiency in Internal Control Over Financial Reporting at the Internal Revenue Service*

IRS continued to take steps to improve internal control over financial reporting to ensure reliable and timely financial information is obtained, maintained, and reported in accordance with OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. However, the other auditors reported a significant deficiency in internal control over unpaid assessments that we considered a significant deficiency at the Department level.

During fiscal year 2025, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations. Because of these limitations, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances. As in prior year, IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement. During fiscal year 2025, IRS recorded summary-level adjustments totaling about \$17.8 billion to correct the effects of continued errors in its underlying data that it identified during its estimation process.

While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2025.

#### *Recommendation*

The other auditors separately provided IRS management a report detailing the conditions identified and their recommendations to address the above significant deficiency. We recommend that the Assistant Secretary for Management (ASM) and Deputy Chief Financial Officer (DCFO) ensure that IRS implements corrective actions to resolve the significant deficiency at IRS.

#### **Report on Compliance and Other Matters**

This report includes our consideration of the results of the other auditors' testing of compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2025 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our and those of the other auditors' tests disclosed no instances of



noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

We also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance described below, in which the Department's financial management systems did not substantially comply with the federal financial management systems requirements. The results of our tests and those of the other auditors disclosed no instances in which the Department's financial management systems did not substantially comply with applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level.

#### *Noncompliance with Federal Financial Management Improvement Act of 1996*

As a result of the significant deficiency in internal controls over unpaid assessments that existed during fiscal year 2025, the Department's financial management systems did not substantially comply with the federal financial management systems requirements. Specifically, the Department did not consistently design, implement, and operate information system controls in accordance with the federal financial management system requirements.

#### *Recommendation*

The other auditors separately provided IRS management with recommendations to address the above noncompliance with the federal financial management system requirements. We recommend that the ASM and DCFO ensure that IRS develop and implement remediation plans outlining actions to be taken to resolve noncompliance with the federal financial management system requirements and the resources and responsible organizational units for such planned actions.

#### **Department's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described previously. The Department's response to the findings is included in a separate letter immediately following this report. The Department's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

#### **Purpose of the Other Reporting Required by Government Auditing Standards**

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC  
January 27, 2026

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# MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

ASSISTANT SECRETARY

January 27, 2026

KPMG LLP  
1801 K Street, NW  
Washington, DC 20006

To Whom This May Concern:

On behalf of Secretary Bessent, we are responding to your audit report on the Department of the Treasury's fiscal year 2025 consolidated financial statements. Our bureaus and program offices are proud of the Department's success in achieving an unmodified audit opinion on the Department's financial statements for the 26th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG LLP in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2025 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process - the Office of Inspector General, Government Accountability Office, and the firms that audited several of our bureaus.

Overall, we have made great progress over the past several years in enhancing our internal control environment by successfully remediating our significant deficiency in fiscal year 2023 related to the Bureau of the Fiscal Service's financial management systems and downgrading, in fiscal year 2024, a major component of our long-standing significant deficiency related to the Internal Revenue Service's (IRS) information system controls. We acknowledge the remaining component of the IRS's significant deficiency related to unpaid assessments, concur with your recommendations, and will maintain our focus on necessary corrective actions to address these issues.

We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

John W. York  
Assistant Secretary for Management

Carole Y. Banks  
Deputy Chief Financial Officer

## Consolidated Balance Sheet

### As of September 30, 2025

| (in millions)                                                    | 2025                 |
|------------------------------------------------------------------|----------------------|
| <b>ASSETS</b>                                                    |                      |
| <b>Intra-Governmental</b>                                        |                      |
| Fund Balance (Note 2)                                            | \$ 504,700           |
| Loans Receivable:                                                |                      |
| Loans and Interest Receivable (Note 3)                           | 2,204,079            |
| Advances to Trust Funds (Note 3)                                 | 24,291               |
| Other Assets:                                                    |                      |
| Due From the General Fund (Note 4)                               | 37,664,208           |
| Other (Note 15)                                                  | 2,068                |
| <b>Total Intra-Governmental</b>                                  | <b>40,399,346</b>    |
| <b>Other Than Intra-Governmental</b>                             |                      |
| Cash and Other Monetary Assets:                                  |                      |
| Cash, Foreign Currency, and Other Monetary Assets (Note 5)       | 1,062,592            |
| Gold and Silver Reserves (Note 6)                                | 11,062               |
| Reserve Position in the International Monetary Fund (Note 7)     | 30,368               |
| Accounts Receivable, Net:                                        |                      |
| Taxes, Interest, and Other Receivables, Net (Note 8)             | 93,899               |
| Loans Receivable, Net:                                           |                      |
| Loans and Interest Receivable, Net (Note 9)                      | 10,811               |
| Credit Program Receivables, Net (Note 9)                         | 8,190                |
| Advances and Prepayments (Note 10)                               | 38,979               |
| Investments in Government Sponsored Enterprises (GSEs) (Note 11) | 374,460              |
| Other Investments:                                               |                      |
| Investments in Multilateral Development Banks (Note 12)          | 9,510                |
| Investment in Special Purpose Vehicle (Note 13)                  | 2,645                |
| Other, Net (Note 13)                                             | 6,745                |
| Property, Plant, and Equipment, Net (Note 14)                    | 5,349                |
| Other Assets (Note 15)                                           | 4,009                |
| <b>Total Other Than Intra-Governmental</b>                       | <b>1,658,619</b>     |
| <b>Total Assets</b>                                              | <b>\$ 42,057,965</b> |

Stewardship Property, Plant, and Equipment (Note 14)

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

## Consolidated Balance Sheet

### As of September 30, 2025

| (in millions)                                                              | 2025                 |
|----------------------------------------------------------------------------|----------------------|
| <b>LIABILITIES</b>                                                         |                      |
| <b>Intra-Governmental</b>                                                  |                      |
| Federal Debt and Interest Payable:                                         |                      |
| Federal Debt and Interest Payable (Notes 4 and 16)                         | \$ 7,309,752         |
| Other Federal Debt and Interest Payable (Note 17)                          | 4,117                |
| Other Liabilities:                                                         |                      |
| Due To the General Fund (Note 4)                                           | 3,609,962            |
| Other (Note 19)                                                            | 1,699                |
| <b>Total Intra-Governmental</b>                                            | <b>10,925,530</b>    |
| <b>Other Than Intra-Governmental</b>                                       |                      |
| Federal Debt and Interest Payable (Notes 4 and 16)                         | 30,311,830           |
| Accounts Payable:                                                          |                      |
| Refunds Payable (Note 4)                                                   | 4,244                |
| Other Payables                                                             | 2,096                |
| Other Liabilities:                                                         |                      |
| Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)  | 15,200               |
| Allocation of Special Drawing Rights (Note 5)                              | 157,472              |
| Gold Certificates Issued to the Federal Reserve Banks (Note 6)             | 11,037               |
| D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 18) | 8,214                |
| Other (Note 19)                                                            | 13,541               |
| <b>Total Other Than Intra-Governmental</b>                                 | <b>30,523,634</b>    |
| <b>Total Liabilities (Note 19)</b>                                         | <b>41,449,164</b>    |
| Commitments and Contingencies (Note 27)                                    |                      |
| <b>NET POSITION</b>                                                        |                      |
| <b>Unexpended Appropriations</b>                                           |                      |
| Funds from Dedicated Collections (Note 24)                                 | 200                  |
| Funds from Other than Dedicated Collections                                | 519,209              |
| <b>Total Unexpended Appropriations</b>                                     | <b>519,409</b>       |
| <b>Cumulative Results of Operations</b>                                    |                      |
| Funds from Dedicated Collections (Note 24)                                 | 58,657               |
| Funds from Other than Dedicated Collections                                | 30,735               |
| <b>Total Cumulative Results of Operations</b>                              | <b>89,392</b>        |
| <b>Total Net Position (Note 20)</b>                                        | <b>608,801</b>       |
| <b>Total Liabilities and Net Position</b>                                  | <b>\$ 42,057,965</b> |

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

**Consolidated Statement of Net Cost**  
**For the Fiscal Year Ended September 30, 2025**

| (in millions)                                                     | 2025                       |
|-------------------------------------------------------------------|----------------------------|
| <b>COST OF TREASURY OPERATIONS:</b>                               |                            |
| <b>Economic Program</b>                                           |                            |
| Gross Cost                                                        | \$ 112,072                 |
| Less Earned Revenue                                               | <u>(28,337)</u>            |
| Net Program Cost                                                  | 83,735                     |
| <b>Financial Program</b>                                          |                            |
| Gross Cost                                                        | 30,166                     |
| Less Earned Revenue                                               | <u>(15,336)</u>            |
| Net Program Cost                                                  | 14,830                     |
| <b>Security Program</b>                                           |                            |
| Gross Cost                                                        | 616                        |
| Less Earned Revenue                                               | <u>(11)</u>                |
| Net Program Cost                                                  | 605                        |
| <b>Total Program Gross Costs</b>                                  | <b>142,854</b>             |
| <b>Total Program Earned Revenues</b>                              | <b><u>(43,684)</u></b>     |
| <b>Total Net Cost of Treasury Operations (Note 21)</b>            | <b><u>99,170</u></b>       |
| <b>NON-ENTITY COSTS:</b>                                          |                            |
| Federal Debt Interest                                             | 1,217,588                  |
| Restoration of Foregone Federal Debt Interest (Note 16)           | 5,048                      |
| Less Interest Revenue from Loans                                  | <u>(57,922)</u>            |
| Federal Debt Interest Costs, Net                                  | 1,164,714                  |
| Other Federal Costs, Net (Note 21)                                | 18,715                     |
| GSEs Non-Entity Revenue, Net (Note 11)                            | (68,660)                   |
| Federal Debt Buyback Gain (Note 16)                               | (13,573)                   |
| Other, Net                                                        | <u>(1,353)</u>             |
| <b>Total Net Non-Entity Costs</b>                                 | <b><u>1,099,843</u></b>    |
| <b>Total Net Cost of Treasury Operations and Non-Entity Costs</b> | <b><u>\$ 1,199,013</u></b> |

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

**Consolidated Statement of Changes in Net Position**  
**For the Fiscal Year Ended September 30, 2025**

| (in millions)                                             | Consolidated<br>Funds from<br>Dedicated<br>Collections | Consolidated<br>Funds from Other<br>than Dedicated<br>Collections | Eliminations | 2025<br>Total     |
|-----------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------|--------------|-------------------|
| <b>UNEXPENDED APPROPRIATIONS (Notes 20 and 24)</b>        |                                                        |                                                                   |              |                   |
| Beginning Balance                                         | \$ 200                                                 | \$ 637,911                                                        | \$ -         | \$ 638,111        |
| Appropriations Received                                   | -                                                      | 1,245,183                                                         | -            | 1,245,183         |
| Appropriations Transferred In                             | -                                                      | 90                                                                | -            | 90                |
| Other Adjustments                                         | -                                                      | (36,476)                                                          | -            | (36,476)          |
| Appropriations Used                                       | -                                                      | (1,327,499)                                                       | -            | (1,327,499)       |
| <b>Net Change in Unexpended Appropriations</b>            | <b>-</b>                                               | <b>(118,702)</b>                                                  | <b>-</b>     | <b>(118,702)</b>  |
| <b>Total Unexpended Appropriations</b>                    | <b>200</b>                                             | <b>519,209</b>                                                    | <b>-</b>     | <b>519,409</b>    |
| <b>CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)</b> |                                                        |                                                                   |              |                   |
| Beginning Balance                                         | 53,316                                                 | 29,575                                                            | -            | 82,891            |
| Appropriations Used                                       | -                                                      | 1,327,499                                                         | -            | 1,327,499         |
| Non-Exchange Revenue                                      | 1,865                                                  | -                                                                 | (409)        | 1,456             |
| Donations and Forfeitures of Cash/Equivalent              | 1,375                                                  | -                                                                 | -            | 1,375             |
| Transfers In/(Out) Without Reimbursement                  | (1,494)                                                | 1,726                                                             | -            | 232               |
| Donation/Forfeiture of Property                           | 993                                                    | -                                                                 | -            | 993               |
| Accrued Interest and Discount on Debt                     | -                                                      | 22,866                                                            | -            | 22,866            |
| Imputed Financing Sources (Note 21)                       | 166                                                    | 1,642                                                             | -            | 1,808             |
| Transfers to the General Fund and Other                   | 1,117                                                  | (151,832)                                                         | -            | (150,715)         |
| Net Cost of Treasury Operations and Non-Entity Costs      | 1,319                                                  | (1,200,741)                                                       | 409          | (1,199,013)       |
| <b>Net Change in Cumulative Results of Operations</b>     | <b>5,341</b>                                           | <b>1,160</b>                                                      | <b>-</b>     | <b>6,501</b>      |
| <b>Total Cumulative Results of Operations</b>             | <b>58,657</b>                                          | <b>30,735</b>                                                     | <b>-</b>     | <b>89,392</b>     |
| <b>Net Position</b>                                       | <b>\$ 58,857</b>                                       | <b>\$ 549,944</b>                                                 | <b>\$ -</b>  | <b>\$ 608,801</b> |

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

**Combined Statement of Budgetary Resources**  
**For the Fiscal Year Ended September 30, 2025**

| (in millions)                                                                                        | Budgetary           | Non-Budgetary<br>Financing | 2025<br>Total       |
|------------------------------------------------------------------------------------------------------|---------------------|----------------------------|---------------------|
| <b>BUDGETARY RESOURCES</b>                                                                           |                     |                            |                     |
| Unobligated balance from prior year budget authority, net<br>(discretionary and mandatory) (Note 22) | \$ 379,980          | \$ 361                     | \$ 380,341          |
| Appropriations (discretionary and mandatory) (Note 20)                                               | 1,244,529           | -                          | 1,244,529           |
| Borrowing authority (discretionary and mandatory)                                                    | -                   | 228                        | 228                 |
| Spending authority from offsetting collections<br>(discretionary and mandatory)                      | 17,887              | 326                        | 18,213              |
| <b>Total Budgetary Resources</b>                                                                     | <b>\$ 1,642,396</b> | <b>\$ 915</b>              | <b>\$ 1,643,311</b> |
| <b>STATUS OF BUDGETARY RESOURCES</b>                                                                 |                     |                            |                     |
| New obligations and upward adjustments                                                               | \$ 1,290,413        | \$ 718                     | \$ 1,291,131        |
| Unobligated balance, end of year:                                                                    |                     |                            |                     |
| Apportioned, unexpired accounts                                                                      | 290,533             | 130                        | 290,663             |
| Exempt from apportionment, unexpired accounts                                                        | 2,032               | -                          | 2,032               |
| Unapportioned, unexpired accounts                                                                    | 57,979              | 67                         | 58,046              |
| Unexpired unobligated balance, end of year                                                           | 350,544             | 197                        | 350,741             |
| Expired unobligated balance, end of year                                                             | 1,439               | -                          | 1,439               |
| Unobligated balance, end of year                                                                     | 351,983             | 197                        | 352,180             |
| <b>Total Status of Budgetary Resources</b>                                                           | <b>\$ 1,642,396</b> | <b>\$ 915</b>              | <b>\$ 1,643,311</b> |
| <b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>                                                          |                     |                            |                     |
| Outlays, net (discretionary and mandatory)                                                           | \$ 1,269,810        | \$ -                       | \$ 1,269,810        |
| Distributed offsetting receipts                                                                      | (79,044)            | -                          | (79,044)            |
| <b>Agency Outlays, Net (Discretionary and Mandatory)</b>                                             | <b>\$ 1,190,766</b> | <b>\$ -</b>                | <b>\$ 1,190,766</b> |
| Disbursements, net (mandatory)                                                                       |                     | \$ 2,762                   | \$ 2,762            |

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

**Statement of Custodial Activity**  
**For the Fiscal Year Ended September 30, 2025**

| (in millions)                                            | 2025             |
|----------------------------------------------------------|------------------|
| <b>SOURCES OF CUSTODIAL REVENUE (Note 23)</b>            |                  |
| Individual Income and FICA Taxes                         | \$ 4,688,785     |
| Corporate Income Taxes                                   | 486,384          |
| Estate and Gift Taxes                                    | 31,111           |
| Excise Taxes                                             | 106,000          |
| Railroad Retirement Taxes                                | 7,258            |
| Unemployment Taxes                                       | 8,777            |
| Deposit of Earnings, Federal Reserve System              | 5,490            |
| Fines, Penalties, Interest and Other Revenue             | 10,580           |
| <b>Total Revenue Received</b>                            | <b>5,344,385</b> |
| Less Refunds and Other Payments                          | (639,571)        |
| <b>Net Revenue Received</b>                              | <b>4,704,814</b> |
| Non-Cash Accrual Adjustment                              | (48,151)         |
| <b>Total Custodial Revenue</b>                           | <b>4,656,663</b> |
| <b>DISPOSITION OF CUSTODIAL REVENUE (Note 23)</b>        |                  |
| Amounts Provided to Fund Non-Federal Entities            | 400              |
| Amounts Provided to Fund the Federal Government          | 4,704,414        |
| Non-Cash Accrual Adjustment                              | (48,151)         |
| <b>Total Disposition of Custodial Revenue</b>            | <b>4,656,663</b> |
| <b>Custodial Revenue Less Disposition of Collections</b> | <b>\$ -</b>      |

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

# NOTES TO THE FINANCIAL STATEMENTS

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# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## A. REPORTING ENTITY

The accompanying financial statements include the operations of the Department of the Treasury, one of 24 Chief Financial Officers (CFO) Act agencies of the Executive Branch of the United States (U.S.) government, and certain custodial activities the Department manages on behalf of the entire U.S. government. Except where the content clearly indicates otherwise, the use of the terms “Department,” “Treasury,” “we,” “us,” or “our” refers to the Department of the Treasury, including its Departmental Offices (DO) and operating bureaus, which are further discussed below. The following paragraphs describe the activities of the reporting entity.

We were established by an Act of Congress approved on September 2, 1789. Many subsequent acts affected our development, delegating new duties to our charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary of the Treasury (Secretary) has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. government.

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

Our reporting entities include DO and seven operating bureaus. For financial reporting purposes, DO is composed of: Community Development Financial Institutions (CDFI) Fund, Office of D.C. Pensions (ODCP), Exchange Stabilization Fund (ESF), Federal Financing Bank (FFB), Government Sponsored Enterprises (GSEs) Program, International Assistance Programs (IAP), Office of Capital Access (OCA), Office of Financial Research (OFR), Office of Inspector General (OIG), Small Business Lending Fund (SBLF), Treasury Executive Office of Asset Forfeiture (TEOAF), Treasury Inspector General for Tax Administration (TIGTA), and the DO policy offices.

Our seven operating bureaus are: Bureau of Engraving and Printing (BEP), Bureau of the Fiscal Service (BFS), Financial Crimes Enforcement Network (FinCEN), Internal Revenue Service (IRS), U.S. Mint (Mint), Office of the Comptroller of the Currency (OCC), and Alcohol and Tobacco Tax and Trade Bureau (TTB). Our consolidated financial statements reflect the reporting of our entity activities, comprising both our operating bureaus and DO. This includes appropriations received to conduct our operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions we perform on behalf of the U.S. government and others. Non-entity activities include collecting certain federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government (refer to Notes 4 and 15), as well as for other federal entities. Our reporting entity does not include the General Fund of the U.S. Government (General Fund), which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, we do not consolidate into our financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which we hold either a direct or indirect majority equity investment, unless they meet the criteria for consolidation as described in Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. We have determined that none of our significant equity investments meet such criteria for consolidation. SFFAS 47 also provides criteria for reporting “disclosure

entities” and “related party” relationships of such significance that it would be misleading to exclude information about them. Refer to the last accounting policy below entitled “*Disclosure Entities and Related Parties*” for additional information on Treasury’s “disclosure entities” and “related parties”, which are material to our consolidated financial statements, of significance to the public, or required by SFFAS 47.

## B. BASIS OF ACCOUNTING AND PRESENTATION

The financial statements have been prepared from our accounting records in conformity with GAAP, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body for the U.S. government. Certain presentations and disclosures may be modified, if needed, to prevent the disclosure of classified information.

These financial statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Statement of Custodial Activity. The statements and the related notes are prepared in a single-year format to present fiscal year (FY) 2025 information.

We have eliminated transactions and balances among our entities from the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position. We present the Statement of Budgetary Resources on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from this statement.

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

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

The financial statements should be read with the recognition that we are a component of the U.S. government, a sovereign entity and, accordingly, our liabilities not covered by budgetary resources cannot be liquidated without the legislative enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. Liabilities not requiring budgetary resources are liabilities that have not in the past required, nor will in the future, require budgetary resources, *e.g.*, liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

In connection with our adoption effective October 1, 2023, of SFFAS 54, *Leases*, we also adopted the provision of SFFAS 62, *Transitional Amendment to SFFAS 54*, pursuant to which we have elected the accommodation period through the fiscal year

ending September 30, 2026, to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the embedded lease eligibility criteria.

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

## C. FUND BALANCE

*“Fund Balance”* is the aggregate amount of our accounts with the U.S. government’s central accounts from which we are authorized to make expenditures and pay liabilities. It is an asset because it represents our claim to the U.S. government’s resources. *“Fund Balance”* is not equivalent to unexpended appropriations because it also includes non-appropriated revolving and enterprise funds, suspense accounts, and custodial funds such as deposit funds, special funds, and trust funds.

## D. LOANS RECEIVABLE – INTRA-GOVERNMENTAL

### Loans and Interest Receivable

Intra-governmental entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans we issue through FFB. We do not record loan loss allowance for credit reform subsidy costs for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers because those agencies guarantee the outstanding balances (interest and principal).

Intra-governmental non-entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans we issue, through the BFS. We act as an intermediary issuing these loans because the agencies receiving these loans lend these funds to third parties to carry out various programs of the U.S. government. Because of our intermediary role in issuing these loans, we do not record a loan loss allowance related to these non-entity intra-governmental loans. Instead, the ultimate lender, the federal agency that issued the loans to the public, recognizes loan loss allowances and subsidy costs. We accrue interest revenue on intra-governmental loans when earned.

### Advances to the Unemployment Trust Fund

The General Fund issues advances to the Department of Labor’s (DOL) Unemployment Trust Fund for states to pay unemployment benefits. The BFS accounts for the advances issued on behalf of the General Fund. As outlined in 42 United States Code (USC) 1323, *Repayable Advances to Federal Unemployment Account*, these advances bear an interest rate that is computed as the average interest rate as of the end of the calendar month preceding the issuance date of the advance for all interest-bearing obligations of the U.S. that form the public debt, to the nearest lower 1/8 of 1.0 percent. Interest on the advances is due on September 30 of each year. These advances are recorded within the *“Advances to Trust Funds”* line of the Consolidated Balance Sheet. DOL repays advances when the Secretary, in consultation with the Secretary of the DOL, determines that the balance in the Unemployment Trust Fund is adequate to allow repayment.

### Advances to the Federal Supplementary Medical Insurance Trust Fund

The General Fund issues advances to the Department of Health and Human Services’ (HHS) Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants’ premiums. The BFS accounts for the advances issued on behalf of the General Fund. As outlined in 42 USC 1395, *Prohibition Against Any*

*Federal Interference*, these advances do not bear any interest. These advances are recorded within the “*Advances to Trust Funds*” line of the Consolidated Balance Sheet. HHS repays advances over time from amounts collected from certain participants’ increase in premiums until the balance due reaches zero.

## Advances to the Agricultural Disaster Relief Trust Fund

The General Fund issues advances to the U.S. Department of Agriculture’s (USDA) Agricultural Disaster Relief Trust Fund to make payments to farmers and ranchers under disaster relief programs established in accordance with the *Food, Conservation, and Energy Act of 2008*, Public Law (P.L.) 110-246. The BFS accounts for the advances issued on behalf of the General Fund. As outlined in 19 USC 2497a, *Agricultural Disaster Relief Trust Fund*, interest on advances is at a rate determined by the Secretary to be equal to the current average market yield of comparable marketable obligations with similar maturity dates, compounded annually. These advances are recorded within the “*Advances to Trust Funds*” line of the Consolidated Balance Sheet.

## E. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Substantially all our operating cash is non-entity government-wide cash held in depository institutions and Federal Reserve Bank (FRB) accounts. Agencies deposit funds that are submitted to them directly into either a Federal Reserve Treasury General Account (TGA) or a local TGA depository. We transfer the balances in these TGA accounts into the Federal Reserve Bank of New York’s (FRBNY) TGA throughout the day.

Operating cash of the U.S. government represents balances from tax collections, customs duties, other revenue, federal debt receipts, and other various receipts, net of cash outflows for budget outlays and other payments held in the FRBs and in foreign and domestic financial institutions. Outstanding checks net against operating cash until they clear the Federal Reserve System (FR System).

The FRBNY maintains the TGA, which functions as the U.S. government’s checking account for deposits and disbursements of public funds. Cash in the TGA is restricted for government-wide operations. We manage our operating cash following a one-week prudent cash policy. Under this policy, we hold a cash level generally sufficient to cover one week of outflows in the TGA.

Foreign currency and Foreign Currency Denominated Assets (FCDAs) represent foreign deposit accounts and securities with original maturities of three months or less.

Special Drawing Rights (SDR) holdings comprise most of the other monetary assets (refer to the accounting policy below entitled “*Special Drawing Rights*”).

## F. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

We do not accrue federal taxes receivable, net, and the corresponding liability due to the General Fund, until the taxpayer files related tax returns, or the IRS makes assessments and either the taxpayer or the court agrees to them. Additionally, prepayments are netted against tax liabilities. We make accruals to reflect penalties and interest on taxes receivable through the balance sheet date.

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

taxes receivable deemed to be uncollectible. Taxes receivable also consist of unpaid taxes related to Internal Revenue Code (IRC) section 965, which requires taxpayers who are shareholders of certain specified foreign corporations to pay a transition tax on foreign earnings as if those earnings had been repatriated to the U.S. IRC 965(h) allows taxpayers to elect to pay their 965(h) tax on an eight-year installment schedule.

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

## G. LOANS RECEIVABLE, NET – OTHER THAN INTRA-GOVERNMENTAL

### Loans and Interest Receivable, Net

Other than intra-governmental (or public) loans and interest receivable include a supplemental borrowing arrangement between the U.S. and the International Monetary Fund (IMF) (refer to Note 7). These loans are denominated in SDRs and recorded at the equivalent U.S. dollar amount (refer to the accounting policy below entitled “*Special Drawing Rights*”). We periodically adjust the value of these loans, due to fluctuations in the value of the U.S. dollar with respect to the SDR, to maintain the amount of these loans in dollar terms. We do not record a loan loss allowance for these loans as we do not anticipate any defaults on the repayment of these loans.

The Coronavirus Disease 2019 (COVID-19) notes and interest receivable represent the principal and related interest receivable on promissory notes received in connection with providing financial assistance to air carriers, cargo air carriers, and airline contractors to support ongoing employment of their aviation workers under the *Coronavirus Aid, Relief, and Economic Security Act*, P.L. 116-136 (CARES Act), *Consolidated Appropriations Act, 2021*, P.L. 116-260 (CAA), and *American Rescue Plan Act of 2021*, P.L. 117-2 (ARP) (refer to Note 9). Interest revenue on the promissory notes is accrued as earned over the life of the notes. Certain notes include a Payment-In-Kind (PIK) option in which borrowers may elect to pay the interest in-kind, capitalizing the interest due to the principal amount of the note, instead of paying the interest in cash. We increase the principal balance of the note and reduce interest receivable by the amount of unpaid interest when borrowers make this PIK election.

This receivable is an asset of the U.S. government, and we are precluded from using the cash proceeds realized from the financial instruments we receive. We report the non-entity receivable net of an allowance for loss, which reflects our best estimate of the amount of credit losses experienced within the existing portfolio of promissory notes, within the “*Loans and Interest Receivable, Net*” line of the Consolidated Balance Sheet. We annually assess this estimated credit loss amount by deriving the fair value of these notes and determining the extent to which credit factors (such as historical loss experience, delinquencies, and note restructurings) reduced the value of these receivables from their face value to their lower net realizable value. We derived the fair value of the notes portfolio as the present value of the expected future cash flows of the notes (including disbursements, repayments, interest, defaults, and recoveries). We recognize the receivable and related interest as a non-entity exchange transaction within the “*Other, Net*” line of the Consolidated Statement of Net Cost. This receivable also results in a corresponding increase to “*Due To the General Fund*.”

## Credit Program Receivables, Net

We account for all of our credit program receivables under the provisions of credit reform accounting pursuant to the *Federal Credit Reform Act* (FCRA). Credit programs include loans or equity securities associated with our CDFI Fund programs, state and local Housing Finance Agency (HFA) initiative programs, IAP programs, ESF programs, and SBLF program (refer to Note 9).

To account for our credit program receivables, we apply the accounting provisions of SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, as amended. SFFAS 2 requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash flow estimates for each credit program transaction reflect the actual structure of the instruments. For each of these instruments, we estimate cash inflows and outflows related to the program over the estimated term of the instrument. Further, each cash-flow estimate reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The measurement of assets within these programs is primarily derived from inputs, which generally represent market data and, when such data is not available, management's best estimate of how a market participant would assess the asset's inherent risk.

The primary purpose of the FCRA is to measure the cost of federal credit programs, and to place the cost of such credit programs on a basis equivalent with other federal spending. FCRA requires that the ultimate costs of a credit program be calculated and the budgetary resources be obtained before incurring the direct loan obligations. To accomplish this, we first predict or estimate the future performance of direct and guaranteed loans when preparing our annual budget. We re-estimate the data we use for these budgetary estimates at the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The re-estimated data reflect adjustments for market risks, asset performance, and other key variables and economic factors. We then use the re-estimated data to report the cost of the loans disbursed under the direct or guaranteed loan program as a program cost on our Consolidated Statement of Net Cost.

Cash flows associated with our credit programs generally include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from sales of instruments, borrowings from Treasury, negative subsidy, and the subsidy cost received from the program accounts. We draw security-level data and assumptions used as the basis for cash flow model forecasts and program performance from widely available market sources, as well as information published by investees. Key inputs and assumptions to the cash flow forecasts include, but are not limited to:

- security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, sinking fund schedules, principal and interest payment schedules, and performance of underlying collateral;
- discount rate;
- observed market prices;
- department actions, as well as changes in legislation;
- forecast dividend payments, late payments, prepayment rates and default rates;
- forward interest rates;
- historical prepayments, market returns, interest rates, and protracted arrears;
- option adjusted spread;
- default and recovery reports Fitch, Moody's, and Standard and Poor's publish;
- modeled asset prices from third-party market sources; and

- forecast and historical Special Purpose Vehicles (SPVs) preferred equity repayments.

The recorded subsidy cost associated with each of our credit programs represents the difference between disbursed amounts and the net present value of future cash flows we anticipate receiving. The subsidy allowance, as initially established by the subsidy cost, takes into consideration projected repayments and defaults, and the projected cost of borrowings. We amortize the allowance to reflect the difference between projected and actual financing costs.

Our actions, as well as changes in legislation, may impact estimated future cash flows and related subsidy costs. We recognize the cost or cost savings of a modification in subsidy costs when the terms of a program are modified. Workouts are actions taken to maximize repayments of existing credit programs, and the expected effects on cash flows are included in the original estimate and re-estimates of the subsidy cost. Subsidy costs are also impacted by re-estimates, which may occur as a result of updates to the original program subsidy cost estimates to reflect actual cash flows experience, as well as changes in forecasts of estimated future cash flows associated with the credit program.

## H. ADVANCES AND PREPAYMENTS

We primarily issue advances to COVID-19 pandemic-related recovery financial assistance programs directed through state, local, territorial, and Tribal governments (refer to Note 10). These advances are issued as direct payments for specified use to cover the recipient's anticipated qualified incurred costs. These advances are initially recorded when disbursed within the "*Advances and Prepayments*" line of the Consolidated Balance Sheet and subsequently recognized as expense within the "*Economic Program*" costs on the Consolidated Statement of Net Cost as the qualified costs are incurred by the recipients.

## I. INVESTMENTS

### Investments in GSEs

We hold senior preferred stock and warrants for the purchase of common stock of two GSEs: the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). We present these non-federal investment holdings at their fair value—as measured by unobservable and observable inputs—on the Consolidated Balance Sheet (see the discussion below on "*Fair Value Measurement*"). We record changes in the valuation of these investments as non-entity exchange transactions on the Consolidated Statement of Net Cost. We also record dividends related to these investments as non-entity exchange transactions, which are accrued when declared.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs), which we entered into with each GSE when the GSEs were placed under conservatorship, require that we increase our investment in the GSEs' senior preferred stock if, at the end of any quarter, the Federal Housing Finance Agency (FHFA), acting as the conservator, determines that the liabilities of either GSE exceed its respective assets. Since funding to the GSEs to pay their excess liabilities is appropriated directly to us, we report such payments, as needed, as entity expenses within the "*Economic Program*" on the Consolidated Statement of Net Cost, and in the line item, "*Cumulative Results of Operations*," on the Consolidated Balance Sheet. These payments also result in an increase to the non-entity investment in the GSEs' senior preferred stock, with a corresponding increase to "*Due To the General Fund*," as we hold the investment on behalf of the General Fund.

The annual valuation as of September 30 of the senior preferred stock and warrants incorporates various forecasts, projections, and cash flow analyses to develop an estimate of the assets' fair value. We estimate the value of the senior preferred stock by first estimating the fair value of the total equity of each GSE (which, in addition to the senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock).

We base the fair value of the total equity on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected cash flows to equity holders. The fair value of the GSEs' other equity instruments is then deducted from its total equity, with the remainder representing the fair value of the senior preferred stock. The primary input into the warrants valuation is the market value of the shares of common stock of the GSEs which, along with the junior preferred stock, are traded on the over-the-counter (OTC) market. We evaluate the need for adjusting our OTC market-based valuation of the warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date (refer to Note 11).

## Investments in Multilateral Development Banks

On behalf of the U.S., we invest in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transitions to market economies, and increase economic growth and development, thereby advancing U.S. economic, political, and commercial interests abroad. As a participating member country, we provide a portion of the capital base of the MDBs, through subscriptions to capital, which allows the MDBs to issue loans at market-based rates to middle-income developing countries. These paid-in capital investments are non-marketable equity investments valued at cost on our Consolidated Balance Sheet.

In addition, on behalf of the U.S., we contribute funding to MDBs to finance grants and extend credit to poor countries at below market-based interest rates. We report these U.S. contributions, also referred to as "concessional window" contributions, as an expense within the "*Economic Program*" on our Consolidated Statement of Net Cost.

## Investment in Special Purpose Vehicle

Pursuant to the CARES Act enacted in FY 2020 in response to the COVID-19 pandemic, as of September 30, 2025, we held a preferred equity investment in an SPV the Board of Governors of the Federal Reserve System (Federal Reserve Board or Board) established through the Federal Reserve Bank of Boston (FRBB) to enhance the liquidity of the U.S. financial system (refer to Note 13). We present this non-federal investment holding on the Consolidated Balance Sheet at fair value (see the discussion below on "*Fair Value Measurement*"), and record changes in the valuation of this investment as an entity exchange transaction on the Consolidated Statement of Net Cost.

The annual valuation of this investment as of September 30 incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. We estimate the fair value of our SPV preferred equity investment based on a discounted cash flow valuation methodology which calculates the present value of the projected annual cash flows associated with this investment.

## Other Investments, Net

In connection with our Emergency Capital Investment Program established pursuant to the FY 2021 enactment of the CAA, we hold preferred stock and subordinated debt we received in exchange for our capital disbursed to low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities (refer to Note 13). We present these non-federal investment holdings on the Consolidated Balance Sheet at their fair value (see the discussion below on "*Fair Value Measurement*"), and record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statement of Net Cost. We recognize preferred stock dividend income when declared and interest income on subordinated debt when earned.

The annual valuation as of September 30 of the preferred stock and subordinated debt incorporates various forecasts, projections, and cash flow analyses to develop an estimate of the assets' fair value. We estimate the fair value of our preferred stock and subordinated debt based on a discounted cash flow valuation methodology which calculates the present value of the projected annual cash flows associated with these investments. The primary input into our preferred stock is dividend rates; our subordinated debt primarily incorporates interest rates and percentage of deferred interest payments (interest deferral rates). Both our preferred stock and subordinated debt inputs include redemption rates, ratios of deep impact and qualified lending to total lending, likelihood of disposition, issuer credit scores, and market yield discount rates.

The ESF holds most of our foreign currency investments (refer to Note 13). We present the ESF's foreign currency denominated assets and investment securities at fair value (see the discussion below on *"Fair Value Measurement"*). These holdings are normally invested in interest-bearing securities issued or held through foreign governments or monetary authorities. We recognize interest on investments, amortization of premiums, and accretion of discounts on an accrual basis, and amortize or accrete premiums and discounts over the life of the related investment security as an adjustment to yield using the effective interest method.

## Fair Value Measurement

Fair value is a market-based measurement. For certain assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. However, the objective of a fair value measurement in both cases is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability between market participants at the measurement date occurs under current market conditions.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes relevant observable inputs and minimizes unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The measurement of fair value of an asset or a liability is categorized with different levels of fair value hierarchy as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2—Inputs other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3—Unobservable inputs for the asset or liability.

The inputs or methodology we use for valuing assets and liabilities are not necessarily indicative of the risks associated with those assets and liabilities.

## J. PROPERTY, PLANT, AND EQUIPMENT, NET

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

projects as construction-in-progress until completed and value the costs at actual (direct) cost plus applied overhead and other indirect costs.

Internal-use software encompasses software design, development, and testing of projects adding significant new functionality and long-term benefits. We accumulate costs for developing internal-use software in work-in-development until we place a project into service and we successfully complete testing and final acceptances. Once completed, we transfer the costs to depreciable property.

We lease land and buildings from the General Services Administration (GSA) to conduct most of our operations. We have no material GSA leases. GSA charges a standard level user fee, which approximates commercial rental rates for similar properties.

Our bureaus are diverse both in size and in operating environment. Accordingly, our capitalization policy provides minimum capitalization thresholds, which generally range from \$25,000 to \$75,000 for all property categories except for internal-use software and right-to-use lease assets. Minimum capitalization thresholds for internal-use software generally range from \$25,000 to \$375,000 (except for the IRS, that generally ranges from \$50,000 to \$10 million). Minimum capitalization thresholds for right-to-use lease assets generally range from \$50,000 to \$1.7 million. We also use a capitalization threshold for bulk purchases, which generally ranges from \$50,000 to \$750,000. Bureaus determine the individual items that comprise bulk purchases based on our guidance.

We expense depreciation and amortization on a straight-line basis over the estimated useful life of the asset except for leasehold improvements and right-to-use lease assets, which we amortize over the term of the lease or the useful life of the improvement or asset, whichever is shorter. Service life ranges (two to 50 years) are wide due to the diversity of our PP&E. We do not depreciate land, construction-in-progress, and internal-use software in development. We record impairment costs related to a significant and permanent decline in the service utility of PP&E and construction-in-progress in the period incurred.

## **Stewardship Property, Plant, and Equipment**

Heritage assets are of historical significance. Multi-use heritage assets are those heritage assets for which the predominant use is general government operations. We capitalize all acquisition, reconstruction, and betterment costs for our multi-use heritage asset buildings as PP&E and depreciate these costs over their service life.

## **K. FEDERAL DEBT AND INTEREST PAYABLE**

We issue federal debt in the form of Treasury securities. This debt relates to monies borrowed from the public and certain other federal agencies to fund the operations of the U.S. government. We issue certain federal debt at a discount or premium. We amortize these discounts and premiums over the term of the security using an interest method for all long-term securities and the straight-line method for short-term securities. We accrue interest costs as an expense as incurred and report the costs on the Consolidated Statement of Net Cost as non-entity costs.

## **L. REFUNDS PAYABLE**

Refunds payable arise in the normal course of tax administration when we determine that taxpayers have paid more than the actual taxes they owe. We record amounts concluded to be valid refunds owed to taxpayers as a liability entitled

“*Refunds Payable*” on the Consolidated Balance Sheet, with a corresponding receivable from the General Fund included in the line entitled “*Due From the General Fund*.”

## M. SPECIAL DRAWING RIGHTS

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

### Allocations and Holdings

We record the SDR holdings that are permanent resources to the U.S. as part of “*Cash, Foreign Currency, and Other Monetary Assets*,” and we record the SDR allocations as a liability entitled “*Allocation of Special Drawing Rights*” when the IMF allocates SDRs to the U.S. The SDR allocations are a liability because the U.S. is obligated to repay the allocation amount to the IMF under specified circumstances. The repayment of the U.S. SDR allocation is conditional on the occurrence of any one of the following extraordinary events in which the U.S. has a substantial or controlling voice: (i) withdrawal by the U.S. from IMF membership or termination of the U.S. participation in the SDR Department of the IMF, (ii) cancellation of the SDRs by the Board of Governors (pursuant to a decision of an 85 percent majority of the voting power of IMF members), (iii) liquidation of the IMF, or (iv) liquidation of the SDR Department of the IMF.

SDR holdings increase primarily as a result of IMF SDR allocations and acquisitions of SDRs. The U.S. receives interest on its SDR holdings from the IMF and pays interest on its SDR allocation to the IMF. We record SDR transactions as incurred, and include purchases and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government also receives remuneration in SDRs from the IMF based on the U.S. Reserve Position in the IMF, which is a liquid, interest-bearing claim the U.S. has on the IMF, and loans receivable from the supplemental borrowing arrangement. We credit remuneration to the ESF, which transfers to the TGA account an equivalent amount of dollars plus nominal interest.

On a daily basis, the IMF calculates the value of the SDR using the currency exchange rate in terms of the U.S. dollar from weighted amounts of each of five freely usable currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, the British pound sterling, and the Chinese renminbi. We revalue the U.S. SDR holdings and allocations from the IMF monthly based on the SDR exchange rate calculated by the IMF, resulting in the recognition of unrealized gains or losses that are reported on the Consolidated Statement of Net Cost.

### Certificates Issued to the Federal Reserve

The *Special Drawing Rights Act of 1968*, as amended, authorizes the Secretary to issue certificates, not to exceed the value of SDRs held against the certificates, to the FRBs in return for dollar amounts equal to the face value of certificates issued. We issue certificates to finance the acquisition of SDRs from other countries or to provide U.S. dollar resources to finance other exchange stabilization operations. We redeem certificates issued at such times and in such amounts as the Secretary may determine. The certificates do not bear interest. We report certificates issued to the FRBs at their face value, which approximates their carrying value since, under the terms of the arrangements with the Federal Reserve Board, there is no set repayment date and no interest accrued while certificates remain outstanding.

## N. FEDERAL EMPLOYEE BENEFITS PAYABLE – FECA ACTUARIAL LIABILITY

The *Federal Employees' Compensation Act* (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. The Department of Labor (DOL) administers the FECA program, pays valid claims, and subsequently seeks reimbursements from us for these paid claims. Generally, we reimburse the DOL within two to three years once funds are appropriated. The FECA liability consists of two components. The first component is based on actual claims the DOL paid but which we have not yet reimbursed. The second component is the estimated liability for future workers compensation as a result of past events. We report both components in the “Other” line item within “Other Liabilities” on the Consolidated Balance Sheet. DOL generates these future workers’ compensation estimates by applying actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

## O. ANNUAL, SICK, AND OTHER LEAVE

We report annual and compensatory leave employees earn, but have not yet used, as an accrued liability. We adjust the accrued balance annually to reflect current pay rates. Any portion of the accrued leave for which funding is not available is recorded as an unfunded liability and reported in the “Other” line item within “Other Liabilities” on the Consolidated Balance Sheet. We expense sick and other leave as taken and do not record a liability for such amounts, because employees do not vest in sick and other leave benefits.

## P. PENSION COSTS, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

### Federal Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits

We recognize the full cost of our employees’ pension benefits, including recognizing imputed cost for the difference between the estimated service cost and the sum of participants’ pension benefit withholdings and agency contributions. However, the Office of Personnel Management (OPM) rather than the Department recognizes the assets and liabilities associated with these benefits.

Most of our employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984, and December 31, 1986, are covered under the CSRS Offset System, to which we contribute 7.0 percent and 7.5 percent of pay for regular and law enforcement employees, respectively. On January 1, 1987, the Federal Employees’ Retirement System (FERS) went into effect pursuant to the *Federal Employees’ Retirement System Act of 1986*, P.L. 99-335. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security benefits. For the FERS Basic Benefit Plan, we contribute between 16.5 percent and 18.4 percent for regular employees, and between 36.4 percent and 38.2 percent for law enforcement officers. The TSP under FERS is a 401(k)-type savings plan in which we automatically contribute one percent of base pay and match any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, we also contribute the employer’s matching share for Social Security.

Similar to federal retirement plans, OPM, rather than the Department, reports the assets and liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. We report the full cost of providing other retirement benefits (ORB). We also recognize an expense and a liability for other post-employment benefits (OPEB), which includes all types of benefits, provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, one of

our bureaus, OCC, separately sponsors a postretirement life insurance benefit plan for current and future retired employees. OCC is also a participating employer in the Pentegra Defined Benefit Plan for Financial Institutions, a multiple employer plan that provides benefits for certain retired employees who meet eligibility requirements. In addition, the OCC administers two 401(k) plans. Eligible OFR employees may participate in one of these two plans.

## District of Columbia Federal Pension and Judicial Retirement Funds

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, we became responsible for the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) and the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) retirement plans (refer to Note 18). The actuarial cost method we use to determine costs and actuarial liability for the Judicial Retirement Fund is the Individual Entry Age Normal Cost Method, which approximates the methodology specified by the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial cost method we use to determine the cost and actuarial liability for the D.C. Federal Pension Fund is the Projected Unit Credit Cost Method, which recognizes that participants have fully accrued all service and does not generate a normal cost. These methodologies base actuarial liabilities on long-term economic assumptions. The pension benefit costs the plans incur are included within the “*Financial Program*” costs on the Consolidated Statement of Net Cost.

## Q. COMMITMENTS AND CONTINGENCIES

Through FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend credit for their own use (refer to the accounting policy above entitled “*Loans and Interest Receivable, Intra-Governmental*”). We establish loan commitments when FFB and other parties fully execute agreements in which we become obligated to issue loans pursuant to the terms and conditions within the agreements. We reduce loan commitments when we issue the loans or when the commitments expire.

On behalf of the U.S., we subscribe to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. The callable capital commitments become binding on the U.S. when we issue instruments of commitment subscribing to the U.S. portion of callable capital.

Additionally, on behalf of the U.S., we have established financial commitments through our participation in the IMF through a quota subscription and a borrowing arrangement that supplements IMF resources. U.S. financial commitments to the IMF become binding when the U.S. consents to an increase in its participation as an IMF member country, and all other conditions to the increase have been met. The outstanding financial commitment in the U.S. quota decreases or increases when the IMF draws upon or repays funding it obtained pursuant to a letter of credit established by the U.S. to make domestic currency available to the IMF as needed. The outstanding financial commitment in the supplemental borrowing arrangement decreases or increases when the IMF borrows and repays loans under the related supplemental funding arrangement (refer to Note 7).

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, we recognize material contingent liabilities meeting the following criteria:

- a past event or exchange transaction has occurred;
- a future cash outflow is probable; and
- a future cash outflow is measurable.

The estimated liability we record is either a specific amount or within a range of amounts. If some amount within the range is a better estimate than any other amount within the range, we recognize that amount. If no amount within the range is a better estimate than any other amount, we recognize the minimum amount in the range, and we disclose the range and a description of the nature of the contingency. We follow this policy in recording a contingent liability, if any, related to the GSE SPSPA program (refer to Note 11), and loss contingencies that may arise from claims, assessments, litigations, fines, penalties, and other sources (refer to Note 27).

If we meet one or more, but not all, of the above criteria for recognition, and there is a reasonable possibility of loss, we will disclose, if material, the nature of the contingent liability, along with a range of possible loss, if estimable, and a description of the nature of the contingency.

## R. REVENUE AND FINANCING SOURCES

We finance our activities either through exchange revenue we receive from others or through non-exchange revenue and financing sources (such as appropriations the Congress provides and penalties, fines, and certain user fees we collect). User fees primarily include collections from the public for the IRS costs to process installment agreements, letter ruling and determinations, and income verification. We recognize exchange revenue on the Consolidated Statement of Net Cost when we earn it—that is, when goods are delivered or services are rendered. We also recognize revenue from reimbursable agreements on the Consolidated Statement of Net Cost when the related services are provided. We record non-exchange revenues on the Statement of Changes in Net Position when we receive them or when we accrue revenue based on a legal claim. We recognize appropriations used as financing sources on the Statement of Changes in Net Position when we incur related expenses or purchase assets.

We also incur certain costs paid in total or in part by other federal entities, such as pension costs, the FEHBP, and any un-reimbursed payments made from the Treasury Judgment Fund on our behalf. We recognize these subsidized costs on the Consolidated Statement of Net Cost, and we recognize the imputed financing for these costs on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. We also recognize other non-exchange financing sources, such as donations and transfers of assets without reimbursements, for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

We recognize revenue we receive from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. We report costs related to the Forfeiture Fund program on the Consolidated Statement of Net Cost. The Treasury Forfeiture Fund is the special fund account for depositing non-tax forfeiture proceeds we receive pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. We report forfeited property balances in other than intra-governmental “*Other Assets*” on the Consolidated Balance Sheet.

## S. CUSTODIAL REVENUES

Non-entity revenue reported on our Statement of Custodial Activity includes cash we collected, primarily from taxes. It does not include revenue other federal agencies collect, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are dedicated for certain trust funds. We present the Statement of Custodial Activity on the “modified accrual basis.” We recognize revenues as we collect cash, and record a “non-cash accrual adjustment” representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities, mainly taxes receivable.

## T. APPROPRIATIONS AND OTHER BUDGETARY ACTIVITY

### Combined Statement of Budgetary Resources Activity

We record appropriations when authorized by legislation. We record incurred obligations of appropriations when we place orders or sign contracts for goods and services, award a grant, or take other actions that require us to make payments to the public or another federal entity. We record outlays when we make disbursements.

### Permanent and Indefinite Appropriations

We use permanent and indefinite appropriations to disburse tax refunds, refundable tax credits and related interest. We recognize refund payment funding as we use appropriations. Permanent indefinite authority for refund activity is available for an unlimited period of time in the amount necessary to cover the refund and/or credit. We report tax refunds and credits as a custodial activity of the Department, since they are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

We have two permanent and indefinite appropriations related to debt activity. We use one permanent and indefinite appropriation to pay interest on the public debt securities, and use the other to redeem securities that are matured, called, or eligible for early redemption. These accounts are not annual appropriations and do not have refunds. We report debt redemption appropriations related to our liability on our Consolidated Balance Sheet. We record interest appropriations at the beginning of the fiscal year and again at mid-year, if necessary, and we return any unused authority to the General Fund at the end of the fiscal year. Permanent indefinite authority for debt redemptions and related interest is available for an unlimited period of time.

We also have permanent and indefinite appropriations to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process the FCRA requires.

Additionally, we have other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. We receive these appropriations to make payments to the FRB for fiscal services provided, and to the financial institutions for services provided as financial agents of the U.S. government. They also include appropriations provided to make other disbursements on behalf of the U.S. government, including payments made to various parties as a result of certain claims and judgments rendered against the U.S.

## U. INCOME TAXES

As an agency of the U.S. government, we are exempt from all income taxes any governing body imposes, whether it is a federal, state, territorial, local, or foreign government.

## V. USE OF ESTIMATES

We have made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare our financial statements. Actual results may differ from these estimates. Adverse changes in the outlook for the key assumptions underlying management's estimates may materially affect the results of our operations, cash flows, and our financial position in future periods. Transactions subject to estimates principally include our GSE and other non-federal investment holdings, loan and credit program receivables, credit reform subsidy costs, tax receivables, impairment to any of our investments and receivables, loan guarantees, depreciation, actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities.

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts we are required to fund. Except as expressly noted herein, we have not revalued or included in our estimates as of September 30, 2025, the effects of any new developments that may have occurred subsequent to September 30, 2025.

We derive credit program receivables using credit reform modeling, which is subject to the use of estimates and forecasts that have inherent uncertainty. Refer to the accounting policy above entitled “*Credit Program Receivables, Net*” and Note 9 for additional discussion related to the estimation of credit program receivables.

We estimate our non-federal investment holdings based on fair value and changes in these asset valuations, including impairment. Since the valuation is an annual process, we deem changes in valuation of our equity investments as usual and recurring. Refer to the accounting policy above entitled “*Investments*” and Notes 11 and 13 for additional discussion related to fair value estimations.

For certain of our liabilities, we perform annual calculations, as of September 30, to assess our need for recording an estimated liability in accordance with SFFAS 5 related to certain liabilities of our CARES Act programs, as well as liabilities related to our funding commitment to the GSEs under the SPSPAs.

As stipulated by the CARES Act, we must remit excess residual proceeds we realize from our SPV capital contributions and direct loans to air carriers and other related businesses to the Federal Old-Age and Survivors Insurance Trust Fund (refer to Note 13). We estimate and record the net present value of this potential liability, if any, based on the probable future occurrence of excess cash flows received above the full recovery of our costs associated with these programs. This calculation is subject to the same sensitivities as those related to our credit reform modeling we discuss above.

Liability to the GSEs recognition is predicated on the probable future occurrence of an excess of liabilities and minimum capital reserve amounts, as defined, over the assets of either GSE at the end of any reporting quarter. The occurrence of future GSE deficits, which ultimately determines our liability to the GSEs, is most sensitive to future changes in the housing price index and, to a lesser extent, future changes in guarantee fees the GSEs receive on single-family mortgages and interest rates (refer to Note 11).

Refer to the accounting policy above entitled “*Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits*”, Notes 8 and 18 for additional discussion related to the estimation of actuarial liabilities and tax receivables.

## W. OTHER-THAN-TEMPORARY IMPAIRMENTS

We account for a decline in the market value (either due to credit, price or currency) of any investment below cost that is deemed to be other-than-temporary as an impairment, and reduce the carrying value to fair value for financial reporting purposes. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery, and consider whether evidence indicating that the cost of the investment is recoverable outweighs evidence to the contrary.

## X. CREDIT, MARKET AND FOREIGN CURRENCY RISK

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. We take on possible credit risk when we make direct loans or

guarantees to non-federal entities, provide credits to foreign entities, or become exposed to institutions that engage in financial transactions with foreign countries (refer to Note 13). The following programs entail credit risk: monetary assets held, investments, direct loans and other receivables related to our COVID-19, CDFI, ESF, HFA initiative (the New Issue Bond Program), IAP, and SBLF programs, as well as committed but undisbursed direct loans and funding commitments related to our CDFI, IAP, and GSE programs.

Our activities generally focus on the underlying problems in the credit markets. We developed these programs, or provided credit support to the pandemic emergency relief programs of the Federal Reserve Board, to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose us to potential costs and losses. Additional risk of costs and losses could result from terrorist attacks under the Terrorism Risk Insurance Program. We describe the extent of the risk we assumed in more detail in the notes to the financial statements and, where applicable, we factor it into credit reform models and reflect it in fair value measurements (refer to Notes 9, 11, 13, and 27).

We face certain risks and uncertainties as a result of holding securities denominated in foreign currency. The price of holdings of such securities may widely fluctuate as a result of volatility in foreign currency markets and changes in real and perceived credit risk of our counterparties.

## Y. FUNDS FROM DEDICATED COLLECTIONS

We account for revenues and other financing sources for funds from dedicated collections (FDC) separately from other funds. Such funds are financed by specifically identified revenues provided to the U.S. government by non-federal sources, often supplemented by federal and other financing sources, which remain available over time. Statute requires that we use these specifically identified revenues and other financing sources for designated activities, benefits, or purposes. We apply the following criteria for purposes of designating funds as dedicated collections: (i) a statute committing the U.S. government to use specifically identified revenues and/or other financing sources that are originally provided to the U.S. government by a non-federal source only for designated activities, benefits, or purposes; (ii) explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; (iii) a requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the U.S. government's general revenues; and (iv) for funds comprised of both federal and non-federal sources, such funding is predominantly non-federal, or the non-federal funding is material to our financial statements.

## Z. ALLOCATION TRANSFERS

We are a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. We credit all allocation transfers of balances to this account, and charge subsequent obligations and outlays the child entity incurs to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires Treasury to report the activity when we receive allocation transfers, as the child, from the Executive Office of the President (see Circular No. A-136, II.3.1, *Parent-Child Reporting* for two exceptions).

We allocate funds, as the parent, to the DOL and HHS. Also, we receive allocation transfers, as the child, from HHS, the Department of Transportation, U.S. Agency for International Development, and the Executive Office of the President.

## AA. FIDUCIARY ACTIVITIES

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government. We do not report these activities in our consolidated financial statements, but instead report them in Note 26.

## AB. DISCLOSURE ENTITIES AND RELATED PARTIES

SFFAS 47, *Reporting Entity*, requires that our consolidated financial statements reflect the balances and activities of consolidation entities, including Treasury bureaus and other reporting entities, meeting the following “principles for inclusion” when considered as a whole: (i) the entity is included in the Budget of the United States (also known as the President’s Budget); (ii) the U.S. government holds “majority ownership interest”; (iii) the U.S. government has “control with risk of loss or expectation of benefit”; or (iv) it would be misleading to exclude such entity. SFFAS 47 also provides guidance for assessing whether we report an organization meeting the inclusion principles as a disclosure entity or related party.

A disclosure entity exists when we determine that an entity meets any of the following SFFAS 47 “inclusion principles” with respect to the U.S. government but does not meet the characteristics of a “consolidation entity.” Based on SFFAS 47 criteria, the Federal Reserve System is considered to be a disclosure entity. Additionally, entities the U.S. government owns and/or controls as a result of regulatory actions—such as organizations in receivership or conservatorship—or other U.S. government intervention actions are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties generally do not meet the SFFAS 47 inclusion principles; however, we report on a relationship that is of such significance that it would be misleading to exclude information about that entity. Disclosure entities and related parties are not considered components of the consolidated Treasury reporting entity and, thus, are only disclosed in the notes to our consolidated financial statements. Using the principles prescribed in SFFAS 47, we identified the following disclosure entities and related parties as of September 30, 2025.

### Disclosure Entities

#### Federal Reserve System

Congress, under the *Federal Reserve Act of 1913* (Federal Reserve Act), created the FR System. The FR System includes the Federal Reserve Board, Federal Reserve Banks (FRB), and the Federal Open Market Committee (FOMC). Collectively, the FR System serves as the nation’s central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payments systems (including large-dollar transfers of funds, automated clearinghouse operations, and check collection), providing certain financial services to federal agencies and fiscal principals, and serving as the U.S. government’s bank. Monetary policy includes actions the FR System undertakes that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities.

While we consult with the FR System on matters affecting the economy and certain financial stabilization activities it is considered an independent central bank, and the executive branch of the U.S. government does not ratify its decisions. In accordance with SFFAS 47 criteria, the FR Systems' assets, liabilities, and operations are not consolidated into our consolidated financial statements; however, we account for and disclose our financial activities with the FR System within our consolidated financial statements.

## Federal Reserve System Structure

### Federal Reserve Board of Governors

The Board is an independent regulatory organization governed by seven members appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution. No government appropriation is required to support the operation of the Board. The Board's budget transactions are not included in the President's Budget, nor are they subject to the President's review because of its unique role in conducting monetary policy.

### Federal Reserve Banks

The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Each FRB has a board of directors that exercises supervision and control of each FRB, with three members appointed by the Board, and six board members elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distributing currency and coin, and serving as the government's fiscal agent, as well as the fiscal agent for other fiscal principals (*i.e.*, banks, credit unions, saving and loan institutions). Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Board and the Secretary of the Treasury.

We utilize the services of the FRBs to execute a variety of transactions on behalf of the BFS and the ESF. The following are examples of our interaction with the FRBs:

- The FRBs serve as our fiscal agent and depository, executing banking and other financial transactions on our behalf (refer to Note 5). We reimburse the FRBs for these services, the cost of which is included on the Consolidated Statement of Net Cost.
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy.
- The FRBs hold gold certificates we issue in which the certificates are collateralized by gold (refer to Note 6).
- The FRBs hold SDR certificates we issue which are collateralized by SDRs (refer to Notes 5 and 7).
- The FRBs are required by Board policy to transfer their excess earnings to us on behalf of the U.S. government (refer to Notes 8 and 23).

### Federal Open Market Committee

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents. FOMC formulates and conducts monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market),

the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions.

### Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. These assets are generally subject to the same market conditions as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

The FRBs have deposit liabilities with Treasury and depository institutions. The FRBs issue Federal Reserve Notes, the circulating currency of the U.S., which are collateralized by the Treasury securities and other assets held by the FRBs.

### FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and by providing priced services to depository institutions as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to us its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of \$6.8 billion for all FRBs, in accordance with the provisions of the *William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021* (P.L. 116-283).

FRBs' residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 116-283, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, dividend payments, or allocated portion of the \$6.8 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB's residual earnings of \$5.5 billion for fiscal year ended September 30, 2025, is reported as custodial revenue on our Statement of Custodial Activity. It constituted 0.1 percent of our total custodial revenue collected in FY 2025. "*Taxes, Interest and Other Receivables, Net*" includes a receivable for FRB's residual earnings which represents the earnings due to us as of September 30, but not collected by us until after the end of the month (refer to Note 8).

### FRB-Managed Special Purpose Vehicle – Liquidity Lending Facility

We hold an equity investment in a SPV the Federal Reserve Board established through the FRBB to enhance the liquidity of the U.S. financial system. Our involvement in this program represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, our equity interest in this SPV meets the SFFAS 47 criteria for classifying our SPV investment as a disclosure entity. This entity is not consolidated as part of our consolidated financial statements; however, the value of our investment in this entity is presented as an equity investment on our Consolidated Balance Sheet (refer to Note 13).

### Government Sponsored Enterprises – Fannie Mae and Freddie Mac

During the FY 2008 financial crisis, the U.S. government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the SFFAS 47 criteria for disclosure entities as organizations owned or controlled by the U.S. government as the result of regulatory actions (such as conservatorship). Additionally, the U.S. government's intervention actions with regards to these GSEs are not expected to be permanent. Accordingly, these entities

are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheet (refer to Note 11).

## Related Parties

In accordance with SFFAS 47 determination principles, we currently maintain related party relationships with the IMF and the MDBs. The IMF is an international organization of 191 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. The U.S. government holds the largest quota subscription of any member. The U.S. quota subscription serves as the key determinant for our 16.5 percent share of voting rights in various IMF decisions, giving the U.S. government a substantial voice. The Secretary serves as the U.S. Governor to the IMF, and the U.S. Governor nominates and elects the U.S. Executive Director of the IMF, who is one of 25 directors responsible for exercising voting rights over the strategic direction of the institution.

The U.S. commitment to the IMF is in the form of cash and interest-bearing instruments. Historically, the U.S. has not experienced a loss to its commitment in the IMF (refer to accounting policies above entitled “*Loans Receivable, Net – Other Than Intra-Governmental*,” “*Commitments and Contingencies*,” “*Special Drawing Rights*,” and Notes 5 and 7 for a further description of our relationship, financial risk, and activities with the IMF).

Additionally, on behalf of the U.S., we invest in and provide funding to the MDBs to support poverty reduction and promote sustainable economic growth in developing countries. The MDBs provide financial and technical support by means of strengthening institutions, providing assistance that addresses the root causes of instability in fragile and conflict-affected states, responding to global crises, and fostering economic growth and entrepreneurship. U.S. participation in the MDBs is in the form of financial contributions used to ensure the effectiveness and impact of the MDBs’ global development agenda. The U.S. has voting power in each of the MDBs to which we contribute, ranging from approximately six percent to 50 percent (refer to accounting policies above entitled “*Investments*,” “*Commitments and Contingencies*,” and Notes 12 and 27 for a further description of our relationship, financial risk, and activities with the MDBs).

## 2. FUND BALANCE

Fund Balance increases when we receive appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and when we receive transfers and reimbursements from other federal agencies. Fund Balance can also be increased by amounts borrowed from the BFS, FFB, other federal entities, and by amounts collected and credited to appropriation or fund accounts.

Likewise, Fund Balance is reduced when we make disbursements to pay liabilities or to purchase assets, goods, and services; investments in U.S. securities (securities issued by the BFS or other federal agencies); when expired appropriations are canceled; transfers and reimbursements made to other federal entities, non-federal entities, or the General Fund; and due to sequestration or rescission of appropriations.

### STATUS OF FUND BALANCE

As of September 30, 2025, the status of the fund balance consisted of the following:

| (in millions)                                        | 2025              |
|------------------------------------------------------|-------------------|
| Unobligated Balance                                  | \$ 352,180        |
| Obligated Balance Not Yet Disbursed                  | 210,755           |
| Subtotal                                             | 562,935           |
| Adjustment for ESF                                   | (216,094)         |
| Adjustment for Borrowing Authority                   | (23,562)          |
| Adjustment for Intra-Treasury Investments            | (15,192)          |
| Adjustment for IMF                                   | 159,562           |
| Adjustment for Authority Unavailable for Obligations | 4,607             |
| Other Adjustments                                    | 32,444            |
| <b>Total Status of Fund Balance</b>                  | <b>\$ 504,700</b> |

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

Since the following line items are either a component of Fund Balance or post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to the non-budgetary Fund Balance as reported on the Consolidated Balance Sheet:

- Adjustments for ESF – ESF investments in Treasury securities (which are eliminated on the Consolidated Balance Sheet), foreign investments, SDR holdings, and related balances that meet the criteria for reporting as part of budgetary resources are reported on the Combined Statement of Budgetary Resources; however, they are not a component of the Fund Balance as they represent invested funds;
- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status reported on the Combined Statement of Budgetary Resources but not in the Fund Balance because we have not received the amounts;
- Adjustments for Intra-Treasury Investments – Budgetary resources include Treasury security investments; however, we have moved the money from the Fund Balance to Investments, which we eliminate on the Consolidated Balance Sheet;

- Adjustments for IMF – We report the funding we receive through appropriation warrants for IMF quota subscription and borrowing arrangement as a component of Fund Balance; however, we do not report the IMF transactions as budgetary resources and uses on the Combined Statement of Budgetary Resources (refer to Note 7);
- Adjustment for Authority Unavailable for Obligations – Resources unavailable for obligations reduced the budgetary resources reported on the Combined Statement of Budgetary Resources; however, they do not impact the Fund Balance; and
- Other Adjustments – Primarily reflect non-budgetary funds such as unavailable receipt accounts, clearing accounts, and non-fiduciary deposit funds.

As of September 30, 2025, we had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. We hold balances in non-entity funds, such as certain deposit funds (*e.g.*, seized cash), for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the letter of credit held for a portion of the U.S. quota in the IMF.

### 3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

#### ENTITY INTRA-GOVERNMENTAL

Through FFB, we issue loans to federal agencies for the agencies' own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. FFB is a wholly owned Government corporation that operates under the general supervision of the Secretary, and has its own broad statutory authority to finance any obligations that federal agencies issue, sell, or guarantee. For agencies that have the statutory authority to borrow in the market, but not from Treasury through the BFS (refer to the Non-Entity Intra-Governmental section below), FFB uses its statutory authority to make these loans directly to federal agencies.

FFB also uses its statutory authority to finance direct or indirect federally guaranteed obligations, which, as a matter of long-standing federal credit policy, is the least expensive and most efficient method of financing these credit-risk obligations when compared to private sector lender financing. When a federal agency has to honor its guarantee because a private-sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay FFB.

With the exception of loans to the U.S. Postal Service, all principal and interest on FFB loans to federal agencies and loans to private sector borrowers which are guaranteed by federal agencies are, or have a commitment to be, backed by the full faith and credit of the U.S. government. As of September 30, 2025, we have not recognized any credit-related losses on its loans, nor have we recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2025, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

| (in millions)                               | 2025                |                        |                   |
|---------------------------------------------|---------------------|------------------------|-------------------|
|                                             | Loans<br>Receivable | Interest<br>Receivable | Total             |
| Federal Deposit Insurance Corporation       | \$ 96,396           | \$ 992                 | \$ 97,388         |
| Department of Agriculture                   | 54,866              | 43                     | 54,909            |
| Department of Energy                        | 28,988              | 260                    | 29,248            |
| Agency for International Development        | 20,093              | 79                     | 20,172            |
| United States Postal Service <sup>(1)</sup> | 15,000              | 97                     | 15,097            |
| Department of Housing & Urban Development   | 3,136               | 8                      | 3,144             |
| Other Agencies                              | 1,134               | 11                     | 1,145             |
| <b>Total Entity Intra-Governmental</b>      | <b>\$ 219,613</b>   | <b>\$ 1,490</b>        | <b>\$ 221,103</b> |

(1) Given the operating deficit experienced by the United States Postal Service (USPS) in prior fiscal years, we will continue to monitor their progress toward a sound financial position.

## NON-ENTITY INTRA-GOVERNMENTAL

Through the BFS, we account for and report on the principal borrowings from and repayments to the General Fund for various funds other federal agencies manage, as well as the related interest due to the General Fund. These federal agencies are statutorily authorized to borrow from the General Fund, through the BFS, to make loans for a broad range of purposes, such as education, housing, farming, and small business support. The information below reflects amounts borrowed under the federal agency's statutory authorization, and does not include unused available borrowing authority.

As of September 30, 2025, non-entity intra-governmental loans (issued by the BFS) and interest receivable that were due to the General Fund consisted of the following:

| (in millions)                                                                         | 2025                |                        |                     |
|---------------------------------------------------------------------------------------|---------------------|------------------------|---------------------|
|                                                                                       | Loans<br>Receivable | Interest<br>Receivable | Total               |
| Department of Education                                                               | \$ 1,344,921        | \$ -                   | 1,344,921           |
| Small Business Administration                                                         | 249,336             | -                      | 249,336             |
| Department of Housing and Urban Development                                           | 144,356             | -                      | 144,356             |
| Department of Agriculture                                                             | 119,085             | -                      | 119,085             |
| Department of Transportation                                                          | 28,430              | -                      | 28,430              |
| Department of Homeland Security                                                       | 22,533              | -                      | 22,533              |
| US International Development Finance Corporation                                      | 12,678              | -                      | 12,678              |
| Environmental Protection Agency                                                       | 9,721               | -                      | 9,721               |
| Export Import Bank of the U.S.                                                        | 9,236               | -                      | 9,236               |
| Department of Veterans Affairs                                                        | 9,047               | -                      | 9,047               |
| Executive Office of the President/Security Assistance Accounts                        | 7,852               | -                      | 7,852               |
| Department of Energy                                                                  | 7,173               | 28                     | 7,201               |
| Department of Labor                                                                   | 7,148               | -                      | 7,148               |
| Railroad Retirement Board                                                             | 4,748               | 75                     | 4,823               |
| Federal Communications Commission                                                     | 3,080               | 69                     | 3,149               |
| Department of Defense                                                                 | 2,043               | -                      | 2,043               |
| Other Agencies                                                                        | 1,412               | 5                      | 1,417               |
| <b>Total Non-Entity Intra-Governmental</b>                                            | <b>\$ 1,982,799</b> | <b>\$ 177</b>          | <b>\$ 1,982,976</b> |
| <b>Total Intra-Governmental Loans and Interest Receivable (Entity and Non-Entity)</b> | <b>\$ 2,202,412</b> | <b>\$ 1,667</b>        | <b>\$ 2,204,079</b> |

## ADVANCES TO TRUST FUNDS

Advances to Trust Funds consists of Advances to the Unemployment Trust Fund, Advances to the Agricultural Disaster Relief Trust Fund, and Advances to the Federal Supplementary Medical Insurance Trust Fund. The General Fund issues advances to the DOL's Unemployment Trust Fund to disburse to states for unemployment benefits. The General Fund also issues advances to USDA's Agricultural Disaster Relief Trust Fund to make crop and livestock feed disaster assistance payments to farmers and ranchers. The *Bipartisan Budget Act of 2015*, P.L. 114-74, authorized a transfer from the General Fund to HHS' Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. We transfer DOL's and HHS's repayment of these advances to the General Fund.

As of September 30, 2025, Advances to Trust Funds consisted of the following:

| (in millions)                                                      | 2025                |                        |                  |
|--------------------------------------------------------------------|---------------------|------------------------|------------------|
|                                                                    | Loans<br>Receivable | Interest<br>Receivable | Total            |
| Advances to the Unemployment Trust Fund                            | \$ 21,000           | \$ 27                  | \$ 21,027        |
| Advances to the Agricultural Disaster Relief Trust Fund            | 3,170               | -                      | 3,170            |
| Advances to the Federal Supplementary Medical Insurance Trust Fund | 94                  | -                      | 94               |
| <b>Total Advances to Trust Funds</b>                               | <b>\$ 24,264</b>    | <b>\$ 27</b>           | <b>\$ 24,291</b> |

## 4. DUE FROM THE GENERAL FUND AND DUE TO THE GENERAL FUND

The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S. government, as a whole. It also includes accounts used in the management of the Budget of the U.S. Government.

We hold and manage General Fund assets, such as loans and interest receivable, cash, and investments in the GSEs on behalf of the U.S. government. General Fund assets constitute resources available to meet the operating needs of the U.S. government. We report these managed assets separately on the Consolidated Balance Sheet, with a corresponding amount reported as *“Due To the General Fund”* that represents a liability to reflect assets we owed to the General Fund.

General Fund liabilities, primarily federal debt and interest payable and liability for restoration of federal debt principal and interest, are obligations of the U.S. government. We report these Department-managed liabilities separately on the Consolidated Balance Sheet, with a corresponding amount reported as *“Due From the General Fund”* that represents a receivable, or future funds required of the General Fund to repay borrowings from the public and other federal agencies.

As of September 30, 2025, the General Fund liabilities we owed exceeded the assets we hold on behalf of the General Fund by \$34.1 trillion. This represents the amount the U.S. government needs, through a combination of future tax collections or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2025, Due From the General Fund included the following non-entity liabilities:

| Liabilities Requiring Funding from the General Fund (in millions) |           | 2025              |
|-------------------------------------------------------------------|-----------|-------------------|
| Federal Debt and Interest Payable - Held by the Public (Note 16)  | \$        | 30,311,830        |
| Federal Debt and Interest Payable - Intra-Governmental (Note 16)  |           | 7,309,752         |
| Refunds Payable                                                   |           | 4,244             |
| Adjustment for Eliminated Liabilities                             |           | 38,382            |
| <b>Total Due From the General Fund</b>                            | <b>\$</b> | <b>37,664,208</b> |

The Adjustment for Eliminated Liabilities principally represents investments in U.S. government securities our reporting entities hold that were eliminated against Federal Debt and Interest Payable Intra-governmental.

As of September 30, 2025, Due To the General Fund included the following non-entity assets:

| Assets to be Distributed to the General Fund (in millions)     |           | 2025             |
|----------------------------------------------------------------|-----------|------------------|
| Fund Balance                                                   | \$        | 24,876           |
| Loans and Interest Receivable - Intra-Governmental (Note 3)    |           | 1,982,976        |
| Advances to Trust Funds (Note 3)                               |           | 24,291           |
| Cash Due To the General Fund (Held by the Department) (Note 5) |           | 872,025          |
| Taxes and Other Non-Entity Receivables Due To the General Fund |           | 93,686           |
| Loans and Interest Receivable, Net (Note 9)                    |           | 10,811           |
| Investments in Government Sponsored Enterprises (Note 11)      |           | 374,460          |
| Adjustment for Eliminated Assets                               |           | 224,556          |
| Other                                                          |           | 2,281            |
| <b>Total Due To the General Fund</b>                           | <b>\$</b> | <b>3,609,962</b> |

*The assets to be distributed to the General Fund do not represent all of the non-entity assets we manage. Refer to Note 15 for all of our non-entity assets held.*

The Fund Balance reported above represents the non-entity funds we hold on behalf of the General Fund. We use it to administer programs such as the Presidential Election Campaign and payments for Legal Services Corporation and thus it is not available for our general use.

Taxes and Other Non-Entity Receivables Due To the General Fund primarily represents IRS-related federal taxes receivable (refer to Note 8).

The Adjustment for Eliminated Assets principally represents loans and interest payable our Treasury reporting entities owe, which were eliminated against Loans and Interest Receivable Intra-governmental the BFS holds.

## 5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2025, were as follows:

| (in millions)                                                  | 2025                |
|----------------------------------------------------------------|---------------------|
| <b>Entity:</b>                                                 |                     |
| Cash                                                           | \$ 65               |
| Foreign Currency and Foreign Currency Denominated Assets       | 14,213              |
| Other Monetary Assets:                                         |                     |
| Special Drawing Right Holdings                                 | 175,572             |
| U.S. Dollars Held in Cash by the IMF                           | 286                 |
| <b>Total Entity</b>                                            | <b>190,136</b>      |
| <b>Non-Entity:</b>                                             |                     |
| Operating Cash of the U.S. government                          | 871,899             |
| Foreign Currency                                               | 137                 |
| Miscellaneous Cash Held by All Treasury Reporting Entities     | 420                 |
| <b>Total Non-Entity</b>                                        | <b>872,456</b>      |
| <b>Total Cash, Foreign Currency, and Other Monetary Assets</b> | <b>\$ 1,062,592</b> |

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2025:

| (in millions)                                      | 2025              |
|----------------------------------------------------|-------------------|
| Operating Cash - FRB Account                       | \$ 890,825        |
| Outstanding Checks                                 | (18,926)          |
| <b>Total Operating Cash of the U.S. government</b> | <b>871,899</b>    |
| Miscellaneous Cash                                 | 127               |
| <b>Subtotal</b>                                    | <b>872,026</b>    |
| Amounts Due to the Public                          | (1)               |
| <b>Total Cash Due to the General Fund (Note 4)</b> | <b>\$ 872,025</b> |

### ENTITY

Entity cash, foreign currency, and other monetary assets principally include foreign currency, foreign currency denominated assets (FCDAs), and SDRs. These assets were valued as of September 30, 2025, using current exchange rates plus accrued interest.

### Special Drawing Rights

The SDR is an international reserve asset the IMF created to supplement existing reserve assets (refer to Note 1M). The SDR derives its value as a reserve asset from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. The IMF has had four general allocations of SDRs to all members in proportion to their quota shares, to boost global liquidity. The most recent general allocation was in 2021. Treasury participates in the Voluntary Transaction Arrangements, agreeing to buy and sell SDRs from other holders under certain conditions. During FY 2025, we purchased 200 million SDRs (valued at \$265 million) from other IMF participants and sold 1.3 billion SDRs (valued at \$1.7 billion) to other IMF participants. Our participation in these transactions helps to provide liquidity to the global economic system and supplement member countries' foreign exchange reserves.

As of September 30, 2025, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of \$175.6 billion, and the total value of SDR allocations to the U.S. was the equivalent of \$157.5 billion. The outstanding SDR certificates issued to the Federal Reserve were valued at \$15.2 billion as of September 30, 2025, which we reported as a liability on the Consolidated Balance Sheet. In FY 2025, we issued an additional \$5.0 billion of SDR certificates to the Federal Reserve to maintain sufficient ESF dollar holdings for SDR purchases or potential emergencies.

## Non-Entity

We manage the non-entity cash, foreign currency, and other monetary assets which principally included Operating Cash of the U.S. government. Also included is foreign currency maintained by various U.S. disbursing offices, miscellaneous cash such as seized monetary instruments, undistributed cash, and offers in compromises which are maintained as a result of our tax collecting responsibilities.

## 6. GOLD AND SILVER RESERVES, AND GOLD CERTIFICATES ISSUED TO THE FEDERAL RESERVE BANKS

Through the Mint, we are responsible for safeguarding most of the U.S. government's gold and all of the silver reserves in accordance with 31 USC 5117; a smaller portion of the gold is in the custody of the FRBs.

The gold reserves we hold are partially offset by a liability for gold certificates the Secretary issued to the FRBs at the statutory rate, as provided in 31 USC 5117. Since 1934, we have issued Gold Certificates in non-definitive or book-entry form to the FRBs. Our liability incurred by issuing the Gold Certificates, as reported on the Consolidated Balance Sheet, is limited to the gold we hold at the statutory value. Upon issuance of Gold Certificates to the FRBs, we deposit the proceeds from the certificates into the operating cash of the U.S. government. All of our certificates issued are payable to the FRBs. The Mint also holds 100,000 fine troy ounces (FTO) (\$4 million at the statutory carrying value) of gold reserves without certificates.

The U.S. Mint and the FRBs hold the gold and silver bullion reserves. We report these reserves on the consolidated financial statements at the values stated in 31 USC 5116 – 5117 (statutory rates) which are \$42.2222 per FTO of gold and no less than \$1.292929292 per FTO of silver. Accordingly, the silver is valued at \$1.292929292 per FTO. The market values of the gold and silver reserves we disclose below are based on the London Gold Fixing. As of September 30, 2025, the values of gold and silver reserves consisted of the following:

|                                       | FTOs               | Statutory Rate | 2025<br>Statutory<br>Carrying<br>Value<br>(in millions) | Market<br>Rate Per<br>FTO | 2025<br>Market<br>Value<br>(in millions) |
|---------------------------------------|--------------------|----------------|---------------------------------------------------------|---------------------------|------------------------------------------|
| Gold Held by U.S. Mint                | 248,046,116 \$     | 42.2222 \$     | 10,473 \$                                               | 3,825.30 \$               | 948,851                                  |
| Gold Held by Federal Reserve Banks    | 13,452,811 \$      | 42.2222        | 568 \$                                                  | 3,825.30                  | 51,461                                   |
| <b>Total Gold</b>                     | <b>261,498,927</b> |                | <b>11,041</b>                                           |                           | <b>1,000,312</b>                         |
| Silver                                | 16,000,000 \$      | 1.2929         | 21 \$                                                   | 46.18                     | 739                                      |
| <b>Total Gold and Silver Reserves</b> |                    | <b>\$</b>      | <b>11,062</b>                                           | <b>\$</b>                 | <b>1,001,051</b>                         |

## 7. RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND AND RELATED BORROWING ARRANGEMENTS

The U.S. participates in the IMF through a quota subscription and a separate borrowing arrangement—the New Arrangements to Borrow (NAB)—that supplements IMF resources.

As a result of the *Consolidated Appropriations Act, 2016*, P.L. 114-113, we obtained appropriation warrants to cover the full amount of the commitment made to the IMF and received current indefinite authority to maintain the U.S. dollar equivalent of the SDR funding commitment levels. The IMF transactions—other than related interest earnings and cost estimates for U.S. quota and NAB adjustments—are not reported as budgetary resources and uses on our Combined Statement of Budgetary Resources.

### RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND

We pay quota subscriptions partly through the transfer of reserve assets—such as foreign currencies or SDRs, which are international reserve assets the IMF created—and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, which we issue and the FRBNY maintains, represents our available commitment to the IMF, which may be drawn upon by the IMF.

Transfers to the IMF under the U.S. quota do not result in net budgetary outlays as they constitute an exchange of monetary assets in which the U.S. receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF. Similarly, when the IMF repays SDRs or dollars to the U.S., no net budgetary receipt results because the U.S. reserve position declines concurrently in an equal amount. The U.S. reserve position is an interest-bearing asset like other international reserve assets the U.S. holds, and is available at any time to meet U.S. funding needs.

The U.S. quota is denominated in SDRs. As of September 30, 2025, the U.S. quota in the IMF was SDR 83.0 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following:

| (in millions)                      |           | 2025           |
|------------------------------------|-----------|----------------|
| Letter of Credit <sup>(1)</sup>    | \$        | 83,269         |
| Reserve Position <sup>(2)</sup>    |           | 30,368         |
| <b>Total U.S. Quota in the IMF</b> | <b>\$</b> | <b>113,637</b> |

(1) We include Letter of Credit amounts as part of the “Fund Balance” as reported on the Consolidated Balance Sheet. Amounts also include approximately 0.25 percent of the U.S. quota held in cash in an IMF account at the FRBNY.

(2) We report the Reserve Position amounts as “Reserve Position in the IMF” on the Consolidated Balance Sheet.

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. We periodically adjust this balance to maintain the SDR value of the U.S. quota as required by the IMF Articles of Agreement. The U.S. quota reflects adjustments in value due to the appreciation and depreciation of the U.S. dollar against the SDR.

### IMF BORROWING ARRANGEMENTS

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The U.S. has the authority to participate in the NAB. When the U.S. transfers funds to the IMF under the NAB, the U.S. receives in exchange a liquid and interest-bearing claim on the IMF.

The U.S. participation in the NAB as of September 30, 2025 was SDR 56.4 billion, which was equivalent to \$77.3 billion. There were no loans outstanding under the U.S. NAB arrangement with the IMF as of September 30, 2025.

## 8. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2025, Taxes, Interest, and Other Receivables, Net consisted of the following:

| (in millions)                                            | 2025             |
|----------------------------------------------------------|------------------|
| <b>Non-Entity</b>                                        |                  |
| Federal Taxes Receivable, Gross                          | \$ 361,619       |
| Less Allowance on Taxes Receivable                       | (270,120)        |
| Receivable on FRB Deposits of Earnings                   | 217              |
| Other Receivables                                        | 2,184            |
| Less Allowance on Other Receivables                      | (196)            |
| <b>Total Non-Entity (Note 15)</b>                        | <b>93,704</b>    |
| <b>Entity</b>                                            |                  |
| Miscellaneous Entity Receivables and Related Interest    | 195              |
| <b>Total Taxes, Interest, and Other Receivables, Net</b> | <b>\$ 93,899</b> |

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related federal taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of delinquent tax assessments, penalties, and interest, which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. These receivables also include non-delinquent IRC 965(h) amounts.

The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable (refer to the section entitled *Required Supplementary Information (unaudited)* for additional discussion on IRS Federal Taxes Receivable, Net).

In addition to amounts attributed to taxes, these receivables also include accrued interest income due on funds deposited in FRBs. We do not establish an allowance for the receivable on deposits of FRB earnings because weekly deposits are required by the Federal Reserve Act, as amended, and there has been no history of uncollectible accounts.

## 9. LOANS RECEIVABLE, NET

### LOANS AND INTEREST RECEIVABLE, NET

Disruption to economic activity caused by the spread of COVID-19 in the early spring of 2020 placed significant pressure on U.S. airlines and the aviation industry as a whole. In FY 2020 and 2021, Congress took steps to limit the damage caused by the pandemic in the U.S. by passing several key statutes, including the *Coronavirus Aid, Relief, and Economic Security Act*, P.L. 116-136 (CARES Act), the *Consolidated Appropriations Act, 2021*, P.L. 116-260 (CAA), and the *American Rescue Plan Act of 2021*, P.L. 117-2 (ARP). Authorized by these statutes, we established three payroll support programs (PSPs) to provide relief to this industry by helping to preserve aviation jobs and compensate air carrier industry workers. Specifically, the PSPs provided financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be used exclusively for the continuation of payment of employee salaries, wages, and benefits.

These statutes further authorized the Secretary to receive from PSP recipients, among other things, debt securities and other financial instruments to provide appropriate compensation to the federal government for providing financial assistance. We report the promissory notes we received as compensation with “*Loans and Interest Receivable, Net*” on the Consolidated Balance Sheet. We received no promissory notes during the fiscal year ended September 30, 2025. The recipients repaid an aggregate total of \$2.8 billion of principal on the promissory notes during the fiscal year ended September 30, 2025.

Our promissory notes totaling \$10.8 billion as of September 30, 2025, are presented net of an allowance for doubtful accounts estimated at \$893 million, within the “*Loans and Interest Receivable, Net*,” on the Consolidated Balance Sheet. Interest on the notes is payable semi-annually on March 31 and September 30 of each year. For the fiscal year ended September 30, 2025, we recognized interest revenue of \$247 million.

### CREDIT PROGRAM RECEIVABLES, NET

We administer a number of programs designed to stabilize the nation’s financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2025, Credit Program Receivables, Net consisted of the following:

| (in millions)                                                  | 2025            |
|----------------------------------------------------------------|-----------------|
| Poverty Reduction & Growth Trust (IMF sponsored)               | \$ 4,993        |
| CDFI Fund's Bond Guarantee Program (BGP)                       | 1,553           |
| State and Local Housing Finance Agency Program (GSE sponsored) | 890             |
| Other <sup>(1)</sup>                                           | 754             |
| <b>Total Credit Program Receivables, Net</b>                   | <b>\$ 8,190</b> |

(1) Includes LAP, ESF, other CDFI, and SBLF credit program receivables valued at \$592 million, \$79 million, \$48 million, and \$35 million, respectively, as of September 30, 2025.

#### Poverty Reduction & Growth Trust (IMF sponsored)

The *Further Consolidated Appropriations Act, 2024*, P.L. 118-47, authorized the U.S. to provide a loan to the IMF’s Poverty Reduction and Growth Trust (PRGT). Through the PRGT, the IMF provides loans to low-income countries facing macroeconomic instability. These loans are extended through the IMF arrangements that support well-designed economic programs to help countries stabilize their economies, boost growth, and improve debt sustainability, while also helping to generate additional financing from other sources. Under a bilateral loan agreement with the IMF, Treasury committed

\$21.0 billion to the PRGT through a revolving credit facility. The IMF draws funds from the facility as needed to support its concessional lending operations, with the United States earning interest at the SDR rate for these lent resources. Treasury began disbursing resources to the IMF under this credit facility in FY 2025. As of September 30, 2025, the PRGT's net credit program receivable of \$5.0 billion included a negative subsidy allowance of \$128 million, which reflects our projection that the program will result in a net revenue to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the program's cost as of September 30, 2025. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of \$100 million as of September 30, 2025. The downward re-estimates in FY 2025 was primarily driven by changes in the valuation of the U.S. dollar against the SDR.

### **CDFI Fund's Bond Guarantee Program (BGP)**

The *Small Business Jobs Act of 2010*, P.L. 111-240, created the CDFI-BGP. The CDFI Fund issues guarantees for the full amount of bonds issued to support CDFIs that make investments for eligible community or economic development purposes. The bonds support CDFI lending and investment by providing a source of long-term capital to CDFIs. As of September 30, 2025, the CDFI-BGP net credit program receivable of \$1.6 billion, included a negative subsidy allowance of \$64 million, which reflects our projection that the program will result in a net revenue to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the program's cost as of September 30, 2025. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of \$12 million as of September 30, 2025. The downward re-estimate in FY 2025 was driven by changes in performance assumptions, actual performance to date, and actual program funding cost.

### **State and Local Housing Finance Agency Program (GSE sponsored)**

Under the *Housing and Economic Recovery Act of 2008*, P.L. 110-289 (HERA), we, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. The HFA Program is comprised of the New Issue Bond Program (NIBP) that 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. Under the terms of the NIBP, we purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds HFAs issued. As of September 30, 2025, the HFA net credit program receivable of \$890 million, included a positive subsidy allowance of \$119 million, which reflects our projection that the HFA program will result in a net cost to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2025. This re-estimate resulted in an upward re-estimate, or an increase in the cost of the program, of \$6 million as of September 30, 2025. The upward re-estimate in FY 2025 was primarily driven by changes in performance assumptions and lower than estimated principal and interest collections.

## 10. ADVANCES AND PREPAYMENTS

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The global spread of the COVID-19 resulted in a severe global health and economic crisis. The relief funding provided by the CARES Act, CAA, and ARP primarily between fiscal years 2020 and 2023 helped reduce the financial burden on individuals and their families, minimized business and employment losses, and enhanced the liquidity of the U.S. financial system.

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), established in FY 2021 in accordance with the ARP, provided a combined \$350.0 billion, remained available through December 31, 2024, to state, local, territorial, and Tribal governments to reduce the fiscal effects stemming from COVID-19, and laid the foundation for a strong recovery. Of the \$350.0 billion appropriated in FY 2021 for this program, we disbursed an aggregate cumulative total of \$349.9 billion as of September 30, 2025. As of September 30, 2025, the outstanding Advances and Prepayments reported on the Consolidated Balance Sheet totaled \$39.0 billion, of which \$38.3 billion was associated with the SLFRF program.

## 11. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

Congress established Fannie Mae and Freddie Mac as GSEs to provide stability and increase liquidity in the secondary mortgage market and to promote access to mortgage credit throughout the nation. A key function of the GSEs is to purchase mortgages, package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

Congress passed HERA (P.L. 110-289) in July 2008 in response to the financial crisis that year and the increasingly difficult conditions in the housing market, which challenged the soundness and profitability of the GSEs and thereby threatened to undermine the entire housing market. This act created FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary with certain authorities intended to ensure the solvency of the GSEs, if necessary. In 2008, FHFA placed the GSEs under conservatorship, and we invested in the GSEs by entering into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. We took these actions to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability. The purpose of such actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the mortgage market while the Administration and Congress determine what structural changes should be made to the housing finance system. Draws under the SPSPAs would result in an increased investment in the GSEs as further discussed below.

In return for committing to maintain the GSEs' solvency by making a quarterly advance of funds to each GSE in an amount equal to any excess of the GSEs' total liabilities over its total assets as of the end of the previous quarter, we initially received from each GSE: (i) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share, and (ii) a non-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. We were entitled to distributions on our senior preferred stock equal to a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below). In the third amendment to the SPSPAs in August 2012, this dividend structure was changed to a variable equivalent to the GSEs' positive net worth above a capital reserve amount. The capital reserve amount was initially set at \$3.0 billion for calendar year 2013 and, upon nearing its scheduled decline to zero, was reset at \$3.0 billion in calendar year 2017.

On September 27, 2019, the Department and FHFA amended the SPSPAs to increase the capital reserve amounts of Fannie Mae and Freddie Mac to \$25 billion and \$20 billion, respectively. In exchange, our liquidation preference in each GSE was scheduled to gradually increase up to the adjusted capital reserve amounts based on the quarterly earnings of each GSE.

On January 14, 2021, the Department and FHFA further amended the SPSPAs to replace the prior variable dividend with an alternative compensation plan for the Department that permits the GSEs to continue their recapitalization efforts, as prescribed by the GSE capital framework finalized by FHFA in 2020. Under the amended SPSPAs, each GSE is permitted to retain capital until the GSE has achieved its regulatory minimum capital requirement, including buffers (*i.e.*, the capital reserve end date), at which point its cash dividend obligations will resume along with the obligation to pay a periodic commitment fee. As compensation to Treasury for the replacement of the variable dividend, the liquidation preference of Treasury's senior preferred stock in each GSE will increase quarterly by the amount of retained capital until each GSE has achieved its capital reserve end date.

Additionally, the January 14 amendment, among other things, imposed restrictions on certain GSE business activities, including purchases of loans backed by investment properties, second homes, and multifamily properties, and on purchases

of loans with multiple high-risk characteristics or for cash consideration. On September 14, 2021, Treasury and FHFA entered into letter agreements to suspend certain business activity restrictions added to the SPSPAs by the January 14 amendment while FHFA undertook a review of the extent to which these requirements are redundant or inconsistent with existing FHFA standards, policies, and directives. On January 2, 2025, Treasury and FHFA entered into letter agreements and a related side letter to remove the suspended business activity restrictions added to the SPSPAs by the January 14 amendment, established a review process that will apply before a potential release of the GSEs from conservatorship, and made other non-substantive administrative and legal changes.

For the fiscal year ended September 30, 2025, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by \$15.2 billion and \$11.6 billion, respectively. The GSEs will not pay a quarterly dividend until after the capital reserve end date. We received no cash dividends for the fiscal year ended September 30, 2025, as the GSEs had not achieved their capital reserve end date as of September 30, 2025.

The SPSPAs, which have no expiration date, require us to disburse funds to either GSE if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement, established as of December 31, 2012 (refer to the "*Contingent Liability to GSEs*" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, they increase the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled \$360 billion as of September 30, 2025. There were no payments to the GSEs for the fiscal year ended September 30, 2025.

## ACCOUNTING TREATMENT

***Entity Transactions***— If we estimate a probable and reasonably estimable contingent liability to the GSEs, we will accrue and report this liability on our Consolidated Balance Sheet and fund the liability through our direct appropriations. We will report the liability accrual, if any, at its gross amount as an "entity" cost on our Consolidated Statement of Net Cost, and within the line item, "*Cumulative Results of Operations*" on our Consolidated Balance Sheet, without considering the increase in senior preferred stock liquidation preference/fair value adjustments, and future dividend receipts from the GSEs.

***Non-Entity Transactions***— If we make actual payments to the GSEs, they will result in increases to the U.S. government's liquidation preference in the GSEs' senior preferred stock, and thus represent General Fund exchange revenue reported on our Consolidated Statement of Net Cost as "*GSEs Non-Entity Revenue, Net.*" Changes in the fair valuation of the GSE preferred stock and common stock warrants, and related dividends received, are General Fund-related costs and revenues which we report as "*GSEs Non-Entity Revenue, Net.*"

## INVESTMENTS IN GSEs

As of September 30, 2025, our investments in the GSEs consisted of the following:

| GSEs Investments (in millions)     | Gross<br>Investments<br>As of 9/30/25 | Cumulative<br>Valuation<br>Gain/(Loss) | Fair Value<br>As of 9/30/25 |
|------------------------------------|---------------------------------------|----------------------------------------|-----------------------------|
| Fannie Mae Senior Preferred Stock  | \$ 222,974                            | \$ (81,074)                            | \$ 141,900                  |
| Freddie Mac Senior Preferred Stock | 137,284                               | 16,716                                 | 154,000                     |
| Fannie Mae Warrants Common Stock   | 3,104                                 | 47,326                                 | 50,430                      |
| Freddie Mac Warrants Common Stock  | 2,264                                 | 25,866                                 | 28,130                      |
| <b>Total GSEs Investments</b>      | <b>\$ 365,626</b>                     | <b>\$ 8,834</b>                        | <b>\$ 374,460</b>           |

## SENIOR PREFERRED STOCK AND WARRANTS FOR COMMON STOCK

In determining the fair value of the senior preferred stock and warrants for common stock, we relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Market, discussions with each of the GSEs and FHFA, and other information pertinent to the valuations. Because the senior preferred stock is not publicly traded, there is no comparable trading information available. The fair valuation of the senior preferred stock relies on significant Level 3 unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing (refer to Notes 1I and 1V). The fair value of the senior preferred stock considers forecasted cash flows to equity holders and the traded prices of the GSE's other equity securities, including the GSE's common stock and junior preferred stock.

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market prices and trading volumes of the underlying common stock as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants is primarily determined using observable inputs, specifically the Level 1 fair value measurement based on the market price of the underlying common stock of each GSE.

## CONTINGENT LIABILITY TO GSEs

As part of the annual process, we prepare a series of long-term financial forecasts to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. We used 25-year financial forecasts prepared through year 2050 in assessing if a contingent liability was required as of September 30, 2025. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and we can reasonably estimate such payment, we will accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. We do not discount this accrued contingent liability, nor do we take into account any of the offsetting dividends that we could receive, as the dividends, if any, would be owed directly to the General Fund. We will adjust such recorded accruals in subsequent years as new information develops or circumstances change.

Based on our annual assessment, we estimated there was no probable future funding draws as of September 30, 2025, and thereby accrued no contingent liability. However, it is reasonably possible that a period of sustained economic and housing market volatility could potentially cause the GSEs to generate quarterly losses of sufficient magnitude to result in future funding draws against our funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of such events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2025. There were no payments to the GSEs for the fiscal year ended September 30, 2025.

At September 30, 2025, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was \$254.1 billion.

In assessing the need for an estimated contingent liability, we rely on the GSEs' public filings and press releases, including their financial statements, monthly business summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2025, include two potential scenarios, with varying assumptions regarding the continuation of the GSEs new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts as of September 30, 2025, also assumed the maintenance of the GSEs' retained mortgage portfolios below the maximum permitted under the amended SPSPAs.

## ESTIMATION FACTORS

Our forecasts concerning the GSEs may differ from actual results. Estimated senior preferred values and future draw amounts will depend on numerous factors that are difficult to predict including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

## GSEs Non-Entity Revenue

For the fiscal year ended September 30, 2025, GSEs Non-Entity Revenue, Net consisted of the following:

| Summary of GSEs Non-Entity Revenue (in millions)                                     | 2025            |
|--------------------------------------------------------------------------------------|-----------------|
| General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock | (26,742)        |
| Fair Value Gain on GSEs Warrants/Preferred Stock                                     | (41,918)        |
| <b>Total GSEs Non-Entity Revenue, Net</b>                                            | <b>(68,660)</b> |

## REGULATORY ENVIRONMENT

To date, Congress has not passed legislation nor has FHFA taken action to end the GSEs' conservatorships. The GSEs continue to operate under the direction of FHFA as conservator.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees"), which began in April 2012, and was extended by the *Infrastructure Investment and Jobs Act of 2021* (P.L. 117-58) through September 30, 2032. The incremental fees are remitted to us and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FY 2025, the GSEs remitted to us the incremental fees totaling \$6.4 billion, which are reported within the line item "*Fines, Penalties, Interest and Other Revenue*" on our Statement of Custodial Activity.

## 12. INVESTMENTS IN MULTILATERAL DEVELOPMENT BANKS

As of September 30, 2025, Investments in Multilateral Development Banks consisted of the following:

| (in millions)                                         | 2025            |
|-------------------------------------------------------|-----------------|
| International Bank for Reconstruction and Development | \$ 4,089        |
| Inter-American Development Bank <sup>(1)</sup>        | 2,023           |
| Asian Development Bank                                | 991             |
| African Development Bank                              | 707             |
| European Bank for Reconstruction and Development      | 636             |
| International Finance Corporation                     | 569             |
| North American Development Bank                       | 450             |
| Multilateral Investment Guarantee Agency              | 45              |
| <b>Total</b>                                          | <b>\$ 9,510</b> |

*Refer to Note 27 for a description of the additional commitments related to these institutions.*

*(1) Includes Inter-American Investment Corporation*

## 13. OTHER INVESTMENTS, NET

### INVESTMENT IN SPECIAL PURPOSE VEHICLE

In FY 2020, pursuant to its emergency-lending authority under Section 13(3) of the Federal Reserve Act, the FRBNY and FRBB implemented certain emergency lending facilities. These facilities operated through Special Purpose Vehicles (SPVs), which were governed by Limited Liability Company (LLC) agreements between Treasury and the applicable FRB. Through these SPVs, loans were issued, and debt and other commercial paper of eligible entities affected by COVID-19 were purchased. Prior to FY 2025, all but one SPV facility was closed, and final distributions were made to Treasury. As of September 30, 2025, the MS Facilities 2020 LLC (MSF) was the only remaining facility. The MSF was established by the FRBB in May 2020 in which we disbursed \$37.5 billion for a preferred equity interest in the SPV, which purchased loan participations. Loans issued under this program have a five-year maturity, with principal and interest payments deferred for two years and one year, respectively. The SPV ceased purchasing loan participations in January 2021.

The FRBB is the managing member of the SPV and has the exclusive right to manage the business of the SPV and all the powers and rights necessary to carry out the purposes and business of the SPV. As a preferred equity member, we have no voting, consent, or control rights over the SPVs.

Upon dissolution of the SPV, we will be entitled to an amount equal to the cash balance of the preferred equity account plus 90 percent of the cash balance in all the other accounts of the SPV. The final distribution to Treasury upon dissolution will be used to repay Treasury's related outstanding debt and subsidy costs incurred associated with our preferred equity investment in the SPV. In accordance with the CARES Act, any remaining residual proceeds will be transferred to the Federal Old-Age and Survivors Insurance Trust Fund established under Section 201(a) of the *Social Security Act*. We treat this transfer as a non-entity transaction. As of September 30, 2025, we do not anticipate any residual proceeds.

The SPV LLC agreement provides for semiannual interim distributions to Treasury. During the fiscal year ended September 30, 2025, we received \$2.9 billion in interim distributions, reducing our outstanding equity contribution as September 30, 2025 to \$2.0 billion (excluding the cumulative fair valuation associated with this asset). We repaid Treasury's outstanding debt owed to the BFS incurred in connection with this investment transaction. The interim distributions to Treasury represent the amounts by which funds that were contributed by Treasury to the facility (and earnings thereon)

exceeded the purchase price of the loan participations, as the case may be, within the facility at such time. We cannot use our funds remaining in the SPV funded under the CARES Act for further lending, asset purchases, or extensions of credit.

We accounted for the SPV investment at fair value, derived using Level 3 inputs, including, among other things, relevant market data, third-party credit scores, and internal analysis. Because the instruments are not publicly traded, there is no comparable trading information available. We record changes in the fair value of this investment as realized or unrealized fair value gains or losses within the “Economic Program” on the Consolidated Statement of Net Cost.

The following table provides a roll forward of our SPV preferred equity investment balance at fair value as of September 30, 2025:

| Investment in SPV (in millions)              | 2025            |
|----------------------------------------------|-----------------|
| Beginning Balance                            | \$ 5,985        |
| Sale/Repayment of Investments <sup>(1)</sup> | (2,929)         |
| Valuation Adjustments                        | (444)           |
| Other                                        | 33              |
| <b>Ending Balance</b>                        | <b>\$ 2,645</b> |

(1) Includes interim distributions.

## OTHER, NET

Other, Net includes foreign currency holdings and equity securities held pursuant to the Emergency Capital Investment Program which was established in response to the COVID-19 pandemic.

## Foreign Currency Holdings

Foreign currency holdings are typically invested in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). The ESF holds most of our foreign currency investments. Of the total \$5.3 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2025, \$2.5 billion will mature within one year, \$2.7 billion will mature after one year but before five years, and \$0.1 billion will mature after five years but before ten years.

## Emergency Capital Investment Program

Established under the CAA, the Emergency Capital Investment Program encourages low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities that may have been disproportionately impacted by the economic effects of the COVID-19 pandemic. The program had authority to provide up to \$9.0 billion in capital directly to depository institutions and holding companies through purchases of preferred stock or subordinated debt from certified CDFIs or minority depository institutions (MDIs), which was fully disbursed by September 2023.

All cash proceeds we receive in connection with these investments, including dividend and interest payments, and proceeds from the sale of these investments, are transferred to the CDFI Fund—a Treasury component—to be used to provide financial and technical assistance pursuant to the *Community Development Banking and Financial Institutions Act of 1994*. We transferred cash proceeds of \$139 million to the CDFI Fund for the fiscal year ended September 30, 2025.

We account for the preferred stock and subordinated debt investments at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the *“Economic Program”* on the Consolidated Statement of Net Cost. As the incentives and other conditions of our capital investments result in more favorable terms than available to the CDFIs and MDIs from private investors and more favorable terms compared to investment pricing available in the conventional financial markets, their fair values are less than the amounts we paid at acquisition. As of September 30, 2025, our preferred stock and subordinated debt investments were valued at \$1.4 billion which includes a fair value loss of \$1.5 billion recognized in FY 2025.

The table below presents the fair value measurements hierarchy classification by investment type:

| Investment Type (in millions)        | Fair Value Measurement of Other, Net as of September 30, 2025 |              |             |              | Total        |
|--------------------------------------|---------------------------------------------------------------|--------------|-------------|--------------|--------------|
|                                      |                                                               | Level 1      | Level 2     | Level 3      |              |
| Foreign Investments                  | \$                                                            | 5,320        | \$ -        | \$ -         | 5,320        |
| Emergency Capital Investment Program |                                                               | -            | -           | 1,365        | 1,365        |
| Other Investments                    |                                                               | 56           | -           | 4            | 60           |
| <b>Total Fair Value Measurements</b> | <b>\$</b>                                                     | <b>5,376</b> | <b>\$ -</b> | <b>1,369</b> | <b>6,745</b> |

The following table provides a roll forward of our investment balances as of September 30, 2025:

| (in millions)                                        | 2025            |
|------------------------------------------------------|-----------------|
| Beginning Balance                                    | \$ 6,013        |
| Acquisition of Investments <sup>(1)</sup>            | 12,882          |
| (Loss)/Gain on Sales/Dispositions                    | 746             |
| Sale/Repayment of Investments <sup>(1)</sup>         | (11,663)        |
| Valuation Adjustments                                | (1,196)         |
| Change in Accrued Dividend/Interest Income and Other | (37)            |
| <b>Ending Balance</b>                                | <b>\$ 6,745</b> |

*(1) The significant change is primarily related to foreign investments activity.*

## 14. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2025, Property, Plant, and Equipment, Net consisted of the following:

| (in millions)                        | Service Life <sup>(1)</sup> | Cost             | Accumulated Depreciation/Amortization | 2025 Net Book Value |
|--------------------------------------|-----------------------------|------------------|---------------------------------------|---------------------|
| Buildings, Structures and Facilities | 3 - 50 years                | \$ 1,334         | \$ (713)                              | \$ 621              |
| Furniture, Fixtures and Equipment    | 2 - 20 years                | 2,791            | (1,921)                               | 870                 |
| Construction-in-Progress             | N/A                         | 438              | -                                     | 438                 |
| Land                                 | N/A                         | 12               | -                                     | 12                  |
| Internal-Use Software in Use         | 2 - 15 years                | 4,862            | (3,754)                               | 1,108               |
| Internal-Use Software in Development | N/A                         | 1,560            | -                                     | 1,560               |
| Right-To-Use Lease Assets            | 2 - 20 years                | 602              | (95)                                  | 507                 |
| Leasehold Improvements               | 2 - 20 years                | 501              | (268)                                 | 233                 |
| <b>Total</b>                         |                             | <b>\$ 12,100</b> | <b>\$ (6,751)</b>                     | <b>\$ 5,349</b>     |

(1) The service life ranges vary significantly due to the diverse nature of PP&E we hold.

The following table provides a reconciliation of changes in PP&E, Net for the fiscal year ended September 30, 2025:

| (in millions)                         | 2025            |
|---------------------------------------|-----------------|
| Balance Beginning of Year             | \$ 4,677        |
| Capitalized Acquisitions              | 1,224           |
| Right-To-Use Lease Assets Activity    | 3               |
| Dispositions                          | (64)            |
| Depreciation and Amortization Expense | (491)           |
| <b>Balance at End of Year</b>         | <b>\$ 5,349</b> |

### STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT

We currently have 15 heritage assets, of which five are considered multi-use. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset, along with the collection of artifacts within, and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six collections of historical artifacts. They include various coins produced over the years, furniture and equipment used in Mint's facilities, and examples of the coin manufacturing process. These items are collection-type assets that are maintained for exhibition and are preserved indefinitely because of their historical, cultural, educational, or artistic importance.

## 15. NON-ENTITY VS. ENTITY ASSETS

Non-entity assets are those that we hold and manage on behalf of the General Fund but are not available for our use. The table below shows our total assets, segregated between non-entity and entity, as of September 30, 2025:

| (in millions)                                                | 2025                 |                   |                      |
|--------------------------------------------------------------|----------------------|-------------------|----------------------|
|                                                              | Non-Entity           | Entity            | Total                |
| <b>Intra-Governmental</b>                                    |                      |                   |                      |
| Fund Balance (Note 2) <sup>(a)</sup>                         | \$ 33,247            | \$ 471,453        | \$ 504,700           |
| Loans Receivable:                                            |                      |                   |                      |
| Loans and Interest Receivable (Note 3)                       | 1,982,976            | 221,103           | 2,204,079            |
| Advances to Trust Funds (Note 3)                             | 24,291               | -                 | 24,291               |
| Other Assets:                                                |                      |                   |                      |
| Due From the General Fund (Note 4)                           | 37,664,208           | -                 | 37,664,208           |
| Other <sup>(b)</sup>                                         | 1,990                | 78                | 2,068                |
| <b>Total Intra-Governmental</b>                              | <b>39,706,712</b>    | <b>692,634</b>    | <b>40,399,346</b>    |
| <b>Other Than Intra-Governmental</b>                         |                      |                   |                      |
| Cash and Other Monetary Assets:                              |                      |                   |                      |
| Cash, Foreign Currency, and Other Monetary Assets (Note 5)   | 872,456              | 190,136           | 1,062,592            |
| Gold and Silver Reserves (Note 6)                            | 11,062               | -                 | 11,062               |
| Reserve Position in the International Monetary Fund (Note 7) | -                    | 30,368            | 30,368               |
| Accounts Receivable, Net:                                    |                      |                   |                      |
| Taxes, Interest, and Other Receivables, Net (Note 8)         | 93,704               | 195               | 93,899               |
| Loans Receivable, Net:                                       |                      |                   |                      |
| Loans and Interest Receivable, Net (Note 9)                  | 10,811               | -                 | 10,811               |
| Credit Program Receivables, Net (Note 9)                     | -                    | 8,190             | 8,190                |
| Advances and Prepayments (Note 10)                           | -                    | 38,979            | 38,979               |
| Investments in GSEs (Note 11)                                | 374,460              | -                 | 374,460              |
| Other Investments:                                           |                      |                   |                      |
| Investments in Multilateral Development Banks (Note 12)      | -                    | 9,510             | 9,510                |
| Investments in Special Purpose Vehicles (Note 13)            | -                    | 2,645             | 2,645                |
| Other, Net (Note 13)                                         | 1                    | 6,744             | 6,745                |
| Property, Plant, and Equipment, Net (Note 14)                | -                    | 5,349             | 5,349                |
| Other Assets <sup>(c)</sup>                                  | -                    | 4,009             | 4,009                |
| <b>Total Other Than Intra-Governmental</b>                   | <b>1,362,494</b>     | <b>296,125</b>    | <b>1,658,619</b>     |
| <b>Total Assets</b>                                          | <b>\$ 41,069,206</b> | <b>\$ 988,759</b> | <b>\$ 42,057,965</b> |

<sup>(a)</sup> \$24.9 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).

<sup>(b)</sup> Consists of accounts receivable, net and advances and prepayments totaling \$2.0 billion and \$43 million, respectively.

<sup>(c)</sup> Consists primarily of inventory and related property: inventory \$2.1 billion, forfeited property \$1.9 billion, and operating materials and supplies \$93 million.

## 16. FEDERAL DEBT AND INTEREST PAYABLE AND RELATED LIABILITIES

Treasury is responsible for administering the federal debt on behalf of the U.S. government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt does not include debt other governmental agencies issue, including agencies such as the Tennessee Valley Authority or Department of Housing and Urban Development.

Debt held by the public primarily represents the amount the U.S. government has borrowed to finance cumulative cash deficits. In contrast, debt held by other federal agencies, primarily trust funds, represents balances of Treasury securities held by individual federal agencies with either the authority or the requirement to invest excess receipts in Treasury securities, with the principal and interest guaranteed by the full faith and credit of the U.S. government.

Federal Debt and Interest Payable as of September 30, 2025 is as follows:

| <b>Held by Other Federal Agencies (Intra-Governmental) (in millions)</b> |           | <b>2025</b>      |
|--------------------------------------------------------------------------|-----------|------------------|
| Beginning Balance                                                        | \$        | 7,122,932        |
| New Borrowings - Net of Repayments                                       |           | 193,837          |
| <b>Subtotal at Par Value</b>                                             |           | <b>7,316,769</b> |
| (Discount) Premium                                                       |           | (49,267)         |
| Debt Principal Not Covered by Budgetary Resources (Note 19)              |           | 7,267,502        |
| Interest Payable Covered by Budgetary Resources                          |           | 42,250           |
| <b>Total</b>                                                             | <b>\$</b> | <b>7,309,752</b> |

| <b>Held by the Public (in millions)</b>                     |           | <b>2025</b>       |
|-------------------------------------------------------------|-----------|-------------------|
| Beginning Balance                                           | \$        | 28,307,312        |
| New Borrowings - Net of Repayments                          |           | 1,970,454         |
| <b>Subtotal at Par Value</b>                                |           | <b>30,277,766</b> |
| (Discount)                                                  |           | (125,629)         |
| Debt Principal Not Covered by Budgetary Resources (Note 19) |           | 30,152,137        |
| Interest Payable Covered by Budgetary Resources             |           | 159,693           |
| <b>Total</b>                                                | <b>\$</b> | <b>30,311,830</b> |

### FEDERAL DEBT HELD BY OTHER FEDERAL AGENCIES

Certain federal agencies are allowed to invest excess funds in debt securities we issue on behalf of the U.S. government. The terms and the conditions of debt securities we issue allow the U.S. government to meet its cash needs. The vast majority of debt securities held by federal agencies are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS) and Floating Rate Notes (FRNs), for FY 2025 was 3.1 percent. The average intra-governmental interest rate on TIPS inflation-adjusted principal for FY 2025 was 1.2 percent. The average interest rate on FRNs for FY 2025 was 4.0 percent. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt federal agencies held at par value (not including premium/discount or interest payable) as of September 30, 2025 is as follows:

| (in millions)                                            | 2025                |
|----------------------------------------------------------|---------------------|
| Social Security Administration                           | \$ 2,616,160        |
| Office of Personnel Management                           | 1,207,608           |
| Department of Defense Agencies                           | 2,235,989           |
| Department of Health and Human Services                  | 411,296             |
| All Other Federal Entities — Consolidated                | 845,716             |
| <b>Total Federal Debt Held by Other Federal Agencies</b> | <b>\$ 7,316,769</b> |

*These amounts do not include intra-departmental debt and related interest that are eliminated from our financial statements.*

## FEDERAL DEBT HELD BY THE PUBLIC

Federal Debt Held by the Public at par value (not including premium/discount or interest payable) as of September 30, 2025 consisted of the following:

| (at par value in millions)                     | Term                       | Average Interest Rates | 2025                 |
|------------------------------------------------|----------------------------|------------------------|----------------------|
| <b>Marketable:</b>                             |                            |                        |                      |
| Treasury Bills                                 | 1 Year or Less             | 4.2%                   | \$ 6,396,631         |
| Treasury Notes                                 | Over 1 Year - 10 Years     | 3.1%                   | 15,387,391           |
| Treasury Bonds                                 | Over 10 Years              | 3.3%                   | 5,133,118            |
| Treasury Inflation-Protected Securities (TIPS) | 5 Years or More            | 0.9%                   | 2,087,362            |
| Treasury Floating Rate Notes (FRN)             | 2 Years                    | 4.0%                   | 690,500              |
| <b>Total Marketable</b>                        |                            |                        | <b>29,695,002</b>    |
| Non-Marketable                                 | On Demand to Over 40 Years | 3.8%                   | 582,764              |
| <b>Total Federal Debt Held by the Public</b>   |                            |                        | <b>\$ 30,277,766</b> |

We generally issue Treasury bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. government. We issue marketable bills at a discount or at par, and pay the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year end. We issue marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. We issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end.

We also issue TIPS that have interest and redemption payments tied to the Consumer Price Index (CPI) for all Urban Consumers, a widely used measurement of inflation. We adjust the principal for TIPS daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on the inflation-adjusted principal, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The inflation-adjusted TIPS principal balance of federal debt held by the public included inflation of \$377.4 billion as of September 30, 2025.

We also issue marketable FRNs which accrue interest daily and pay the aggregated interest on a quarterly basis. The interest rate is based on two components; the interest rate tied to the highest accepted discount rate of the most recent 13-week marketable bill auction and the spread rate, which is the highest accepted discount rate determined at auction when the FRN is first offered. Similar to marketable notes and bonds, we issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted

discount rate of the most recent 13-week marketable auction as of September 30, adjusted by any discount or premium on securities outstanding as of that date.

In addition to issuing new securities, we are also authorized to redeem existing debt early. 31 USC 3111 authorizes us to use money received from the sale of an obligation and other money in the General Fund to “buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the United States Government.” The authority to buy back securities enables us to better achieve debt management objectives of liquidity support, bolstering market liquidity and cash management, reducing volatility in Treasury cash balance and bill issuance, minimizing bill supply disruptions, and reducing borrowing costs over time. A buyback occurs when we redeem outstanding marketable Treasury securities prior to their maturity dates. In a buyback, the owner of the security sells it to us on a voluntary basis at a price determined by a competitive auction process. Once the securities have been redeemed, the total public debt outstanding is reduced by the amount of the buyback operation.

The first of these buybacks occurred in FY 2000 and continued through FY 2002. We did not conduct buybacks again until FY 2015, when we conducted two small-value buybacks to ensure operational readiness of our buyback infrastructure. We continued to conduct regular small-value buyback operations periodically to ensure operational readiness through April 2024. In May 2024, we began regular buyback operations, which continued through the end of the fiscal year. The regular buybacks included liquidity support buybacks, from May 2024 through September 2024, and cash management buybacks in September 2024. In FY 2025, we continued regular buyback operations. Buybacks of Treasury securities are conducted by our fiscal agent, the FRBNY. During FY 2025, 64 regular buybacks were conducted, leading to total purchases of \$185.3 billion in debt principal at a total cost of \$171.6 billion, excluding accrued interest, and resulting in gains of \$13.6 billion.

Federal Debt Held by the Public includes federal debt held outside of the U.S. government by individuals, corporations, FRBs, state and local governments, foreign governments, and central banks. As of September 30, 2025, the FRB’s SOMA had total holdings of \$4.2 trillion which: (i) includes \$561.3 billion in Treasury securities used in overnight reverse repurchase transactions, and (ii) excludes a net of \$3.2 billion held by the FRB as collateral for securities lending securities. For the year ended September 30, 2025, we incurred interest expense of \$103.0 billion related to Treasury securities held by the FRBs.

We issue non-marketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the non-marketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2025. Non-marketable securities are issued with a term of on demand out to 40 years.

## STATUTORY DEBT LIMIT

The statutory debt limit is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, with certain adjustments. Outstanding debt obligations subject to the debt limit were \$37.5 trillion as of September 30, 2025. Congress has provided us with statutory authority to take certain extraordinary measures in the event that the public debt nears the debt limit and a delay in raising the debt limit occurs. These measures authorize us to deviate from our normal debt management operations – which include the investment (or non-investment) of trust fund balances in Treasury securities – to avoid exceeding the debt limit. We undertake these measures to meet the U.S. government’s obligations as they come due without exceeding the debt limit.

During a period of delay in raising the debt limit, we may undertake the following extraordinary measures: (i) suspend new issuances of Treasury securities to the Government Securities Investment Fund (G Fund) of the FERS TSP, the Civil Service Retirement and Disability Fund (Civil Service Fund), the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), and the ESF; (ii) redeem early a certain amount of Treasury securities held by the Civil Service Fund and Postal Benefit Fund; (iii) suspend new issuances of State and Local Government Series (SLGS) securities; and (iv) utilize FFB to exchange outstanding Treasury securities held by the Civil Service Fund for non-Treasury securities (refer to Note 17).

When the period of delay in raising the debt limit ends, we discontinue using extraordinary measures and resume our normal debt management operations. Furthermore, we are required by the relevant statutes to issue to the G Fund, along with the OPM-administered Civil Service Fund and Postal Benefits Fund (the OPM funds), Treasury securities that bear such interest rates and maturity dates necessary to replicate the investments the funds would have held had the delay not occurred (the unissued securities). In addition, relevant statutes require us to pay these funds the related lost interest (foregone interest) on the unissued securities. While we may reinvest the ESF, relevant statutes do not permit us to pay the ESF interest lost during a period of delay.

On June 3, 2023, Congress enacted the *Fiscal Responsibility Act of 2023* (P.L. 118-5), which temporarily suspended the debt limit through January 1, 2025. On January 21, 2025, a delay in raising the debt limit commenced at which time we departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On July 4, 2025, Congress enacted the *One Big Beautiful Bill Act* (P. L. 119-21) which raised the debt limit from \$36.1 trillion to \$41.1 trillion. On July 7, 2025, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored uninvested principal totaling \$359.2 billion, of which \$185.5 billion was restored to the G Fund and \$173.7 billion was restored to the OPM-administered Civil Service Fund and the Postal Benefits Fund. We restored foregone interest totaling \$4.4 billion to the G Fund on July 8, 2025. \$444 million in foregone interest was restored to the OPM funds on the next semi-annual interest payment date of December 31, 2025.

## 17. OTHER FEDERAL DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2025, FFB had outstanding borrowings of \$4.1 billion, inclusive of \$25 million of accrued interest payable. The outstanding borrowings at September 30, 2025, had stated interest rates that ranged from 2.25 percent to 3.00 percent per annum, and an effective interest rate of 2.39 percent. Maturity dates ranged from June 30, 2026, to June 30, 2035, for outstanding borrowings at September 30, 2025.

## 18. D.C. FEDERAL PENSION AND JUDICIAL RETIREMENT ACTUARIAL LIABILITY

Title XI of the *Balanced Budget Act of 1997*, as amended, was intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill our responsibility, we manage two funds — the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). We are required to make annual amortized payments from the General Fund to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The D.C. Federal Pension Fund benefit payments relate to creditable service performed on or before June 30, 1997, while the Judicial Retirement Fund benefit payments relate to all creditable service.

A reconciliation of the combined actuarial pension liability for the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30, 2025 is as follows:

| (in millions)                                    | 2025            |
|--------------------------------------------------|-----------------|
| <b>Beginning Liability Balance</b>               | <b>\$ 8,541</b> |
| <b>Pension Expense:</b>                          |                 |
| Normal Cost                                      | 10              |
| Interest on Pension Liability During the Year    | 153             |
| <b>Actuarial (Gains) Losses During the Year:</b> |                 |
| From Experience                                  | (1)             |
| From Discount Rate Assumption Change             | (84)            |
| From Other Economic Assumption Changes           | 172             |
| Total Pension Expense                            | 250             |
| Less Amounts Paid                                | (577)           |
| <b>Ending Liability Balance</b>                  | <b>\$ 8,214</b> |

| Additional Information (\$ in millions):                       |    | D.C. Federal<br>Pension Fund | Judicial<br>Retirement Fund | 2025<br>Total |
|----------------------------------------------------------------|----|------------------------------|-----------------------------|---------------|
| Amount Received from the General Fund                          | \$ | 684 \$                       | 25 \$                       | 709           |
| Annual Rate of Investment Return Assumption                    |    | 2.20% - 3.45%                | 2.20% - 3.45%               |               |
| Future Annual Rate of Inflation and Cost-Of-Living Adjustment: |    |                              |                             |               |
| Police Officers                                                |    | 3.03%                        | N/A                         |               |
| Firefighters                                                   |    | 3.03%                        | N/A                         |               |
| Teachers                                                       |    | 3.03%                        | N/A                         |               |
| Judicial                                                       |    | N/A                          | 2.83%                       |               |
| Future Annual Rate of Salary Increases:                        |    |                              |                             |               |
| Police Officers                                                |    | 2.75%                        | N/A                         |               |
| Firefighters                                                   |    | 2.45%                        | N/A                         |               |
| Teachers                                                       |    | 2.54%                        | N/A                         |               |
| Judicial                                                       |    | N/A                          | 2.10%                       |               |

## 19. LIABILITIES

### LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2025, liabilities not covered by budgetary resources consisted of the following:

| (in millions)                                                                          | 2025                 |
|----------------------------------------------------------------------------------------|----------------------|
| <b>Intra-Governmental Liabilities Not Covered by Budgetary Resources</b>               |                      |
| Federal Debt Principal, Premium/Discount (Note 16)                                     | \$ 7,267,502         |
| Other Intra-Governmental Liabilities                                                   | 76                   |
| <b>Total Intra-Governmental Liabilities Not Covered by Budgetary Resources</b>         | <b>7,267,578</b>     |
| Federal Debt Principal, Premium/Discount (Note 16)                                     | 30,152,137           |
| Other Liabilities                                                                      | 1,411                |
| <b>Total Liabilities Not Covered by Budgetary Resources</b>                            | <b>37,421,126</b>    |
| <b>Total Liabilities Covered by or Not Requiring Budgetary Resources<sup>(1)</sup></b> | <b>4,028,038</b>     |
| <b>Total Liabilities</b>                                                               | <b>\$ 41,449,164</b> |

(1) Consists primarily of liabilities that do not require the use of budgetary resources and are covered by assets that we hold and manage on behalf of the U.S. government including Due to the General Fund (refer to Note 4), SDR allocations and SDR certificates issued to the Federal Reserve (refer to Note 5), Gold Certificates issued to the FRBs (refer to Note 6), and liability for non-fiduciary deposit funds and clearing accounts.

### OTHER LIABILITIES

The “Other” line item within “Other Liabilities” displayed on the Consolidated Balance Sheet consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. The “Other” line item within “Other Liabilities” at September 30, 2025, consisted of the following:

| (in millions)                                                   | 2025             |                 |                  |
|-----------------------------------------------------------------|------------------|-----------------|------------------|
|                                                                 | Current          | Non-Current     | Total            |
| <b>Intra-Governmental</b>                                       |                  |                 |                  |
| Accounts Payable                                                | \$ 884           | \$ -            | \$ 884           |
| Advances From Others and Deferred Revenue                       | 377              | -               | 377              |
| Other Accrued Liabilities                                       | 400              | 38              | 438              |
| <b>Total Intra-Governmental</b>                                 | <b>\$ 1,661</b>  | <b>\$ 38</b>    | <b>\$ 1,699</b>  |
| <b>Other Than Intra-Governmental</b>                            |                  |                 |                  |
| Federal Employee Salary, Leave and Benefits Payable             | \$ 1,285         | \$ -            | \$ 1,285         |
| Pension and Post-Employment Benefits Payable                    | 1                | 533             | 534              |
| Loan Guarantee Liabilities                                      | 15               | -               | 15               |
| Advances From Others and Deferred Revenue                       | 2,157            | -               | 2,157            |
| Other Liabilities Without Related Budgetary Obligations         | 423              | 29              | 452              |
| Other Liabilities With Related Budgetary Obligations            | 427              | 206             | 633              |
| Lease Liability                                                 | 111              | 431             | 542              |
| Unearned Lease Revenue                                          | 2                | -               | 2                |
| Liability for Non-Fiduciary Deposit Funds and Clearing Accounts | 7,921            | -               | 7,921            |
| <b>Total Other Than Intra-Governmental</b>                      | <b>\$ 12,342</b> | <b>\$ 1,199</b> | <b>\$ 13,541</b> |

## 20. NET POSITION

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until canceled. We report adjustments related to unexpended appropriations, such as cancellations of expired funds or rescissions, as “*Other Adjustments*” on the Consolidated Statement of Changes in Net Position.

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

### APPROPRIATIONS RECEIVED

Congress appropriates the amount reported as “*Appropriations Received*” from the General Fund receipts, such as income taxes, which are not dedicated by law for a specific purpose. This amount will not necessarily agree with the “*Appropriations (discretionary and mandatory)*” amount reported on the Combined Statement of Budgetary Resources because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated receipts are recorded as “*Appropriations (discretionary and mandatory)*” on the Combined Statement of Budgetary Resources, but are recognized as exchange or non-exchange revenue (*i.e.*, typically in revolving, special, and non-revolving trust funds) and reported on the Consolidated Statement of Changes in Net Position in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended.

### TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as “*Transfers to the General Fund and Other*” on the Consolidated Statement of Changes in Net Position includes the following for the year ended September 30, 2025:

| (in millions)                                                                              | 2025                |
|--------------------------------------------------------------------------------------------|---------------------|
| <b>Categories of Transfers to the General Fund and Other</b>                               |                     |
| Increase in Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Note 11) | \$ (68,660)         |
| Interest Revenue                                                                           | (66,426)            |
| Federal Debt Buyback Gain (Note 16)                                                        | (13,573)            |
| Other                                                                                      | (2,056)             |
| <b>Total</b>                                                                               | <b>\$ (150,715)</b> |

Included in “*Transfers to the General Fund and Other*” is the increase in liquidation preference in the GSE Senior Preferred Stock investments and annual valuation adjustment. Also included is accrued interest revenue on inter-agency loans held on behalf of the U.S. government. We report a corresponding amount on the Consolidated Statement of Net Cost under “*Non-Entity Costs: Less Interest Revenue from Loans.*” Eliminations between our bureaus reduce the amount reported on the Consolidated Statement of Net Cost. Additionally, our “*Federal Debt Buyback Gain*” is the resulting gains from buybacks that occur when we redeem outstanding marketable Treasury securities prior to their maturity dates.

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

Our Consolidated Statement of Net Cost displays information on a consolidated basis. We consist of Departmental Offices (DO) and seven operating bureaus that we provide supporting schedules for Net Cost in the notes to the financial statements (refer to Note 1). These supporting schedules provide consolidating information, which fully displays the costs, revenues, and net cost of DO and each operating bureau.

The classification of sub-organizations has been determined in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

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

### INTRA-DEPARTMENTAL COSTS/REVENUES

We report intra-departmental costs/revenues from providing goods and/or services on a reimbursable basis among our sub-organizations as costs by providing sub-organizations and as revenues by receiving sub-organizations. We recognized intra-departmental imputed costs, such as un-reimbursed payments made from the Treasury Judgment Fund on our behalf, on the Consolidated Statement of Net Cost of \$1.5 billion during FY 2025. Accordingly, we eliminated such costs or revenues in the consolidation process.

### INTRA-GOVERNMENTAL COSTS

Intra-governmental costs relate to the source of goods and services we purchased and not to the classification of the related intra-governmental revenue.

In certain cases, other federal agencies incur costs that are directly identifiable to our operations. In accordance with SFFAS 4, as amended, we recognize identified costs paid on our behalf by other agencies. The imputed intra-governmental financing sources we currently recognize include the actual cost of future benefits for the federal pension plans, and the Federal Employees Health Benefits Program that other federal entities pay on our behalf. We reflect the funding for these costs as costs on the Consolidated Statement of Net Cost, and as imputed financing sources on the Consolidated Statement of Changes in Net Position. Costs other agencies pay on our behalf were \$1.8 billion for the fiscal year ended September 30, 2025.

## CONSOLIDATED STATEMENT OF NET COST PRESENTATION

### Basis of Presentation

On our Consolidated Statement of Net Cost, we present the net cost of operations by major programs. Specifically, we present our gross costs and earned revenues by three major program categories aligned with Treasury's mission: (i) *Economic program* – our mission of promoting economic prosperity and maintaining stability, encouraging sustainable and global economic growth; (ii) *Financial program* – our mission of managing the government's finances and resources effectively, protecting the integrity of financial systems that are critical to the nation's financial infrastructure, and fostering improved governance in financial institutions; and (iii) *Security program* – our mission of enhancing national security by

implementing economic sanctions against foreign threats to the U.S., identifying and targeting the financial support networks of national security threats, and improving the safeguards of the financial systems. We assign each of our bureaus and reporting entities to one of the above three program categories based on their major function and core mission responsibility. Our bureaus' and reporting entities' gross costs and earned revenues fall within a single program category in the Consolidated Statement of Net Cost, with the exception of DO for which we allocate gross costs and earned revenues to multiple programs.

## Non-Entity Costs and Revenues

Our Consolidated Statement of Net Cost also presents interest expense on the federal debt, other federal costs incurred, and non-entity exchange revenues earned on behalf of the U.S. government. We present these costs and revenues separately from the net cost of Treasury operations. We eliminate these costs in the consolidation process to the extent that they involve transactions with our sub-organizations.

Non-entity other federal costs shown on the Consolidated Statement of Net Cost for the fiscal year ended September 30, 2025, consisted of the following:

| (in millions)                                                   |           | 2025          |
|-----------------------------------------------------------------|-----------|---------------|
| Credit Reform Interest on Uninvested Funds (Intra-Governmental) | \$        | 12,271        |
| Judgment Claims and Contract Disputes                           |           | 3,763         |
| Resolution Funding Corporation                                  |           | 920           |
| Corporation for Public Broadcasting                             |           | 586           |
| Legal Services Corporation                                      |           | 560           |
| All Other Payments                                              |           | 615           |
| <b>Total</b>                                                    | <b>\$</b> | <b>18,715</b> |

## 21. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS (IN MILLIONS)

For Fiscal Year Ended September 30, 2025

| Program Costs                           | Bureau of<br>Engraving &<br>Printing | Bureau of the<br>Fiscal<br>Service | Depart-<br>mental<br>Offices <sup>(a)</sup> | Financial<br>Crimes<br>Enforcement<br>Network | Internal<br>Revenue<br>Service | U.S. Mint |
|-----------------------------------------|--------------------------------------|------------------------------------|---------------------------------------------|-----------------------------------------------|--------------------------------|-----------|
| <b>ECONOMIC PROGRAM</b>                 |                                      |                                    |                                             |                                               |                                |           |
| Gross Cost                              | \$ -                                 | \$ -                               | \$ 112,370                                  | \$ -                                          | \$ -                           | -         |
| Less Earned Revenue                     | -                                    | -                                  | (29,293)                                    | -                                             | -                              | -         |
| Net Program Cost                        | -                                    | -                                  | 83,077                                      | -                                             | -                              | -         |
| <b>FINANCIAL PROGRAM</b>                |                                      |                                    |                                             |                                               |                                |           |
| Gross Cost                              | 996                                  | 3,358                              | 11,487                                      | -                                             | 21,741                         | 2,654     |
| Less Earned Revenue                     | (1,069)                              | (678)                              | (11,291)                                    | -                                             | (549)                          | (2,581)   |
| Net Program Cost                        | (73)                                 | 2,680                              | 196                                         | -                                             | 21,192                         | 73        |
| <b>SECURITY PROGRAM</b>                 |                                      |                                    |                                             |                                               |                                |           |
| Gross Cost                              | -                                    | -                                  | 543                                         | 214                                           | -                              | -         |
| Less Earned Revenue                     | -                                    | -                                  | (23)                                        | (3)                                           | -                              | -         |
| Net Program Cost                        | -                                    | -                                  | 520                                         | 211                                           | -                              | -         |
| <b>Total Net Cost of (Revenue From)</b> |                                      |                                    |                                             |                                               |                                |           |
| <b>Treasury Operations</b>              | <b>\$ (73)</b>                       | <b>\$ 2,680</b>                    | <b>\$ 83,793</b>                            | <b>\$ 211</b>                                 | <b>\$ 21,192</b>               | <b>73</b> |

(a) The total \$83.1 billion of the Economic Program net costs DO reported consisted of \$82.0 billion of net costs from OCA with \$75.2 billion for Coronavirus State and Local Fiscal Recovery Funds, \$2.0 billion for State Small Business Credit Initiative, \$1.8 billion for Emergency Rental Assistance, \$1.5 billion for Coronavirus Capital Projects Fund, \$1.4 billion for Emergency Capital Investment Program, and \$0.1 billion for other COVID-19 relief programs; \$1.8 billion of net costs from IAP; and \$1.0 billion of net costs from CDFI; partially offset by \$1.9 billion of net income from ESF. The remaining net costs consisted of net costs from other DO programs or offices.

## 21. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS (IN MILLIONS) (CON'T):

For Fiscal Year Ended September 30, 2025

| Program Costs                           | Office of the<br>Comptroller of the<br>Currency | Alcohol<br>and<br>Tobacco<br>Tax and<br>Trade<br>Bureau | Combined<br>Total | Eliminations | 2025<br>Consolidated |
|-----------------------------------------|-------------------------------------------------|---------------------------------------------------------|-------------------|--------------|----------------------|
| <b>ECONOMIC PROGRAM</b>                 |                                                 |                                                         |                   |              |                      |
| Gross Cost                              | \$ -                                            | \$ 168                                                  | \$ 112,538        | \$ 466       | 112,072              |
| Less Earned Revenue                     | -                                               | (9)                                                     | (29,302)          | (965)        | (28,337)             |
| Net Program Cost                        | -                                               | 159                                                     | 83,236            | (499)        | 83,735               |
| <b>FINANCIAL PROGRAM</b>                |                                                 |                                                         |                   |              |                      |
| Gross Cost                              | 1,369                                           | -                                                       | 41,605            | 11,439       | 30,166               |
| Less Earned Revenue                     | (1,307)                                         | -                                                       | (17,475)          | (2,139)      | (15,336)             |
| Net Program Cost                        | 62                                              | -                                                       | 24,130            | 9,300        | 14,830               |
| <b>SECURITY PROGRAM</b>                 |                                                 |                                                         |                   |              |                      |
| Gross Cost                              | -                                               | -                                                       | 757               | 141          | 616                  |
| Less Earned Revenue                     | -                                               | -                                                       | (26)              | (15)         | (11)                 |
| Net Program Cost                        | -                                               | -                                                       | 731               | 126          | 605                  |
| <b>Total Net Cost of (Revenue From)</b> |                                                 |                                                         |                   |              |                      |
| Treasury Operations                     | \$ 62                                           | \$ 159                                                  | \$ 108,097        | \$ 8,927     | 99,170               |

## 22. ADDITIONAL INFORMATION RELATED TO THE COMBINED STATEMENT OF BUDGETARY RESOURCES

### NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

Net adjustments to unobligated balance, brought forward, October 1 as of September 30, 2025 consisted of the following:

| (in millions)                                                                                  | 2025              |
|------------------------------------------------------------------------------------------------|-------------------|
| Unobligated Balance, Brought Forward From Prior Year                                           | \$ 372,232        |
| Adjustments to Budgetary Resources Made During Current Year                                    |                   |
| Downward Adjustments of Prior Year Undelivered Orders                                          | 625               |
| Downward Adjustments of Prior Year Delivered Orders                                            | 299               |
| Other Adjustments                                                                              | 7,185             |
| <b>Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)</b> | <b>\$ 380,341</b> |

### UNDELIVERED ORDERS

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. Undelivered orders as of September 30, 2025 consisted of the following:

| (in millions)                                    | 2025            |                  |                  |
|--------------------------------------------------|-----------------|------------------|------------------|
|                                                  | Federal         | Non-Federal      | Total            |
| Paid                                             | \$ 420          | \$ 55,796        | \$ 56,216        |
| Unpaid                                           | 1,062           | 36,504           | 37,566           |
| <b>Undelivered Orders at the End of the Year</b> | <b>\$ 1,482</b> | <b>\$ 92,300</b> | <b>\$ 93,782</b> |

### CONTRIBUTED CAPITAL

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund to repay a portion of a capital investment or transfer seigniorage and numismatic profits. Contributed capital for the fiscal year ended September 30, 2025 was \$28 million.

### TERMS OF BORROWING AUTHORITY USED

Several of our programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. OMB Circular No. A-11 defines repayment requirements. We calculate interest expense due based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing account pays on its debt owed to the BFS. In the event that principal and interest collections exceed the interest expense due, we receive the excess payment. If principal and interest do not exceed interest expense due, we will borrow the difference. We make periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings is due on September 30. Interest rates on FCRA borrowings range from 0.54 percent to 5.50 percent.

## AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal year ended September 30, 2025 are shown below:

| (in millions)                         |           | 2025          |
|---------------------------------------|-----------|---------------|
| Beginning Balance                     | \$        | 29,009        |
| Current Authority                     |           | 228           |
| Borrowing Authority Converted to Cash |           | (5,675)       |
| <b>Ending Balance</b>                 | <b>\$</b> | <b>23,562</b> |

## RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2025, was not published at the time that these financial statements were issued. We expect OMB to publish the FY 2027 President's Budget in February 2026, and will be available from the U.S. Government Publishing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2024 AFR and the actual FY 2024 balances included in the FY 2026 President's Budget.

## Reconciliation of FY 2024 Combined Statement of Budgetary Resources to the FY 2026 President's Budget

| (in millions)                                                                  | Budgetary<br>Resources | New<br>Obligations<br>and Upward<br>Adjustments | Outlays (net<br>of offsetting<br>collections) | Distributed<br>Offsetting<br>Receipts | Net<br>Outlays      |
|--------------------------------------------------------------------------------|------------------------|-------------------------------------------------|-----------------------------------------------|---------------------------------------|---------------------|
| <b>Combined Statement of Budgetary Resources (SBR) Amounts</b>                 | <b>\$ 1,595,986</b>    | <b>\$ 1,223,754</b>                             | <b>\$ 1,174,866</b>                           | <b>\$ (65,685)</b>                    | <b>\$ 1,109,181</b> |
| IRS non-entity tax credit payments and other outlays not in SBR <sup>(1)</sup> | 237,145                | 237,144                                         | 211,657                                       | -                                     | 211,657             |
| Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR   | 394                    | 394                                             | 394                                           | -                                     | 394                 |
| Expired funds in SBR                                                           | (1,533)                | -                                               | -                                             | -                                     | -                   |
| Non-Treasury offsetting receipts                                               | -                      | -                                               | -                                             | (35)                                  | (35)                |
| Non-Budgetary Financing Disbursements, net <sup>(2)</sup>                      | -                      | -                                               | (9,364)                                       | -                                     | (9,364)             |
| Other                                                                          | (4)                    | 4                                               | 5                                             | -                                     | 5                   |
| <b>President's Budget Amounts</b>                                              | <b>\$ 1,831,988</b>    | <b>\$ 1,461,296</b>                             | <b>\$ 1,377,558</b>                           | <b>\$ (65,720)</b>                    | <b>\$ 1,311,838</b> |

<sup>(1)</sup> These are primarily refundable *Earned Income Tax Credit* and *Refundable Premium Tax Credit* that are reported with refunds as custodial activities in our financial statements and thus are not reported as budgetary resources.

<sup>(2)</sup> These are credit reform financing account net outlays. The SBR excludes gross disbursements and offsetting collections from credit financing accounts.

### LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

Amounts in expired Treasury account fund symbols are not available for new obligations, but may be used to make adjustments to reflect, and make disbursements to liquidate, obligations that were created before the budgetary authority expired.

## 23. SOURCES AND DISPOSITION OF CUSTODIAL REVENUE

We collect the majority of federal revenue from income and excise taxes. The table below shows collection activity, by revenue type and tax year, for the fiscal year ended September 30, 2025:

| (in millions)                                                | Tax Year            |                     |                  |                   | 2025 Collections    |
|--------------------------------------------------------------|---------------------|---------------------|------------------|-------------------|---------------------|
|                                                              | 2025                | 2024                | 2023             | Pre-2023          |                     |
| Individual Income and FICA Taxes                             | \$ 2,941,407        | \$ 1,648,518        | \$ 59,497        | \$ 39,363         | \$ 4,688,785        |
| Corporate Income Taxes                                       | 242,808             | 170,629             | 5,916            | 67,031            | 486,384             |
| Estate and Gift Taxes                                        | 3,287               | 22,740              | 2,015            | 3,069             | 31,111              |
| Excise Taxes                                                 | 75,171              | 29,945              | 295              | 589               | 106,000             |
| Railroad Retirement Taxes                                    | 5,564               | 1,687               | 1                | 6                 | 7,258               |
| Unemployment Taxes                                           | 5,072               | 3,483               | 26               | 196               | 8,777               |
| Fines, Penalties, Interest & Other Revenue - Tax Related     | 832                 | 5                   | 2                | 1                 | 840                 |
| <b>Tax Related Revenue Received</b>                          | <b>3,274,141</b>    | <b>1,877,007</b>    | <b>67,752</b>    | <b>110,255</b>    | <b>5,329,155</b>    |
| Deposit of Earnings, Federal Reserve System                  | 4,546               | 944                 | -                | -                 | 5,490               |
| Fines, Penalties, Interest & Other Revenue - Non-Tax Related | 8,019               | 1,721               | -                | -                 | 9,740               |
| <b>Non-Tax Related Revenue Received</b>                      | <b>12,565</b>       | <b>2,665</b>        | <b>-</b>         | <b>-</b>          | <b>15,230</b>       |
| <b>Total Revenue Received</b>                                | <b>\$ 3,286,706</b> | <b>\$ 1,879,672</b> | <b>\$ 67,752</b> | <b>\$ 110,255</b> | <b>\$ 5,344,385</b> |
| Less Amounts Collected for Non-Federal Entities              |                     |                     |                  |                   | (400)               |
| <b>Total Revenues Collected for Federal Entities</b>         |                     |                     |                  | <b>\$</b>         | <b>5,343,985</b>    |

### AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal year ended September 30, 2025, collections of custodial revenue transferred to other federal entities were as follows:

| (in millions)          | 2025                |
|------------------------|---------------------|
| General Fund           | \$ 4,702,388        |
| Other Federal Agencies | 2,026               |
| <b>Total</b>           | <b>\$ 4,704,414</b> |

## FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. Refunds and other payments, by revenue type and tax year, were as follows for the year ended September 30, 2025:

| (in millions)                              | Tax Year          |                   |                  |                   | 2025<br>Refunds/<br>Payments |
|--------------------------------------------|-------------------|-------------------|------------------|-------------------|------------------------------|
|                                            | 2025              | 2024              | 2023             | Pre-<br>2023      |                              |
| Individual Income and FICA Taxes           | \$ 152,305        | \$ 308,129        | \$ 46,418        | \$ 88,439         | \$ 595,291                   |
| Corporate Income Taxes                     | 1,843             | 6,895             | 14,101           | 13,691            | 36,530                       |
| Estate and Gift Taxes                      | -                 | 435               | 596              | 770               | 1,801                        |
| Excise Taxes                               | 1,111             | 3,529             | 327              | 805               | 5,772                        |
| Railroad Retirement Taxes                  | -                 | 23                | (1)              | 4                 | 26                           |
| Unemployment Taxes                         | -                 | 82                | 11               | 56                | 149                          |
| Fines, Penalties, Interest & Other Revenue | -                 | -                 | -                | 2                 | 2                            |
| <b>Total</b>                               | <b>\$ 155,259</b> | <b>\$ 319,093</b> | <b>\$ 61,452</b> | <b>\$ 103,767</b> | <b>\$ 639,571</b>            |

## 24. FUNDS FROM DEDICATED COLLECTIONS

The ESF represents the majority of our FDC activities. In addition, such funds managed by BEP, Mint, and OCC (our non-appropriated bureaus) and certain funds managed by the IRS, and FinCEN's Financial Integrity Fund, are public enterprise (or revolving) funds and receive no appropriations from the Congress. BFS, DO, IRS, OFR, TEOAF, and the CDFI Fund manage other miscellaneous FDCs.

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

| Bureau                                             | Fund Code  | Fund Title/Description                                |
|----------------------------------------------------|------------|-------------------------------------------------------|
| <b>Exchange Stabilization Fund (ESF)</b>           |            |                                                       |
| ESF                                                | 020X4444   | Exchange Stabilization Fund                           |
| <b>Public Enterprise/Revolving/Trust Revolving</b> |            |                                                       |
| BEP                                                | 020X4502   | Bureau of Engraving and Printing Fund                 |
| Mint                                               | 020X4159   | United States Mint Public Enterprise Fund             |
| OCC                                                | 020X8413   | Assessment Funds                                      |
| IRS                                                | 020X4413   | Federal Tax Lien Revolving Fund                       |
| FinCEN                                             | 020X4394   | Financial Integrity Fund                              |
| <b>Other FDC Funds</b>                             |            |                                                       |
| BFS                                                | 020X5080   | Gifts to Reduce Public Debt                           |
| BFS                                                | 020X5081   | Presidential Election Campaign                        |
| BFS                                                | 020X8625   | Gulf Coast Restoration Trust Fund                     |
| BFS                                                | 5805585001 | Travel Promotion Fund, Corp for Travel Promotion      |
| BFS                                                | 580X5585   | Travel Promotion Fund, Corp for Travel Promotion      |
| BFS                                                | 020X5581   | HOPE Reserve Fund                                     |
| BFS                                                | 0205445002 | Debt Collection Special Fund                          |
| BFS                                                | 0205445003 | Debt Collection Special Fund                          |
| BFS                                                | 020X5445   | Debt Collection Special Fund                          |
| BFS                                                | 0209/05445 | Debt Collection Special Fund                          |
| BFS                                                | 0200/15445 | Debt Collection Special Fund                          |
| BFS                                                | 020X5680   | Guam World War II Claims Fund                         |
| BFS                                                | 0205680001 | Taxes, Duties and Fees, Guam World War II Claims Fund |
| DO                                                 | 020X8790   | Gifts and Bequests Trust Fund                         |
| IRS                                                | 020X5510   | Private Collection Agent Program                      |
| IRS                                                | 020X5433   | Informant Reimbursement                               |
| IRS                                                | 020X5622   | Special Compliance Personnel Program Account          |
| OFR                                                | 020X5590   | Financial Research Fund                               |
| TEOAF                                              | 020X5697   | Treasury Forfeiture Fund                              |
| CDFI                                               | 020X8524   | Capital Magnet Fund                                   |

Pursuant to the legal authority found in Section 10 of the *Gold Reserve Act of 1934*, as amended, consistent with the obligations of the U.S. government in the IMF on orderly exchange arrangements and a stable system of exchange rates, the Secretary, with the approval of the President, may use the ESF, to deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary. The ESF accounts for and reports its holdings to the BFS on the Standard Form 224, "*Statement of Transactions*," and provides other reports to Congress. Interest on holdings, investments in Treasury securities, and investments in foreign currency assets are the ESF's primary sources of revenue. The ESF's interest and realized gains on foreign currency assets, along with the interest on SDR holdings represent inflows of resources to the government, and the interest revenues earned from Treasury securities are the result of intra-departmental flows.

The BEP, FinCEN, Mint, OCC, and IRS operate “public enterprise/revolving funds” to account for all or some of their respective revenues and expenses. 31 USC 5142 established the Bureau of Engraving and Printing Fund for BEP to account for revenue and expenses related to the production of currency and other federal security documents. P.L. 104-52 (31 USC 5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion products and the sale of circulating coins to the FRB system. These revenues represent inflows of resources to the government. 12 USC 16, 481 and 482 established the Assessment Funds for OCC. Revenue and financing sources are from the bank assessments for the oversight of the national banks, federal savings associations, and federal branches and agencies of foreign banks. These non-appropriated funds contribute to the inflows of resources to the government to specifically fund these entities’ operations. 26 USC 7810 established the Federal Tax Lien Revolving Fund to account for revenue and expenses from the sale of property foreclosed upon by a holder of a lien. Such revenue represents inflows of resources to the U.S. government. The *Anti-Money Laundering Whistleblower Improvement Act*, which was enacted as part of the *Consolidated Appropriations Act, 2023* (P.L. 117-328), enhanced FinCEN’s whistleblower program by establishing a \$300 million revolving fund, the Financial Integrity Fund, to pay eligible whistleblowers. There are minimal transactions with other government agencies.

There are other FDCs at several of our bureaus, such as donations to the Presidential Election Campaign Fund, gifts to reduce the public debt, and other enforcement related activities. Public laws and the U.S. Code established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property forfeited in enforcement activities, public donations, and other allocations, all which represent inflows to the government.

## INTRA-GOVERNMENTAL INVESTMENTS IN TREASURY SECURITIES

The U.S. government does not set aside assets to pay future benefits or other expenditures associated with FDCs. Our bureaus and other federal agencies invest some of the funds that they collect from the public, if they have the statutory authority to do so, in Treasury securities. The BFS collects cash and makes deposits in the General Fund, which is then available for general government purposes.

When our bureaus or other federal agencies redeem these securities to make expenditures, the government finances those redemptions out of accumulated cash balances, by collecting taxes or other receipts, by borrowing from the public, or by curtailing expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to our bureaus and other federal agencies and a liability of the General Fund. Because our bureaus and other federal agencies are parts of the U.S. government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Our financial statements do not display the balances related to the investments made by our bureaus because the bureaus are subcomponents of the Department. However, the General Fund remains liable to the BFS for the invested balances and the BFS remains liable to the investing bureaus (refer to Note 4).

**Summary Information for Funds from Dedicated Collections  
as of and for the Fiscal Year Ended September 30, 2025**

| (in millions)                                                    | Exchange<br>Stabilization<br>Fund | Public<br>Enterprise/<br>Revolving/<br>Trust<br>Funds | Other FDC<br>Funds | Combined<br>FDC Funds | Eliminations<br>between<br>FDC Funds | 2025<br>Consolidated<br>FDC Funds |
|------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------|--------------------|-----------------------|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>                                                    |                                   |                                                       |                    |                       |                                      |                                   |
| <b>Intra-Governmental:</b>                                       |                                   |                                                       |                    |                       |                                      |                                   |
| Fund Balance                                                     | \$ -                              | \$ 1,114                                              | \$ 1,563           | \$ 2,677              | \$ -                                 | 2,677                             |
| Investments, Net                                                 | 21,865                            | 3,063                                                 | 7,528              | 32,456                | -                                    | 32,456                            |
| Other Assets                                                     | -                                 | 3                                                     | 543                | 546                   | 543                                  | 3                                 |
| <b>Total Intra-Governmental</b>                                  | <b>21,865</b>                     | <b>4,180</b>                                          | <b>9,634</b>       | <b>35,679</b>         | <b>543</b>                           | <b>35,136</b>                     |
| <b>Other Than Intra-Governmental</b>                             |                                   |                                                       |                    |                       |                                      |                                   |
| Cash, Foreign Currency, and Other Monetary Assets                | 189,785                           | -                                                     | 61                 | 189,846               | -                                    | 189,846                           |
| Taxes, Interest, and Other Receivables, Net                      | -                                 | 117                                                   | 59                 | 176                   | -                                    | 176                               |
| Advances and Prepayments                                         | -                                 | 1                                                     | 360                | 361                   | -                                    | 361                               |
| Other Investments, Net                                           | 5,320                             | 23                                                    | -                  | 5,343                 | -                                    | 5,343                             |
| Property, Plant, and Equipment, Net                              | -                                 | 1,932                                                 | 23                 | 1,955                 | -                                    | 1,955                             |
| Other Assets                                                     | -                                 | 2,157                                                 | 1,852              | 4,009                 | -                                    | 4,009                             |
| <b>Total Other Than Intra-Governmental</b>                       | <b>195,105</b>                    | <b>4,230</b>                                          | <b>2,355</b>       | <b>201,690</b>        | <b>-</b>                             | <b>201,690</b>                    |
| <b>Total Assets</b>                                              | <b>\$ 216,970</b>                 | <b>\$ 8,410</b>                                       | <b>\$ 11,989</b>   | <b>\$ 237,369</b>     | <b>\$ 543</b>                        | <b>\$ 236,826</b>                 |
| <b>LIABILITIES</b>                                               |                                   |                                                       |                    |                       |                                      |                                   |
| <b>Intra-Governmental</b>                                        |                                   |                                                       |                    |                       |                                      |                                   |
| Due To the General Fund                                          | \$ -                              | \$ -                                                  | \$ 119             | \$ 119                | \$ -                                 | 119                               |
| Other                                                            | -                                 | 33                                                    | 1,453              | 1,486                 | 543                                  | 943                               |
| <b>Total Intra-Governmental</b>                                  | <b>-</b>                          | <b>33</b>                                             | <b>1,572</b>       | <b>1,605</b>          | <b>543</b>                           | <b>1,062</b>                      |
| <b>Other Than Intra-Governmental</b>                             |                                   |                                                       |                    |                       |                                      |                                   |
| Other Payables                                                   | 758                               | 145                                                   | 62                 | 965                   | -                                    | 965                               |
| Special Drawing Right Certificates Issued to the Federal Reserve | 15,200                            | -                                                     | -                  | 15,200                | -                                    | 15,200                            |
| Allocation of Special Drawing Rights                             | 157,472                           | -                                                     | -                  | 157,472               | -                                    | 157,472                           |
| Other                                                            | -                                 | 1,195                                                 | 2,075              | 3,270                 | -                                    | 3,270                             |
| <b>Total Other Than Intra-Governmental</b>                       | <b>173,430</b>                    | <b>1,340</b>                                          | <b>2,137</b>       | <b>176,907</b>        | <b>-</b>                             | <b>176,907</b>                    |
| <b>Total Liabilities</b>                                         | <b>173,430</b>                    | <b>1,373</b>                                          | <b>3,709</b>       | <b>178,512</b>        | <b>543</b>                           | <b>177,969</b>                    |
| <b>Net Position</b>                                              |                                   |                                                       |                    |                       |                                      |                                   |
| Unexpended Appropriations                                        | 200                               | -                                                     | -                  | 200                   | -                                    | 200                               |
| Cumulative Results of Operations                                 | 43,340                            | 7,037                                                 | 8,280              | 58,657                | -                                    | 58,657                            |
| <b>Total Liabilities and Net Position</b>                        | <b>\$ 216,970</b>                 | <b>\$ 8,410</b>                                       | <b>\$ 11,989</b>   | <b>\$ 237,369</b>     | <b>\$ 543</b>                        | <b>\$ 236,826</b>                 |

**Summary Information for Funds from Dedicated Collections  
as of and for the Fiscal Year Ended September 30, 2025**

| (in millions)                                      | Exchange<br>Stabilization<br>Fund | Public<br>Enterprise/<br>Revolving/<br>Trust<br>Funds | Other FDC<br>Funds | Combined<br>FDC Funds | Eliminations<br>between<br>FDC Funds | 2025<br>Consolidated<br>FDC Funds |
|----------------------------------------------------|-----------------------------------|-------------------------------------------------------|--------------------|-----------------------|--------------------------------------|-----------------------------------|
| <b>Statement of Net Cost</b>                       |                                   |                                                       |                    |                       |                                      |                                   |
| Gross Cost                                         | \$ 26,379                         | \$ 5,018                                              | \$ 1,320           | \$ 32,717             | \$ 1                                 | \$ 32,716                         |
| Less: Earned Revenue                               | (28,794)                          | (4,956)                                               | (286)              | (34,036)              | (1)                                  | (34,035)                          |
| <b>Total Net Cost of (Revenue From) Operations</b> | <b>\$ (2,415)</b>                 | <b>\$ 62</b>                                          | <b>\$ 1,034</b>    | <b>\$ (1,319)</b>     | <b>\$ -</b>                          | <b>\$ (1,319)</b>                 |
| <b>Statement of Changes in Net Position</b>        |                                   |                                                       |                    |                       |                                      |                                   |
| <b>Cumulative Results of Operations:</b>           |                                   |                                                       |                    |                       |                                      |                                   |
| Beginning Balance                                  | \$ 40,925                         | \$ 6,119                                              | \$ 6,272           | \$ 53,316             | \$ -                                 | \$ 53,316                         |
| Individual Income Tax                              | -                                 | -                                                     | 20                 | 20                    | -                                    | 20                                |
| Intra-Governmental Non-Exchange Revenue            | -                                 | 795                                                   | 1,168              | 1,963                 | 118                                  | 1,845                             |
| Donations and Forfeitures of Cash/Equivalent       | -                                 | -                                                     | 1,375              | 1,375                 | -                                    | 1,375                             |
| Transfers In/(Out) Without Reimbursement           | (852)                             | -                                                     | (642)              | (1,494)               | -                                    | (1,494)                           |
| Donation/Forfeiture of Property                    | -                                 | -                                                     | 993                | 993                   | -                                    | 993                               |
| Imputed Financing Sources                          | -                                 | 142                                                   | 24                 | 166                   | -                                    | 166                               |
| Transfers to the General Fund and Other            | 852                               | 43                                                    | 104                | 999                   | (118)                                | 1,117                             |
| Net Revenue (Cost) of Operations                   | 2,415                             | (62)                                                  | (1,034)            | 1,319                 | -                                    | 1,319                             |
| Net Change in Cumulative Results of Operations     | 2,415                             | 918                                                   | 2,008              | 5,341                 | -                                    | 5,341                             |
| <b>Ending Balance</b>                              | <b>\$ 43,340</b>                  | <b>\$ 7,037</b>                                       | <b>\$ 8,280</b>    | <b>\$ 58,657</b>      | <b>\$ -</b>                          | <b>\$ 58,657</b>                  |

## 25. RECONCILIATION OF NET COST OF TREASURY OPERATIONS AND NON-ENTITY COSTS TO AGENCY OUTLAYS, NET

The Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs (referred to as “Net Cost” for purposes of this note) to Agency Outlays, Net (referred to as “Net Outlays” for purposes of this note) depicts the difference between proprietary information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government’s financial operations and financial position presented on an accrual basis in accordance with GAAP. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. In contrast, we use budgetary accounting information for planning and control purposes, and it includes net outlays that reflect both the receipt and use of cash, as well as reporting of the federal deficit. “*Agency Outlays, Net*” also includes \$159.7 billion of interest accrued on outstanding public debt as of September 30, 2025; as well as \$279.9 billion of net amortization of discounts on outstanding public debt as of September 30, 2025. These amounts represent non-cash outlays that have not yet been disbursed. The reconciliation of Net Cost (presented on an accrual basis) and Net Outlays (presented on a budgetary basis) reflects the relationship between proprietary accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary accounting. The following is a description of principal transactions that result in differences between our proprietary net costs and budgetary net outlays:

- **Non-Entity Activity** – Represents activity related to assets that we hold and manage on behalf of the General Fund but are not available for our use. We removed this activity from Net Cost through inclusion of change in asset activity, however, it has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.
- **Accrued Liabilities on Federal Debt** – Represents, among other things, accrued interest and discount on federal debt that has been recorded by the BFS and only impacts the Statement of Changes in Net Position. We removed this activity from Net Cost through inclusion of change in liability activity, however, it has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.

For the fiscal year ended September 30, 2025, the Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net consisted of the following:

| (in millions)                                                                          | Intra-Governmental  | Other Than Intra-Governmental | 2025 Total          |
|----------------------------------------------------------------------------------------|---------------------|-------------------------------|---------------------|
| <b>Total Net Cost of Treasury Operations and Non-Entity Costs</b>                      | <b>\$ 186,485</b>   | <b>\$ 1,012,528</b>           | <b>\$ 1,199,013</b> |
| <b>Components of Net Operating Cost Not Part of Budgetary Outlays:</b>                 |                     |                               |                     |
| Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20) | -                   | 68,660                        | 68,660              |
| PP&E Depreciation and Amortization Expense and Dispositions (Note 14)                  | -                   | (555)                         | (555)               |
| Unrealized Valuation Gain on Special Drawing Rights (Note 5)                           | -                   | 224                           | 224                 |
| Unrealized Net Loss on Valuation and Sales/Dispositions of Investments (Note 13)       | -                   | (450)                         | (450)               |
| Year-End Credit Reform Subsidy Accrual Re-Estimates                                    | -                   | (95)                          | (95)                |
| Adjustments to Prior Year Credit Reform Re-Estimates accrual                           | -                   | 4                             | 4                   |
| <b>Increase/(Decrease) in Assets:</b>                                                  |                     |                               |                     |
| Loans and Interest Receivable (Notes 3 and 9)                                          | 275,551             | (2,576)                       | 272,975             |
| Advances to Trust Funds (Note 3)                                                       | (7,879)             | -                             | (7,879)             |
| Due From the General Fund (Note 4)                                                     | 2,170,908           | -                             | 2,170,908           |
| Cash, Foreign Currency, and Other Monetary Assets (Note 5)                             | -                   | (579)                         | (579)               |
| Advances and Prepayments (Note 10)                                                     | -                   | (77,325)                      | (77,325)            |
| Other Assets                                                                           | 560                 | 483                           | 1,043               |
| <b>(Increase)/Decrease in Liabilities:</b>                                             |                     |                               |                     |
| Federal Debt and Interest Payable (Notes 4 and 16)                                     | (169,292)           | (1,993,552)                   | (2,162,844)         |
| Due To the General Fund - Excludes Custodial Liability Activity (Note 4)               | (351,943)           | -                             | (351,943)           |
| Other Liabilities                                                                      | 1,373               | (7,088)                       | (5,715)             |
| <b>Other Financing Sources:</b>                                                        |                     |                               |                     |
| Imputed Costs                                                                          | (1,808)             | -                             | (1,808)             |
| <b>Total Components of Net Operating Cost Not Part of Budgetary Outlays</b>            | <b>1,917,470</b>    | <b>(2,012,849)</b>            | <b>(95,379)</b>     |
| <b>Components of Budgetary Outlays That Are Not Part of Net Cost:</b>                  |                     |                               |                     |
| Acquisition of Property, Plant and Equipment (Note 14)                                 | -                   | 1,227                         | 1,227               |
| Acquisition of Other Investments, Net (Note 13)                                        | -                   | 12,882                        | 12,882              |
| Sale/Repayment of Other Investments, Net (Note 13)                                     | -                   | (11,663)                      | (11,663)            |
| Effect of Prior Year Credit Reform Subsidy Re-Estimates                                | (5)                 | (7)                           | (12)                |
| <b>Other Financing Sources:</b>                                                        |                     |                               |                     |
| Transfers (In)/Out Without Reimbursement                                               | (232)               | -                             | (232)               |
| <b>Total Components of Budgetary Outlays That Are Not Part of Net Cost</b>             | <b>(237)</b>        | <b>2,439</b>                  | <b>2,202</b>        |
| <b>Other Reconciling Items:</b>                                                        |                     |                               |                     |
| Distributed Offsetting Receipts                                                        | -                   | (79,044)                      | (79,044)            |
| Non-Entity Activity                                                                    | 152,155             | -                             | 152,155             |
| Accrued Liabilities on Federal Debt                                                    | 10,154              | -                             | 10,154              |
| Other                                                                                  | (3,402)             | 5,067                         | 1,665               |
| <b>Total Other Reconciling Items</b>                                                   | <b>158,907</b>      | <b>(73,977)</b>               | <b>84,930</b>       |
| <b>Agency Outlays, Net</b>                                                             | <b>\$ 2,262,625</b> | <b>(1,071,859)</b>            | <b>\$ 1,190,766</b> |

## 26. SCHEDULE OF FIDUCIARY ACTIVITY

We have identified the following 14 funds as meeting the criteria for fiduciary activity. Details of the funds are provided below.

| Bureau | Fund Code    | Authority         | Fund Title/Description                                     |
|--------|--------------|-------------------|------------------------------------------------------------|
| BFS    | 020X6133     | 31 USC 1322       | Payment of Unclaimed Monies                                |
| BEP    | 020X6513.013 | 31 USC 5119       | Mutilated Currency Claims Funds                            |
| BFS    | 020X6045     | 31 USC 3328       | Proceeds, Payments of Unpaid Checks                        |
| BFS    | 020X6048     | 31 USC 3329, 3330 | Proceeds of Withheld Foreign Checks                        |
| BFS    | 020X6092     | 31 USC 1321       | Debt Management Operations                                 |
| BFS    | 020X6501.018 | 31 USC 3513       | Small Escrow Amounts                                       |
| BFS    | 020X6720     | 31 USC 3513       | Small Difference Account for Deposit and Check Adjustments |
| BFS    | 020X6830     | 104 Stat. 1061    | Net Interest Payments to/from State                        |
| BFS    | 020X6999     | 31 USC 3513       | Accounts Payable, Check Issue Underdrafts                  |
| BFS    | 020X6317.001 | 22 USC 2431       | Belize Escrow, Debt Reduction                              |
| IRS    | 020X6737     | 90 Stat. 269-270  | Internal Revenue Collections for Northern Mariana Island   |
| IRS    | 020X6738     | 31 USC 3513       | Coverover Withholdings-U.S. Virgin Islands                 |
| IRS    | 020X6740     | 31 USC 3515       | Coverover Withholdings-Guam                                |
| IRS    | 020X6741     | 31 USC 3513       | Coverover Withholdings-American Samoa                      |

“Payment of Unclaimed Monies” is a fund authorized by 31 USC 1322, permitting the BFS to collect unclaimed monies on behalf of the public. Our other fiduciary activities as listed above are included in All Other Fiduciary Funds.

### Schedule of Fiduciary Activity

|                                                    | 2025                                      |                                    |                             | 2024                                      |                                    |                             |
|----------------------------------------------------|-------------------------------------------|------------------------------------|-----------------------------|-------------------------------------------|------------------------------------|-----------------------------|
|                                                    | Payment of<br>Unclaimed<br>Monies<br>Fund | All<br>Other<br>Fiduciary<br>Funds | Total<br>Fiduciary<br>Funds | Payment of<br>Unclaimed<br>Monies<br>Fund | All<br>Other<br>Fiduciary<br>Funds | Total<br>Fiduciary<br>Funds |
| <b>(in millions)</b>                               |                                           |                                    |                             |                                           |                                    |                             |
| <b>Fiduciary Net Assets, Beginning of the Year</b> | \$ 1,266                                  | \$ 236                             | \$ 1,502                    | \$ 1,029                                  | \$ 138                             | \$ 1,167                    |
| <b>Increases:</b>                                  |                                           |                                    |                             |                                           |                                    |                             |
| Contributions to Fiduciary Net Assets              | 146                                       | 1,376                              | 1,522                       | 237                                       | 1,318                              | 1,555                       |
| <b>Total Increases</b>                             | 146                                       | 1,376                              | 1,522                       | 237                                       | 1,318                              | 1,555                       |
| <b>Decreases:</b>                                  |                                           |                                    |                             |                                           |                                    |                             |
| Disbursements to and on behalf of beneficiaries    | -                                         | (1,438)                            | (1,438)                     | -                                         | (1,220)                            | (1,220)                     |
| <b>Total Decreases</b>                             | -                                         | (1,438)                            | (1,438)                     | -                                         | (1,220)                            | (1,220)                     |
| <b>Net Increase (Decrease) in Fiduciary Assets</b> | 146                                       | (62)                               | 84                          | 237                                       | 98                                 | 335                         |
| <b>Fiduciary Net Assets, End of Year</b>           | \$ 1,412                                  | \$ 174                             | \$ 1,586                    | \$ 1,266                                  | \$ 236                             | \$ 1,502                    |

## Schedule of Fiduciary Net Assets

|                                    | 2025                                      |                                    |                             | 2024                                      |                                    |                             |
|------------------------------------|-------------------------------------------|------------------------------------|-----------------------------|-------------------------------------------|------------------------------------|-----------------------------|
|                                    | Payment of<br>Unclaimed<br>Monies<br>Fund | All<br>Other<br>Fiduciary<br>Funds | Total<br>Fiduciary<br>Funds | Payment of<br>Unclaimed<br>Monies<br>Fund | All<br>Other<br>Fiduciary<br>Funds | Total<br>Fiduciary<br>Funds |
| (in millions)                      |                                           |                                    |                             |                                           |                                    |                             |
| <b>Fiduciary Net Assets</b>        |                                           |                                    |                             |                                           |                                    |                             |
| Fund Balance with Treasury         | \$ 1,412                                  | \$ 173                             | \$ 1,585                    | \$ 1,266                                  | \$ 235                             | \$ 1,501                    |
| Investments in Treasury Securities | -                                         | 1                                  | 1                           | -                                         | 1                                  | 1                           |
| <b>Total Fiduciary Assets</b>      | <b>1,412</b>                              | <b>174</b>                         | <b>1,586</b>                | <b>1,266</b>                              | <b>236</b>                         | <b>1,502</b>                |
| <b>Total Fiduciary Net Assets</b>  | <b>\$ 1,412</b>                           | <b>\$ 174</b>                      | <b>\$ 1,586</b>             | <b>\$ 1,266</b>                           | <b>\$ 236</b>                      | <b>\$ 1,502</b>             |

## 27. COMMITMENTS AND CONTINGENCIES

### LEGAL CONTINGENCIES

We are a party in various administrative proceedings, legal actions, and claims, which may ultimately result in settlements or decisions adverse to the U.S. government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown. We disclose contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. We do not accrue for possible losses related to cases where we cannot estimate the potential loss or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by our Judgment Fund, which is separate from our operating resources. For cases related to the *Contract Disputes Act of 1978* (P.L. 95-563) and awards under federal anti-discrimination and whistle-blower protection acts, we must reimburse the Judgment Fund from future appropriations.

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

### Pending Legal Actions

- *Tribal Trust Cases:* Numerous Native American tribes have filed cases in U.S. District Courts seeking a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds and non-monetary trust assets, and also seeking an order requiring the U.S. government to provide such an accounting. In addition, plaintiff tribes have filed a number of related cases seeking damages in the U.S. Court of Federal Claims, which do not name Treasury as a defendant. The majority of the Tribal Trust cases have been resolved through negotiated settlements, and the U.S. government is currently in discussion with counsel representing most of the remaining plaintiff tribes with pending cases about the feasibility of an out-of-court settlement. Plaintiff tribes in some of the pending cases have chosen to pursue active litigation, rather than settlement discussion, and the U.S. government is litigating those cases vigorously. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *Steele et al. v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally,

the plaintiffs seek to force IRS to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. On June 1, 2017, the U.S. District Court for the District of Columbia found for the plaintiffs in the previously mentioned matters, and the U.S. government appealed. In March 2019, the U.S. Court of Appeals for the District of Columbia Circuit reversed the lower court's opinion and determined that IRS is entitled to charge a PTIN user fee. The case was remanded back to the lower court to determine whether the amount of the fees previously charged was appropriate. As of September 30, 2025, we have determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of \$0 to \$270 million.

- American Recovery and Reinvestment Tax Act of 2009 (ARRA) Cases:* A number of cases were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. On October 28, 2016, the U.S. Court of Federal Claims entered judgment against the U. S. in the amount of \$207 million in one of the cases. The U.S. government appealed the judgment, and on July 27, 2018, the Federal Circuit reversed the trial court's decision, vacated judgment, and remanded the case to the U.S. Court of Federal Claims for reassignment to a new judge. The case remains in litigation. As of September 30, 2025, we have determined that there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately \$265 million.
- Treaty Claim:* A Notice of Arbitration was filed under the United Nations Commission of International Trade Law Arbitration Rules alleging that Treasury's Office of Foreign Assets Control acted in violation of U.S. obligations under a U.S. bilateral investment treaty. As of September 30, 2025, we have determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of \$0 to \$181 million.
- U.S. Victims of State Sponsored Terrorism Fund (USVSST) Related Cases:* A number of cases were filed in the U.S. District Court for the District of Columbia challenging the Department of Justice's interpretation of the USVSST Fund's eligibility language, their process for determining eligibility of certain cases, and the distribution of funds forfeited or otherwise paid as fines and penalties in a specific case. As of September 30, 2025, we have determined the likelihood of an unfavorable outcome is reasonably possible and estimates a potential loss within a range of \$0 to \$112 million.
- Anonymous Whistleblower v. United States:* A number of whistleblower cases were filed in the U.S. Tax Court under seal, appealing the denial of an award by the IRS Whistleblower Office. The anonymous claimants allegedly provided confidential information about tax fraud committed by a taxpayer to the IRS. As of September 30, 2025, we have determined that there is a probable likelihood of an unfavorable outcome in some of these cases, with potential awards ranging from \$51 million to \$281 million. As of September 30, 2025, we have determined the likelihood of an unfavorable outcome in one of these cases is reasonably possible and estimates a potential loss within a range of \$92 million to \$185 million.
- Safe Harbor International LLC v. Booz Allen Hamilton, Inc., et al.:* A class action complaint was filed in the U.S. District Court for the District of Maryland alleging liability for unauthorized disclosure of tax returns and information for over 400,000 taxpayers. As of September 30, 2025, we have determined the likelihood of an unfavorable outcome is reasonably possible and estimates a potential loss of \$800 million or greater.
- King, et al. v. United States:* The plaintiffs filed a class action claim in the U.S. Court of Federal Claims seeking interest on previously reduced pension benefits that were restored by lump sum make-up payments under the *American Rescue Plan Act of 2021*, P.L. 117-2. Participants and beneficiaries received these lump sum make-up payments without

interest on the amount that was previously withheld. As of September 30, 2025, we have determined there is a reasonably possible likelihood of an unfavorable outcome but are unable to determine an estimate of potential loss at the time.

- *e-Numerate Solutions, Inc. v. United States*: The plaintiff filed a claim in the Court of Federal Claims alleging that several federal agencies, including Treasury infringed on patents for the eXtensible Business Reporting Language (XBRL). More specifically, the plaintiff asserts that Treasury, along with OMB, requires all federal agencies to report spending and award data that is either: (i) in XBRL format; and/or (ii) converted by Treasury into XBRL format for further processing. The plaintiff contends that this use of XBRL violates two U.S. patents. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in this case at this time.
- *Other Legal Actions*: We are also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before federal courts, the Equal Employment Opportunity Commission, and the Merit Systems Protection Board) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. We do not expect that these cases will have a material adverse effect on our consolidated financial position or results.

## OTHER COMMITMENTS AND CONTINGENCIES

### Loan Commitments

Through the FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1Q and 3). As of September 30, 2025, we had remaining loan commitments totaling \$319.6 billion.

In addition to the loan commitments, the FFB has agreements with agencies that permit FFB to issue loans up to amounts authorized in those agencies' annual program appropriations.

### Multilateral Development Banks

On behalf of the U.S., we have subscribed to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2025, U.S. callable capital in MDBs was as follows:

| (in millions)                                           | 2025              |
|---------------------------------------------------------|-------------------|
| International Bank for Reconstruction and Development   | \$ 52,048         |
| Inter-American Development Bank                         | 49,181            |
| Asian Development Bank                                  | 18,702            |
| African Development Bank                                | 9,889             |
| European Bank for Reconstruction and Development        | 3,055             |
| North American Development Bank                         | 1,530             |
| Multilateral Investment Guarantee Agency <sup>(1)</sup> | 315               |
| <b>Total</b>                                            | <b>\$ 134,720</b> |

(1) FY 2025 includes a commitment of \$22 million for the undisbursed portion of the subscription to paid-in capital investment.

## Terrorism Risk Insurance Program

Congress created the Terrorism Risk Insurance Program (TRIP) under the *Terrorism Risk Insurance Act* (TRIA) in November 2002, which was enacted in response to the market disruptions resulting from the terrorist attacks on September 11, 2001. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act of 2019* (P.L. 116-94) extended the TRIP until December 31, 2027. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP is activated when the Secretary (in consultation with the Secretary of the Department of Homeland Security and the Attorney General of the United States) certifies an “act of terrorism,” as defined under TRIA. In the event of certification of an “act of terrorism,” insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses – assuming an aggregate insured loss threshold (“program trigger”) has been reached – once a particular insurer has satisfied its designated deductible amount. For calendar year 2025, the program trigger amount was \$200 million. Insurance companies and the U.S. government will share insured losses above insurer deductibles. The TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under the TRIP 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 the TRIP as of September 30, 2025.

## Exchange Stabilization Agreements

The Exchange Stabilization Agreement (ESA) with Mexico, which was amended and restated in 2018 and which is renewed annually, implements the North American Framework Agreement (NAFA), signed with Mexico and Canada on April 26, 1994, which is also renewed annually. Treasury, through the ESF, offers Mexico a swap line up to \$9.0 billion, with drawings contingent on certain conditions being met. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. There were no drawings outstanding on the ESF swap line with Mexico as of September 30, 2025.

On October 18, 2025, Treasury, through the ESF, entered into an ESA with the Banco Central de la República Argentina (BCRA) for up to \$20.0 billion. Pursuant to the ESA, Treasury and the BCRA negotiated and executed a swap agreement in October 2025 whereby the BCRA drew \$2.5 billion in exchange for an equivalent amount of Argentine pesos. In December 2025, the BCRA fully repaid the \$2.5 billion and the swap position was closed. As this transaction occurred subsequent to the September 30, 2025 balance sheet date, no adjustments have been made to our consolidated financial statements as of and for the fiscal year ended September 30, 2025.

## 28. RECLASSIFICATION OF AGENCY FINANCIAL STATEMENTS TO FINANCIAL REPORT OF THE U.S. GOVERNMENT FORMAT

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To prepare the *Financial Report of the U.S. Government* (Financial Report), federal agencies submit to the BFS a trial balance containing financial statement account ending balances and activity. The BFS uses this trial balance information to reclassify agencies' account balances and activity in a manner that conforms to the format of the financial statement presentation in the Financial Report. Our reclassified financial statements—including the Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position—are accessed using the Government-wide Treasury Account Symbol Adjusted Trial Balance System. The BFS eliminates all intragovernmental balances and activity between federal agencies in generating the Financial Report consolidated financial statements. This note depicts how our AFR Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position are adjusted to derive the Financial Report reclassified financial statements prior to the elimination of intragovernmental balances and prior to the aggregation of repeated Financial Report line items. A copy of the FY 2024 Financial Report can be found on the BFS website and a copy of the FY 2025 Financial Report will be posted to the site as soon as it is released.

| Consolidated Statement of Net Cost<br>For the Fiscal Year Ended September 30, 2025 |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                  |
|------------------------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------|
| AFR Financial Statement Line                                                       | Amounts<br>(in millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line                                                            |
| <b>COST OF TREASURY OPERATIONS:</b>                                                |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                  |
| Total Program Gross Costs                                                          | \$ 142,854               | \$ 31,610                            | \$ -                                     | \$ 103,658                                                       | \$ -                                                                   | 135,268                | Non-Federal Gross Costs                                                                          |
|                                                                                    |                          |                                      |                                          |                                                                  |                                                                        |                        | <i>Intra-governmental Costs</i>                                                                  |
|                                                                                    |                          | 324                                  | -                                        | 2,765                                                            | -                                                                      | 3,089                  | Benefit Program Costs                                                                            |
|                                                                                    |                          | 166                                  | -                                        | 1,642                                                            | -                                                                      | 1,808                  | Imputed Costs                                                                                    |
|                                                                                    |                          | 413                                  | 1                                        | 1,574                                                            | 195                                                                    | 1,791                  | Buy/Sell Cost                                                                                    |
|                                                                                    |                          | 8                                    | -                                        | -                                                                | -                                                                      | 8                      | Purchase of Assets                                                                               |
|                                                                                    |                          | -                                    | -                                        | 107                                                              | -                                                                      | 107                    | Federal Securities Interest Expense                                                              |
|                                                                                    |                          | 2                                    | -                                        | -                                                                | 2                                                                      | -                      | Borrowing and Other Interest Expenses                                                            |
|                                                                                    |                          | -                                    | -                                        | 14                                                               | -                                                                      | 14                     | Borrowing Losses                                                                                 |
|                                                                                    |                          | 23                                   | -                                        | 754                                                              | -                                                                      | 777                    | Other Expenses (without Reciprocals)                                                             |
|                                                                                    |                          | (8)                                  | -                                        | -                                                                | -                                                                      | (8)                    | Purchase of Assets Offset                                                                        |
|                                                                                    |                          | 928                                  | 1                                        | 6,856                                                            | 197                                                                    | 7,586                  | <i>Total Intra-governmental Costs</i>                                                            |
| <b>Total Program Gross Costs</b>                                                   | <b>142,854</b>           | <b>32,538</b>                        | <b>1</b>                                 | <b>110,514</b>                                                   | <b>197</b>                                                             | <b>142,854</b>         | <b>Total</b>                                                                                     |
| Total Program Earned Revenues                                                      | (43,684)                 | (32,983)                             | -                                        | (1,169)                                                          | -                                                                      | (34,152)               | Non-Federal Earned Revenue                                                                       |
|                                                                                    |                          |                                      |                                          |                                                                  |                                                                        |                        | <i>Intra-governmental Revenue</i>                                                                |
|                                                                                    |                          | (58)                                 | (1)                                      | (774)                                                            | (197)                                                                  | (634)                  | Buy/Sell Revenue                                                                                 |
|                                                                                    |                          | (918)                                | -                                        | -                                                                | (918)                                                                  | -                      | Federal Securities Interest Revenue Including Associated Gains and Losses                        |
|                                                                                    |                          | -                                    | -                                        | (8,806)                                                          | (1)                                                                    | (8,805)                | Borrowing and Other Interest Revenue                                                             |
|                                                                                    |                          | -                                    | -                                        | (16)                                                             | -                                                                      | (16)                   | Borrowing Gains                                                                                  |
|                                                                                    |                          | (77)                                 | -                                        | -                                                                | -                                                                      | (77)                   | Collections Transferred into a TAS Other Than the General Fund of the U.S. Government - Exchange |
|                                                                                    |                          | (1,053)                              | (1)                                      | (9,596)                                                          | (1,116)                                                                | (9,532)                | <i>Total Intra-governmental Earned Revenue</i>                                                   |
| <b>Total Program Earned Revenues</b>                                               | <b>(43,684)</b>          | <b>(34,036)</b>                      | <b>(1)</b>                               | <b>(10,765)</b>                                                  | <b>(1,116)</b>                                                         | <b>(43,684)</b>        | <b>Total</b>                                                                                     |
| <b>Total Net Cost of Treasury Operations</b>                                       | <b>99,170</b>            | <b>(1,498)</b>                       | <b>-</b>                                 | <b>99,749</b>                                                    | <b>(919)</b>                                                           | <b>99,170</b>          | <b>Total</b>                                                                                     |

| Consolidated Statement of Net Cost<br>For the Fiscal Year Ended September 30, 2025 |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                   |
|------------------------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|---------------------------------------------------|
| AFR Financial Statement Line                                                       | Amounts<br>(in millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line             |
| <b>NON-ENTITY COSTS:</b>                                                           |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                   |
| Federal Debt Interest                                                              | \$ 1,217,588             | \$ -                                 | \$ -                                     | \$ 982,660                                                       | \$ -                                                                   | 982,660                | Interest on Debt Held by the Public (Non-Federal) |
|                                                                                    |                          | -                                    | -                                        | 236,256                                                          | 1,328                                                                  | 234,928                | Federal Securities Interest Expense (Federal)     |
| <i>Total Federal Debt Interest</i>                                                 | <i>1,217,588</i>         | <i>-</i>                             | <i>-</i>                                 | <i>1,218,916</i>                                                 | <i>1,328</i>                                                           | <i>1,217,588</i>       | <i>Total</i>                                      |
| Restoration of Foregone Federal Debt Interest                                      | 5,048                    | -                                    | -                                        | 4,411                                                            | -                                                                      | 4,411                  | Interest on Debt Held by the Public (Non-Federal) |
|                                                                                    |                          | -                                    | -                                        | 637                                                              | -                                                                      | 637                    | Federal Securities Interest Expense (Federal)     |
| <i>Total Restoration of Foregone Federal Debt Interest</i>                         | <i>5,048</i>             | <i>-</i>                             | <i>-</i>                                 | <i>5,048</i>                                                     | <i>-</i>                                                               | <i>5,048</i>           | <i>Total</i>                                      |
| Less Interest Revenue from Loans                                                   | (57,922)                 | -                                    | -                                        | 241                                                              | -                                                                      | 241                    | Borrowing losses (Federal)                        |
|                                                                                    |                          | -                                    | -                                        | (58,161)                                                         | -                                                                      | (58,161)               | Intra-governmental Revenue                        |
|                                                                                    |                          | -                                    | -                                        | (2)                                                              | -                                                                      | (2)                    | Borrowing and Other Interest Revenue (Federal)    |
|                                                                                    |                          | -                                    | -                                        | (58,163)                                                         | -                                                                      | (58,163)               | Borrowing Gains                                   |
| <i>Total Less Interest Revenue from Loans</i>                                      | <i>(57,922)</i>          | <i>-</i>                             | <i>-</i>                                 | <i>(57,922)</i>                                                  | <i>-</i>                                                               | <i>(57,922)</i>        | <i>Total Intra-governmental Earned Revenue</i>    |
| <i>Total Less Interest Revenue from Loans</i>                                      | <i>(57,922)</i>          | <i>-</i>                             | <i>-</i>                                 | <i>(57,922)</i>                                                  | <i>-</i>                                                               | <i>(57,922)</i>        | <i>Total</i>                                      |
| Other Federal Costs, Net                                                           | 18,715                   | 70                                   | -                                        | 6,829                                                            | -                                                                      | 6,899                  | Non-Federal Gross Costs                           |
|                                                                                    |                          | 15                                   | -                                        | 195                                                              | -                                                                      | 210                    | Intra-governmental Costs                          |
|                                                                                    |                          | -                                    | -                                        | 12,271                                                           | -                                                                      | 12,271                 | Buy/Sell Cost                                     |
|                                                                                    |                          | 15                                   | -                                        | 12,466                                                           | -                                                                      | 12,481                 | Borrowing and Other Interest Expenses             |
|                                                                                    |                          | -                                    | -                                        | (665)                                                            | -                                                                      | (665)                  | Total Intra-governmental Costs                    |
| <i>Total Other Federal Costs, Net</i>                                              | <i>18,715</i>            | <i>85</i>                            | <i>-</i>                                 | <i>18,630</i>                                                    | <i>-</i>                                                               | <i>18,715</i>          | Buy/Sell Revenue (Federal)                        |
| GSEs Non-Entity Revenue, Net                                                       | (68,660)                 | -                                    | -                                        | (68,660)                                                         | -                                                                      | (68,660)               | Total                                             |
| Federal Debt Buyback Gain                                                          | (13,573)                 | -                                    | -                                        | (13,573)                                                         | -                                                                      | (13,573)               | Non-Federal Earned Revenue                        |

**Consolidated Statement of Net Cost**  
**For the Fiscal Year Ended September 30, 2025**

| AFR Financial Statement Line                                      | Amounts<br>(in millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line  |
|-------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|----------------------------------------|
| Other, Net                                                        | (1,353)                  | 94                                   | -                                        | (60)                                                             | -                                                                      | 34                     | Non-Federal Gross Costs                |
|                                                                   |                          | -                                    | -                                        | (360)                                                            | -                                                                      | (360)                  | Non-Federal Earned Revenue             |
|                                                                   |                          | -                                    | -                                        | (1,027)                                                          | -                                                                      | (1,027)                | Buy/Sell Revenue (Federal)             |
| <i>Total Other, Net</i>                                           | (1,353)                  | 94                                   | -                                        | (1,447)                                                          | -                                                                      | (1,353)                | <i>Total</i>                           |
| <b>Total Net Non-Entity Costs</b>                                 | <b>1,099,843</b>         | <b>179</b>                           | <b>-</b>                                 | <b>1,100,992</b>                                                 | <b>1,328</b>                                                           | <b>1,099,843</b>       | <b>Total</b>                           |
|                                                                   |                          | 69                                   | -                                        | 271,982                                                          | -                                                                      | 272,051                | Non-Federal Gross Costs <sup>(1)</sup> |
| <b>Total Net Cost of Treasury Operations and Non-Entity Costs</b> | <b>\$ 1,199,013</b>      | <b>\$ (1,250)</b>                    | <b>-</b>                                 | <b>\$ 1,472,723</b>                                              | <b>\$ 409</b>                                                          | <b>\$ 1,471,064</b>    | <b>Total Net Cost <sup>(1)</sup></b>   |

*(1) Includes income tax credits of \$272.1 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These costs are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.*

| Consolidated Statement of Changes in Net Position and Statement of Custodial Activity<br>For the Fiscal Year Ended September 30, 2025 |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------|
| AFR Financial Statement Line                                                                                                          | Amounts (in<br>millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line                                                                               |
| <b>STATEMENT OF CHANGES IN NET POSITION</b>                                                                                           |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                     |
| <b>UNEXPENDED APPROPRIATIONS</b>                                                                                                      |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                     |
| Beginning Balance                                                                                                                     | \$ 638,111               | \$ 200                               | \$ -                                     | \$ 637,911                                                       | \$ -                                                                   | 638,111                | Net Position, Beginning of Period                                                                                   |
| Appropriations Received                                                                                                               | 1,245,183                | -                                    | -                                        | 1,245,183                                                        | -                                                                      | 1,245,183              | Appropriations Received as adjusted                                                                                 |
| Appropriations Transferred In                                                                                                         | 90                       | -                                    | -                                        | 90                                                               | -                                                                      | 90                     | Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources                                     |
| Other Adjustments                                                                                                                     | (36,476)                 | -                                    | -                                        | (36,476)                                                         | -                                                                      | (36,476)               | Appropriations Received as adjusted                                                                                 |
| Appropriations Used                                                                                                                   | (1,327,499)              | -                                    | -                                        | (1,327,499)                                                      | -                                                                      | (1,327,499)            | Appropriations Used                                                                                                 |
| Net Change in Unexpended Appropriations                                                                                               | (118,702)                | -                                    | -                                        | (118,702)                                                        | -                                                                      | (118,702)              | Total                                                                                                               |
| <b>Total Unexpended Appropriations</b>                                                                                                | <b>519,409</b>           | <b>200</b>                           | <b>-</b>                                 | <b>519,209</b>                                                   | <b>-</b>                                                               | <b>519,409</b>         | <b>Total</b>                                                                                                        |
| <b>CUMULATIVE RESULTS OF OPERATIONS</b>                                                                                               |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                     |
| Beginning Balance                                                                                                                     | 82,891                   | 53,316                               | -                                        | 29,575                                                           | -                                                                      | 82,891                 | Net Position, Beginning of Period                                                                                   |
| Appropriations Used                                                                                                                   | 1,327,499                | -                                    | -                                        | 1,327,499                                                        | -                                                                      | 1,327,499              | Appropriations Expended                                                                                             |
| Non-Exchange Revenue                                                                                                                  | 1,456                    | 1,436                                | -                                        | 402                                                              | -                                                                      | 1,838                  | Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government                               |
|                                                                                                                                       |                          | 118                                  | 118                                      | -                                                                | -                                                                      | -                      | Accruals for entity amounts to be collected in a TAS other than the General Fund of the US Government - Nonexchange |
|                                                                                                                                       |                          | 20                                   | -                                        | -                                                                | -                                                                      | 20                     | Individual Income Tax and Tax Withholdings                                                                          |
|                                                                                                                                       |                          | -                                    | -                                        | (402)                                                            | -                                                                      | (402)                  | Other Taxes and Receipts                                                                                            |
|                                                                                                                                       |                          | 409                                  | -                                        | -                                                                | 409                                                                    | -                      | Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)                            |
| <i>Total Non-Exchange Revenue</i>                                                                                                     | <i>1,456</i>             | <i>1,983</i>                         | <i>118</i>                               | <i>-</i>                                                         | <i>409</i>                                                             | <i>1,456</i>           | <i>Total</i>                                                                                                        |

| Consolidated Statement of Changes in Net Position and Statement of Custodial Activity<br>For the Fiscal Year Ended September 30, 2025 |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|----------------------------------------------------------------------------------|
| AFR Financial Statement Line                                                                                                          | Amounts (in<br>millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line                                            |
| Donations and Forfeitures of Cash/Equivalent                                                                                          | 1,375                    | 1,375                                | -                                        | -                                                                | -                                                                      | 1,375                  | Other Taxes and Receipts                                                         |
| Transfers In/Out Without Reimbursement                                                                                                | 232                      | 111                                  | 111                                      | -                                                                | -                                                                      | -                      | Appropriation of Unavailable Special or Trust Fund Receipts Transfers-In         |
|                                                                                                                                       |                          | (111)                                | (111)                                    | -                                                                | -                                                                      | -                      | Appropriation of Unavailable Special or Trust Fund Receipts Transfers-Out        |
|                                                                                                                                       |                          | -                                    | -                                        | 1                                                                | 1                                                                      | -                      | Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources  |
|                                                                                                                                       |                          | (1)                                  | -                                        | -                                                                | (1)                                                                    | -                      | Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources |
|                                                                                                                                       |                          | 6                                    | -                                        | 884                                                              | 890                                                                    | -                      | Expenditure Transfers-In of Financing Sources                                    |
|                                                                                                                                       |                          | (1,090)                              | -                                        | (10)                                                             | (890)                                                                  | (210)                  | Expenditure Transfers-Out of Financing Sources                                   |
|                                                                                                                                       |                          | -                                    | -                                        | 409                                                              | 409                                                                    | -                      | Non-expenditure Transfers-In of Financing Sources - Capital Transfers            |
|                                                                                                                                       |                          | (409)                                | -                                        | -                                                                | (409)                                                                  | -                      | Non-expenditure Transfers-Out of Financing Sources - Capital Transfers           |
|                                                                                                                                       |                          | 2,248                                | 2,248                                    | -                                                                | -                                                                      | -                      | Transfers-In Without Reimbursement                                               |
|                                                                                                                                       |                          | (2,248)                              | (2,248)                                  | 442                                                              | -                                                                      | 442                    | Transfers-Out Without Reimbursement                                              |
| <i>Total Transfers In/Out Without Reimbursement</i>                                                                                   | 232                      | (1,494)                              | -                                        | 1,726                                                            | -                                                                      | 232                    | <i>Total</i>                                                                     |
| Donation/Forfeiture of Property                                                                                                       | 993                      | 993                                  | -                                        | -                                                                | -                                                                      | 993                    | Other Taxes and Receipts                                                         |
| Accrued Interest and Discount on Debt                                                                                                 | 22,866                   | -                                    | -                                        | 22,866                                                           | -                                                                      | 22,866                 | Other Non-Budgetary Financing Sources for Debt Accruals/Amortization             |

| Consolidated Statement of Changes in Net Position and Statement of Custodial Activity<br>For the Fiscal Year Ended September 30, 2025 |                       |                                |                                    |                                                      |                                                         |                     |                                                                                                                      |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------|------------------------------------|------------------------------------------------------|---------------------------------------------------------|---------------------|----------------------------------------------------------------------------------------------------------------------|
| AFR Financial Statement Line                                                                                                          | Amounts (in millions) | Dedicated Collections Combined | Dedicated Collections Eliminations | Other than Dedicated Collections (with Eliminations) | Eliminations between Dedicated and Other than Dedicated | Total (in millions) | Reclassified Financial Statement Line                                                                                |
| Imputed Financing Sources                                                                                                             | 1,808                 | 166                            | -                                  | 1,642                                                | -                                                       | 1,808               | Imputed Financing Sources                                                                                            |
| Transfers to the General Fund and Other                                                                                               | (150,715)             | -                              | -                                  | (280)                                                | -                                                       | (280)               | Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government            |
|                                                                                                                                       |                       | -                              | -                                  | (152,155)                                            | -                                                       | (152,155)           | Non-Entity Collections Transferred to the General Fund                                                               |
|                                                                                                                                       |                       | 849                            | -                                  | 258                                                  | -                                                       | 1,107               | Other Financing Sources with Budgetary Impact                                                                        |
|                                                                                                                                       |                       | (118)                          | (118)                              | -                                                    | -                                                       | -                   | Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government-Nonexchange |
|                                                                                                                                       |                       | 268                            | -                                  | 345                                                  | -                                                       | 613                 | Other Taxes and Receipts                                                                                             |
| <i>Total Transfers to the General Fund and Other</i>                                                                                  | <i>(150,715)</i>      | <i>999</i>                     | <i>(118)</i>                       | <i>(151,832)</i>                                     | <i>-</i>                                                | <i>(150,715)</i>    | <i>Total</i>                                                                                                         |
| Net Cost of Treasury Operations and Non-Entity Costs                                                                                  | (1,199,013)           | 1,250                          | -                                  | (1,472,723)                                          | (409)                                                   | (1,471,064)         | Net Cost of Operations <sup>(2)</sup>                                                                                |
| Net Change in Cumulative Results of Operations                                                                                        | 6,501                 | 5,272                          | -                                  | (270,822)                                            | -                                                       | (265,550)           | Total                                                                                                                |
| <b>Total Cumulative Results of Operations</b>                                                                                         | <b>\$ 89,392</b>      | <b>\$ 58,588</b>               | <b>\$ -</b>                        | <b>\$ (241,247)</b>                                  | <b>\$ -</b>                                             | <b>\$ (182,659)</b> | <b>Total</b>                                                                                                         |

**STATEMENT OF CUSTODIAL ACTIVITY****Sources of Custodial Revenue**

|                                                           |               |          |          |               |          |               |                                            |
|-----------------------------------------------------------|---------------|----------|----------|---------------|----------|---------------|--------------------------------------------|
| Individual Income and FICA Taxes                          | \$ 4,688,785  | \$ 69    | \$ -     | \$ 4,688,716  | \$ -     | \$ 4,688,785  | Individual Income Tax and Tax Withholdings |
| Corporate Income Taxes                                    | 486,384       | -        | -        | 486,384       | -        | 486,384       | Corporation Income Taxes                   |
| Estate and Gift Taxes                                     | 31,111        | -        | -        | 31,111        | -        | 31,111        | Estate and Gift Taxes                      |
| Excise Taxes                                              | 106,000       | -        | -        | 106,000       | -        | 106,000       | Excise Taxes                               |
| Railroad Retirement Taxes                                 | 7,258         | -        | -        | 7,258         | -        | 7,258         | Other Taxes and Receipts                   |
| Unemployment Taxes                                        | 8,777         | -        | -        | 8,777         | -        | 8,777         | Unemployment Taxes                         |
| Deposit of Earnings, Federal Reserve System               | 5,490         | -        | -        | 5,490         | -        | 5,490         | Other Taxes and Receipts                   |
| Fines, Penalties, Interest and Other Revenue              | 10,580        | -        | -        | 10,577        | -        | 10,577        | Other Taxes and Receipts                   |
|                                                           |               | -        | -        | 3             | -        | 3             | Borrowing and Other Interest Revenue       |
| <i>Total Fines, Penalties, Interest and Other Revenue</i> | <i>10,580</i> | <i>-</i> | <i>-</i> | <i>10,580</i> | <i>-</i> | <i>10,580</i> | <i>Total</i>                               |

<sup>(2)</sup> Includes income tax credits of \$272.1 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These tax credits are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

| Consolidated Statement of Changes in Net Position and Statement of Custodial Activity<br>For the Fiscal Year Ended September 30, 2025 |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------|------------------------------------------|------------------------------------------------------------------|------------------------------------------------------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| AFR Financial Statement Line                                                                                                          | Amounts (in<br>millions) | Dedicated<br>Collections<br>Combined | Dedicated<br>Collections<br>Eliminations | Other than<br>Dedicated<br>Collections<br>(with<br>Eliminations) | Eliminations<br>between<br>Dedicated<br>and Other<br>than<br>Dedicated | Total<br>(in millions) | Reclassified Financial Statement Line                                                                                                            |
| Less Refunds and Other Payments                                                                                                       | (639,571)                | -                                    | -                                        | (352,098)                                                        | -                                                                      | (352,098)              | Individual Income Tax and Tax Withholdings                                                                                                       |
|                                                                                                                                       |                          | -                                    | -                                        | (7,951)                                                          | -                                                                      | (7,951)                | Corporation Income Taxes                                                                                                                         |
|                                                                                                                                       |                          | -                                    | -                                        | (143)                                                            | -                                                                      | (143)                  | Unemployment Taxes                                                                                                                               |
|                                                                                                                                       |                          | -                                    | -                                        | (5,654)                                                          | -                                                                      | (5,654)                | Excise Taxes                                                                                                                                     |
|                                                                                                                                       |                          | -                                    | -                                        | (1,649)                                                          | -                                                                      | (1,649)                | Estate and Gift Taxes                                                                                                                            |
|                                                                                                                                       |                          | -                                    | -                                        | (25)                                                             | -                                                                      | (25)                   | Other Taxes and Receipts                                                                                                                         |
| <i>Total Less Refunds and Other Payments</i>                                                                                          | <i>(639,571)</i>         | <i>-</i>                             | <i>-</i>                                 | <i>(367,520)</i>                                                 | <i>-</i>                                                               | <i>(367,520)</i>       | <i>Total</i>                                                                                                                                     |
| Non-Cash Accrual Adjustment                                                                                                           | (48,151)                 | -                                    | -                                        | (48,135)                                                         | -                                                                      | (48,135)               | Other Taxes and Receipts                                                                                                                         |
|                                                                                                                                       |                          | -                                    | -                                        | 25                                                               | -                                                                      | 25                     | Excise Taxes                                                                                                                                     |
|                                                                                                                                       |                          | -                                    | -                                        | (41)                                                             | -                                                                      | (41)                   | Accrual for Non-Entity Amounts to be Collected and<br>Transferred to the General Fund of the U.S. Government                                     |
| <i>Total Non-Cash Accrual Adjustment</i>                                                                                              | <i>(48,151)</i>          | <i>-</i>                             | <i>-</i>                                 | <i>(48,151)</i>                                                  | <i>-</i>                                                               | <i>(48,151)</i>        | <i>Total</i>                                                                                                                                     |
| <b>Disposition of Custodial Revenue</b>                                                                                               |                          |                                      |                                          |                                                                  |                                                                        |                        |                                                                                                                                                  |
| Amounts Provided to Fund Non-Federal Entities                                                                                         | (400)                    | -                                    | -                                        | (400)                                                            | -                                                                      | (400)                  | Other Taxes and Receipts                                                                                                                         |
| Amounts Provided to Fund the Federal<br>Government                                                                                    | (4,704,414)              | -                                    | -                                        | (4,702,388)                                                      | -                                                                      | (4,702,388)            | Non-Entity Collections Transferred to the General Fund<br>Collections Transferred to a TAS Other Than the General<br>Fund of the U.S. Government |
|                                                                                                                                       |                          | -                                    | -                                        | (2,026)                                                          |                                                                        | (2,026)                |                                                                                                                                                  |
| <i>Total Amounts Provided to Fund the Federal<br/>Government</i>                                                                      | <i>(4,704,414)</i>       | <i>-</i>                             | <i>-</i>                                 | <i>(4,704,414)</i>                                               | <i>-</i>                                                               | <i>(4,704,414)</i>     | <i>Total</i>                                                                                                                                     |
| Non-Cash Accrual Adjustment                                                                                                           | 48,151                   | -                                    | -                                        | 48,150                                                           | -                                                                      | 48,150                 | Accrual for Non-Entity Amounts to be Collected and<br>Transferred to the General Fund of the U.S. Government                                     |
|                                                                                                                                       |                          | -                                    | -                                        | 1                                                                | -                                                                      | 1                      | Accrual of Collections Yet to be Transferred to a TAS Other<br>Than the General Fund of the U.S. Government                                      |
| <i>Total Non-Cash Accrual Adjustment</i>                                                                                              | <i>48,151</i>            | <i>-</i>                             | <i>-</i>                                 | <i>48,151</i>                                                    | <i>-</i>                                                               | <i>48,151</i>          | <i>Total</i>                                                                                                                                     |
| <b>Total Statement of Changes in Net Position and<br/>Statement of Custodial Activity</b>                                             | <b>\$ 608,801</b>        | <b>\$ 58,857</b>                     | <b>- \$</b>                              | <b>\$ 549,944</b>                                                | <b>- \$</b>                                                            | <b>608,801</b>         | <b>Total Reclassified Statement of Operations and Changes<br/>in Net Position</b>                                                                |

## REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED – SEE ACCOMPANYING AUDITORS’ REPORT)

---

### INTRODUCTION

This section provides the Required Supplementary Information as prescribed by accounting standards.

### OTHER CLAIMS FOR REFUNDS

We estimated that \$6.3 billion as of September 30, 2025 may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that we may pay for claims pending judicial review by the federal courts or internally by the Independent Office of Appeals. In FY 2025, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and the Independent Office of Appeals is \$2.0 billion and \$4.3 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

### IRS FEDERAL TAXES RECEIVABLE, NET

In accordance with SFFAS 7, some unpaid tax assessments do not meet the criteria for financial statement recognition. Internal Revenue Code (IRC) 6201 authorizes and requires us to make inquiries, determinations, and assessments of all taxes that taxpayers have not duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. We also have authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Under federal accounting standards, we consider unpaid assessments agreed to by the taxpayer or the court federal taxes receivable. We consider assessments not agreed to by taxpayer or the court compliance assessments. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that we consider federal taxes receivable.

We call assessments with little or no future collection potential write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers. Write-offs have little or no future collection potential, but statutory provisions require that we maintain these assessments until the statute for collection expires.

Although we do not consider compliance assessments and write-offs receivables under federal accounting standards, they represent legally enforceable claims of the U.S. government.

The components of the total unpaid assessments at September 30, 2025 were as follows:

| (in millions)                         | 2025             |
|---------------------------------------|------------------|
| Total Unpaid Assessments              | \$ 540,318       |
| Less Compliance Assessments           | (86,142)         |
| Write-Offs                            | (92,836)         |
| <b>Gross Federal Taxes Receivable</b> | <b>361,340</b>   |
| Less Allowance for Doubtful Accounts  | (269,925)        |
| <b>Federal Taxes Receivable, Net</b>  | <b>\$ 91,415</b> |

In FY 2025, total unpaid assessments include \$28.2 billion of non-delinquent taxes receivable in IRC 965(h) tax, which \$26.5 billion is collectible based on the type of taxpayer and the financial health of large dollar businesses. The non-delinquent IRC 965 (h) component refers to taxpayers who elected to pay their IRC 965(h) tax on an eight-year installment schedule.

## ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

As an agent of the U.S. government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, the TTB collects special occupational taxes from certain alcohol and tobacco businesses. During FY 2025, TTB collected approximately \$15.4 billion in taxes, interest, and other revenues. TTB also collects federal excise taxes on certain articles produced in Puerto Rico and the U.S. Virgin Islands, and imported into the U.S. In accordance with 26 USC 7652, such taxes collected on rum imported into the U.S. are “covered over” or paid into the treasuries of Puerto Rico and the U.S. Virgin Islands.

TTB remits substantially all of the taxes collected, net of related refund disbursements, to the General Fund. We further distribute this revenue to federal agencies in accordance with various laws and regulations. The firearms and ammunition excise taxes are an exception. TTB remits those revenues to the Fish and Wildlife Restoration Fund under provisions of the *Pittman-Robertson Act of 1937*.

## DEFERRED MAINTENANCE AND REPAIRS

In FY 2025, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, heritage assets, and structures we owned.

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

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine if there are any deferred maintenance and repairs needed to keep an asset in acceptable operating condition. We use periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports under these methodologies.

LAND

We hold land for BEP and Mint operational use in the production of U.S. currency and circulating coins. As of September 30, 2025, the total estimated land acreage for operational use was 289 acres.

STATEMENT OF BUDGETARY RESOURCES DISAGGREGATED BY TREASURY REPORTING ENTITY

The following table provides the Statement of Budgetary Resources for the fiscal year ended September 30, 2025 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

## Fiscal Year 2025 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

| (in millions):                                                                             | Bureau of<br>Engraving &<br>Printing | Bureau of<br>the Fiscal<br>Service | Departmental<br>Offices (a) | Fin. Crimes<br>Enforcement<br>Network | Internal<br>Revenue<br>Service |
|--------------------------------------------------------------------------------------------|--------------------------------------|------------------------------------|-----------------------------|---------------------------------------|--------------------------------|
| <b>BUDGETARY RESOURCES</b>                                                                 |                                      |                                    |                             |                                       |                                |
| Unobligated balance from prior year budget authority, net<br>(discretionary and mandatory) | \$ 932                               | \$ 1,667                           | \$ 324,074                  | \$ 271                                | \$ 50,632                      |
| Appropriations (discretionary and mandatory)                                               | -                                    | 1,243,480                          | 8,102                       | 181                                   | (7,392)                        |
| Borrowing authority (discretionary and mandatory)                                          | -                                    | -                                  | 228                         | -                                     | -                              |
| Spending authority from offsetting collections<br>(discretionary and mandatory)            | 1,658                                | 571                                | 11,192                      | 762                                   | 138                            |
| <b>Total Budgetary Resources</b>                                                           | <b>\$ 2,590</b>                      | <b>\$ 1,245,718</b>                | <b>\$ 343,596</b>           | <b>\$ 1,214</b>                       | <b>\$ 43,378</b>               |
| <b>STATUS OF BUDGETARY RESOURCES</b>                                                       |                                      |                                    |                             |                                       |                                |
| New obligations and upward adjustments                                                     | \$ 1,096                             | \$ 1,243,910                       | \$ 21,768                   | \$ 189                                | \$ 19,418                      |
| Unobligated balance, end of year:                                                          |                                      |                                    |                             |                                       |                                |
| Apportioned, unexpired accounts                                                            | 1,494                                | 1,533                              | 263,880                     | 99                                    | 23,356                         |
| Exempt from apportionment, unexpired accounts                                              | -                                    | 146                                | 117                         | -                                     | 7                              |
| Unapportioned, unexpired accounts                                                          | -                                    | 114                                | 56,796                      | 914                                   | 222                            |
| Unexpired unobligated balance, end of year                                                 | 1,494                                | 1,793                              | 320,793                     | 1,013                                 | 23,585                         |
| Expired unobligated balance, end of year                                                   | -                                    | 15                                 | 1,035                       | 12                                    | 375                            |
| Unobligated balance, end of year                                                           | 1,494                                | 1,808                              | 321,828                     | 1,025                                 | 23,960                         |
| <b>Total Status of Budgetary Resources</b>                                                 | <b>\$ 2,590</b>                      | <b>\$ 1,245,718</b>                | <b>\$ 343,596</b>           | <b>\$ 1,214</b>                       | <b>\$ 43,378</b>               |
| <b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>                                                |                                      |                                    |                             |                                       |                                |
| Outlays, net (discretionary and mandatory)                                                 | \$ (55)                              | \$ 1,242,559                       | \$ 7,895                    | \$ (616)                              | \$ 19,164                      |
| Distributed offsetting receipts                                                            | -                                    | (66,274)                           | (11,630)                    | -                                     | (1,140)                        |
| <b>Agency Outlays, Net (Discretionary and Mandatory)</b>                                   | <b>\$ (55)</b>                       | <b>\$ 1,176,285</b>                | <b>\$ (3,735)</b>           | <b>\$ (616)</b>                       | <b>\$ 18,024</b>               |
| Disbursements, net (mandatory)                                                             | \$ -                                 | \$ -                               | \$ 2,762                    | \$ -                                  | \$ -                           |

(a) Of the \$344 billion of Total Budgetary Resources for DO, GSE, ESF, IAP, and FFB had \$254 billion, \$50 billion, \$15 billion and \$10 billion, respectively. The remainder is spread throughout other offices.

## Fiscal Year 2025 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

|                                                                                            | U. S. Mint      | Office of the<br>Comptroller<br>of the<br>Currency | Alcohol<br>and<br>Tobacco<br>Tax and<br>Trade<br>Bureau |                     | Budgetary     | Non-<br>Budgetary |
|--------------------------------------------------------------------------------------------|-----------------|----------------------------------------------------|---------------------------------------------------------|---------------------|---------------|-------------------|
| (in millions):                                                                             |                 |                                                    |                                                         |                     |               |                   |
| <b>BUDGETARY RESOURCES</b>                                                                 |                 |                                                    |                                                         |                     |               |                   |
| Unobligated balance from prior year budget authority, net<br>(discretionary and mandatory) | \$ 959          | \$ 1,797                                           | 9                                                       | \$ 379,980          | \$ 361        |                   |
| Appropriations (discretionary and mandatory)                                               | -               | -                                                  | 158                                                     | 1,244,529           | -             |                   |
| Borrowing authority (discretionary and mandatory)                                          | -               | -                                                  | -                                                       | -                   | 228           |                   |
| Spending authority from offsetting collections<br>(discretionary and mandatory)            | 2,616           | 1,267                                              | 9                                                       | 17,887              | 326           |                   |
| <b>Total Budgetary Resources</b>                                                           | <b>\$ 3,575</b> | <b>\$ 3,064</b>                                    | <b>176</b>                                              | <b>\$ 1,642,396</b> | <b>\$ 915</b> |                   |
| <b>STATUS OF BUDGETARY RESOURCES</b>                                                       |                 |                                                    |                                                         |                     |               |                   |
| New obligations and upward adjustments                                                     | \$ 3,279        | \$ 1,302                                           | 169                                                     | \$ 1,290,413        | \$ 718        |                   |
| Unobligated balance, end of year:                                                          |                 |                                                    |                                                         |                     |               |                   |
| Apportioned, unexpired accounts                                                            | 296             | -                                                  | 5                                                       | 290,533             | 130           |                   |
| Exempt from apportionment, unexpired accounts                                              | -               | 1,762                                              | -                                                       | 2,032               | -             |                   |
| Unapportioned, unexpired accounts                                                          | -               | -                                                  | -                                                       | 57,979              | 67            |                   |
| Unexpired unobligated balance, end of year                                                 | 296             | 1,762                                              | 5                                                       | 350,544             | 197           |                   |
| Expired unobligated balance, end of year                                                   | -               | -                                                  | 2                                                       | 1,439               | -             |                   |
| Unobligated balance, end of year                                                           | 296             | 1,762                                              | 7                                                       | 351,983             | 197           |                   |
| <b>Total Status of Budgetary Resources</b>                                                 | <b>\$ 3,575</b> | <b>\$ 3,064</b>                                    | <b>176</b>                                              | <b>\$ 1,642,396</b> | <b>\$ 915</b> |                   |
| <b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>                                                |                 |                                                    |                                                         |                     |               |                   |
| Outlays, net (discretionary and mandatory)                                                 | \$ 723          | (14)                                               | 154                                                     | \$ 1,269,810        | \$ -          |                   |
| Distributed offsetting receipts                                                            | -               | -                                                  | -                                                       | (79,044)            | -             |                   |
| <b>Agency Outlays, Net (Discretionary and Mandatory)</b>                                   | <b>\$ 723</b>   | <b>(14)</b>                                        | <b>154</b>                                              | <b>\$ 1,190,766</b> | <b>\$ -</b>   |                   |
| Disbursements, net (mandatory)                                                             | \$ -            | \$ -                                               | -                                                       | \$ -                | \$ 2,762      |                   |



## PART 3:

### OTHER INFORMATION

(UNAUDITED)

|                                               |     |
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## SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables summarize the results of our financial statement audit, as well as management's assurances regarding conformance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

### SUMMARY OF FINANCIAL STATEMENT AUDIT

**Audit Opinion:** Unmodified

**Restatement:** No

| Material Weakness         | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|---------------------------|-------------------|-----|----------|--------------|----------------|
| Total Material Weaknesses | 0                 | 0   | 0        | 0            | 0              |

### SUMMARY OF MANAGEMENT ASSURANCES

#### EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)

**Statement of Assurance:** Unmodified

| Material Weakness         | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---------------------------|-------------------|-----|----------|--------------|------------|----------------|
| Total Material Weaknesses | 0                 | 0   | 0        | 0            | 0          | 0              |

#### EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)

**Statement of Assurance:** Unmodified

| Material Weakness         | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|---------------------------|-------------------|-----|----------|--------------|------------|----------------|
| Total Material Weaknesses | 0                 | 0   | 0        | 0            | 0          | 0              |

#### CONFORMANCE WITH FMFIA SECTION 4

**Statement of Assurance:** Federal systems conform, except for instances of nonconformance with financial management system requirements

| Nonconformances                           | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
|-------------------------------------------|-------------------|-----|----------|--------------|------------|----------------|
| IRS's Unpaid Tax Assessments <sup>1</sup> | 1                 | 0   | 0        | 0            | 0          | 1              |
| Total nonconformances                     | 1                 | 0   | 0        | 0            | 0          | 1              |

<sup>1</sup> Refer to Independent Auditors' Report in Part 2 of this report.

#### COMPLIANCE WITH FFMIA SECTION 803(a)

|                                                              | Agency                      | Auditor                     |
|--------------------------------------------------------------|-----------------------------|-----------------------------|
| 1. Federal Financial Management System Requirements          | Lack of compliance noted    | Lack of compliance noted    |
| 2. Applicable Federal Accounting Standards                   | No lack of compliance noted | No lack of compliance noted |
| 3. U.S. Standard General Ledger (USSGL) at Transaction Level | No lack of compliance noted | No lack of compliance noted |

## FMFIA AND FFMIA REQUIREMENTS

The FMFIA requires agencies to establish and maintain internal controls to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. The Secretary must evaluate and report annually on (a) whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and (b) material weaknesses in the Agency's controls (FMFIA Section 2). Additionally, the Secretary must evaluate and report separately on whether the Agency's financial management systems comply with government-wide requirements (FMFIA Section 4). The FFMIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, reporting, and compliance with laws and regulations.

As of September 30, 2025, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, as of the end of FY 2025, we had one instance of nonconformance with the federal financial management systems requirements of Section 4 of the FMFIA.

The nonconformance is the result of the IRS's significant deficiency related to unpaid tax assessments. This nonconformance constitutes a lack of compliance with federal financial management system requirements, as reported above under Compliance with FFMIA Section 803(a). Refer to the section in Part 1 entitled *Systems, Controls and Legal Compliance* and the section in Part 2 entitled *Independent Auditors' Report* for additional information on the nonconformance issue.

## SECTION B: TAX GAP AND TAX BURDEN

### TAX GAP

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. Tax gap estimates provide insight on the level of overall non-compliance during the relevant tax periods and under the IRC provisions in effect at the time. They also provide the IRS with periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies.

The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates. To address this issue, the IRS produces tax gap projections to provide more current tax gap information. The IRS published its most recent tax gap projections in October 2024, which included tax gap projections for Tax Year 2022 and revised projections for Tax Years 2020 and 2021.

Measuring and reporting on taxpayer compliance related to various tax provisions is inherently complex and challenging. As a result, the IRS develops estimates of the tax gap to measure overall compliance with the current tax system. The IRS also undertakes analyses of compliance behavior with respect to specific tax provisions, such as refundable and non-refundable tax credits. The IRS enforcement strategies and legislative proposals are influenced by its National Research Program (NRP), which involves conducting detailed audits of a statistically representative sample of taxpayers to estimate compliance with individual income tax provisions and provides data on misreporting on voluntarily filed returns. To provide greater reliability and precision of the compliance estimates, the IRS groups multiple years of data together. This results in a timing difference between the time period from which the IRS generates the reported data and issues the report. Misreporting can be in favor of the taxpayer or the government, although estimates indicate that the majority of misreporting is associated with tax underreporting. Underreporting can manifest as either understatements of the liability due at the time the taxpayer files the return, the taxpayer claiming and receiving an excessive refund, or a combination of both.

### Tax Gap Projections

The projected gross tax gap for TY 2022 is \$696 billion. The revised projection of the TY 2021 gross tax gap is \$708 billion. The net tax gap is the gross tax gap less tax that the IRS projects will be subsequently paid, either voluntarily but late, or collected as a result of IRS administrative and enforcement activities. In effect, the net tax gap is the portion of the gross tax gap that will not be paid. We project that \$90 billion of the gross tax gap for TY 2022 will eventually be paid, resulting in a net tax gap of \$606 billion.

The tax gap projections separate noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are:

- (i) the non-filing tax gap (\$63 billion of the projected gross tax gap for TY 2022): the tax not paid on time by those who do not file required returns on time;
- (ii) the underreporting tax gap (\$539 billion): the net understatement of tax on timely filed returns; and
- (iii) the underpayment tax gap (\$94 billion): which is the amount of tax reported on timely filed returns that is not paid on time.<sup>1</sup>

<sup>1</sup> Detail may not add to the total due to rounding.

We also group the gross tax gap projections for TY 2022 by type of tax: individual income tax (\$514 billion), corporate income tax (\$50 billion), employment tax (\$127 billion), and estate tax (\$5 billion).<sup>2</sup>

### TAX GAP MAP: TAX GAP PROJECTIONS FOR TAX YEAR 2022 (EXCERPT) (\$ IN BILLIONS)

| Total True Tax Liability | Tax Paid Voluntarily & Timely | Gross Tax Gap          |                        |                             |         |                    | Enforced & Other Late Payments | Net Tax Gap (Tax Not Collected) |                                  |                        |                        |
|--------------------------|-------------------------------|------------------------|------------------------|-----------------------------|---------|--------------------|--------------------------------|---------------------------------|----------------------------------|------------------------|------------------------|
|                          |                               | Nonfiling              | Underreporting         |                             |         |                    |                                |                                 | Under-payment                    | Gross Tax Gap          |                        |
| \$4,635                  | \$3,939                       | \$63                   | + \$539                |                             |         |                    | + \$94                         | = \$696                         | - \$90                           | = \$606                |                        |
| By Type of Tax           |                               |                        |                        |                             |         |                    |                                |                                 |                                  |                        |                        |
| Individual Income Tax    | Individual Income Tax         | Individual Income Tax  | Individual Income Tax  |                             |         |                    |                                | Individual Income Tax           | Individual Income Tax            | Individual Income Tax  |                        |
| \$2,557                  | \$2,042                       | \$53                   | + \$381                |                             |         |                    |                                | + \$80                          | = \$514                          | - \$68                 | = \$447                |
|                          |                               |                        | Business Income        | Non-Business Income         | Credits | Income Offsets [1] | Filing Status                  | Other Taxes [2]                 | Unallocated Marginal Effects [3] |                        |                        |
|                          |                               |                        | \$194                  | \$87                        | \$48    | \$27               | \$7                            | \$4                             | \$15                             |                        |                        |
| Corporation Income Tax   | Corporation Income Tax        | Corporation Income Tax | Corporation Income Tax |                             |         |                    |                                | Corporation Income Tax          | Corporation Income Tax           | Corporation Income Tax | Corporation Income Tax |
| \$392                    | \$342                         | #                      | + \$44                 |                             |         |                    |                                | + \$6                           | = \$50                           | - \$10                 | = \$40                 |
|                          |                               |                        | Large Corporations     | Small Corporations          |         |                    |                                |                                 |                                  |                        |                        |
|                          |                               |                        | \$25                   | \$19                        |         |                    |                                |                                 |                                  |                        |                        |
| Employment Tax           | Employment Tax                | Employment Tax [4]     | Employment Tax         |                             |         |                    |                                | Employment Tax                  | Employment Tax                   | Employment Tax         | Employment Tax         |
| \$1,585                  | \$1,459                       | \$9                    | + \$111                |                             |         |                    |                                | + \$6                           | = \$127                          | - \$8                  | = \$119                |
|                          |                               |                        | Self-Employment Tax    | FICA & Uncollected FICA TAX | FUTA    |                    |                                |                                 |                                  |                        |                        |
|                          |                               |                        | \$71                   | \$39                        | \$1     |                    |                                |                                 |                                  |                        |                        |
| Estate Tax               | Estate Tax                    | Estate Tax             | Estate Tax             |                             |         |                    |                                | Estate Tax                      | Estate Tax                       | Estate Tax             | Estate Tax             |
| \$35                     | \$30                          | \$1                    | + \$2                  |                             |         |                    |                                | + \$1                           | = \$5                            | - \$4                  | = \$0.4                |

#### Notes:

\*Totals include Excise Tax

# - No estimate

Detail may not add to totals due to rounding.

(1) Includes adjustments, deductions, and exemptions.

(2) Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported Social Security and Medicare tax (which are included in the employment tax gap projections).

(3) The difference between: (1) the projection of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and, (2) the projection of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line-item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.

(4) Self-employment tax only.

### Tax Gap Data and Methodology Limitations

Given the complexity of the tax systems and available data, we cannot use a single approach to estimate each component of the tax gap. Each approach is subject to measurement or non-sampling error; the component estimates that are based on samples are also subject to sampling error. The individual income tax NRP compliance studies are the foundation for the individual income tax underreporting tax gap estimates and projections. For the individual income tax underreporting tax gap, we use a statistical procedure to adjust for measurement errors that result when we do not detect some existing noncompliance during an audit.<sup>3</sup> We use other statistical techniques to control for bias in estimates based on corporate operational audit data. Due to the heterogeneous nature of the estimation methodology, we do not report standard errors, however, the user should be mindful of these limitations when using these estimates. In addition to sampling error and

<sup>2</sup> These projections are excerpted from the tax gap "map" shown below; the full version can be found at <https://www.irs.gov/pub/irs-pdf/p5869.pdf>.

<sup>3</sup> See <https://www.irs.gov/pub/irs-pdf/p5869.pdf> for more details.

measurement error, there is estimation error and coverage error. In some components of the tax system where compliance data are lacking, such as it relates to corporation income tax, income from flow-through entities, foreign or illegal activities, digital assets, and pandemic credits, the estimates do not present as clear a picture as areas with greater compliance data. Since the underreporting projections for TY 2022 assume compliance rates have not changed from the prior TY 2014 – 2016 tax gap estimates, they are subject to the same data limitations as those tax gap estimates. The projections are also subject to projection error.

### **Individual Income Tax Underreporting Tax Gap Projections for Tax Year 2022**

The projections in the table below provide a breakout of the components of the individual income tax underreporting tax gap, which is the largest single contributor to the gross tax gap. For each income component, we show the component's share of both the gross tax gap and the individual income tax underreporting tax gap. Business income accounts for 51 percent of the total individual income tax underreporting tax gap for TY 2022. This primarily consists of nonfarm proprietor income (31 percent); income from flow-through entities—partnerships, S corporations, and estates and trusts (11 percent); rent and royalty income (7 percent); and farm income (2 percent).

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP PROJECTIONS BY SOURCE: TAX YEAR 2022 <sup>(1)</sup>

(\$ IN BILLIONS)

| Tax Return Line Items                                                     | Tax Gap       | Share of Gross Tax Gap | Share of Individual Income Tax Underreporting Tax Gap |
|---------------------------------------------------------------------------|---------------|------------------------|-------------------------------------------------------|
| <b>Gross Tax Gap</b>                                                      | <b>\$ 696</b> | <b>100%</b>            | <b>N/A</b>                                            |
| <b>Individual Income Tax Underreporting Tax Gap</b>                       | <b>\$ 381</b> | <b>55%</b>             | <b>100%</b>                                           |
| <b>Items Subject to Substantial Information Reporting and Withholding</b> | <b>\$ 9</b>   | <b>1%</b>              | <b>2%</b>                                             |
| Wages, salaries, tips                                                     | \$ 9          | 1%                     | 2%                                                    |
| <b>Items Subject to Substantial Information Reporting</b>                 | <b>\$ 22</b>  | <b>3%</b>              | <b>6%</b>                                             |
| Interest income                                                           | 1             | (2)                    | (2)                                                   |
| Dividend income                                                           | \$ 2          | (2)                    | (2)                                                   |
| State income tax refunds                                                  | \$ (2)        | (2)                    | (2)                                                   |
| Pension & annuities                                                       | \$ 9          | 1%                     | 2%                                                    |
| Unemployment Compensation                                                 | (2)           | (2)                    | (2)                                                   |
| Taxable Social Security benefits                                          | \$ 10         | 1%                     | 3%                                                    |
| <b>Items Subject to Some Information Reporting</b>                        | <b>\$ 71</b>  | <b>10%</b>             | <b>19%</b>                                            |
| Partnership, S-Corp, Estate & Trust, etc.                                 | \$ 42         | 6%                     | 11%                                                   |
| Alimony income                                                            | (2)           | (2)                    | (2)                                                   |
| Capital Gains                                                             | \$ 30         | 4%                     | 8%                                                    |
| <b>Items Subject to Little or No Information Reporting</b>                | <b>\$ 179</b> | <b>26%</b>             | <b>47%</b>                                            |
| Form 4797 income                                                          | \$ 5          | 1%                     | 1%                                                    |
| Other income                                                              | \$ 21         | 3%                     | 6%                                                    |
| Nonfarm proprietor income                                                 | \$ 117        | 17%                    | 31%                                                   |
| Farm income                                                               | \$ 7          | 1%                     | 2%                                                    |
| Rents and royalties                                                       | \$ 28         | 4%                     | 7%                                                    |
| <b>Total Credits</b>                                                      | <b>\$ 48</b>  | <b>7%</b>              | <b>12%</b>                                            |
| Child Tax Credit and Additional Child Tax Credit                          | \$ 17         | 2%                     | 4%                                                    |
| EITC                                                                      | \$ 24         | 4%                     | 6%                                                    |
| Education Credits                                                         | \$ 3          | (2)                    | 1%                                                    |
| All Other Credits                                                         | \$ 3          | (2)                    | 1%                                                    |
| <b>Other Taxes</b>                                                        | <b>\$ 4</b>   | <b>1%</b>              | <b>1%</b>                                             |
| <b>Unallocated Marginal Effects</b>                                       | <b>\$ 15</b>  | <b>2%</b>              | <b>4%</b>                                             |
| <b>Income Offsets (Adjustments, Deductions, Exemptions)</b>               | <b>\$ 27</b>  | <b>4%</b>              | <b>7%</b>                                             |
| <b>Filing Status</b>                                                      | <b>\$ 7</b>   | <b>1%</b>              | <b>2%</b>                                             |

<sup>(1)</sup> These figures will be updated as more complete compliance data becomes available.<sup>(2)</sup> Less than 0.5 percent or \$0.5 billion.

Note: Individual amounts may not add to total due to rounding.

## Individual Income Tax Credits

The IRS is responsible for administering 21 refundable and non-refundable individual income tax credits, including the Earned Income Tax Credit (EITC), the American Opportunity Tax Credit (AOTC), the Child Tax Credit (CTC), the Additional Child Tax Credit (ACTC), and the Premium Tax Credit (PTC). Total tax credits account for 12 percent of the individual income tax underreporting tax gap. The EITC accounts for 6 percent of the individual income tax underreporting tax gap, followed by the CTC and ACTC (4 percent), and the refundable and non-refundable education credits (1 percent).

## Relationship of Tax Compliance Estimation to Improper Payments

The PIIA includes specific reporting requirements for payment programs that are determined to be susceptible to significant improper payments. The focus of PIIA, as well as related guidance from the OMB, is on implementing internal controls to prevent and detect improper payments. PIIA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with PIIA requirements, the IRS reports improper payment (*i.e.*, overclaim) estimates for four refundable tax credits, the EITC, AOTC, ACTC and net PTC, deemed susceptible to significant improper payments (refer to Part 3, Section D: *Payment Integrity*, of this report).

The IRS follows the practice of reporting improper payment estimates largely because refundable tax credits may result in a payment to the taxpayer in excess of the taxpayer's tax liability. It can be challenging to distinguish between the portion of a credit that offsets an individual tax liability versus the portion that is refunded. Determining the improper payment of the refunded portion of a refundable tax credit depends on multiple variables, including other return elements and information the taxpayer provides, some of which are unrelated to the refundable tax credit in question.

The same features of the tax system and taxpayer behaviors that create the compliance problems with refundable tax credits also create the risk of noncompliance with other tax provisions. Several credits Congress enacted to promote social and economic objectives (*e.g.*, assisting particular groups of individuals or businesses) have eligibility rules that are complex and often lead to high overclaim rates.

Tax refunds, which constitute a transfer of cash from the federal government to a taxpayer, are an integral part of the tax system as a whole. The IRS tax gap estimation process measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable tax credits. Whether a tax credit results in a refund instead of a reduction in tax liability depends on all of the taxpayers' characteristics, such as income, deductions, and other credits claimed, and is not simply driven by the credit itself.

The IRS's risk assessments on refundable tax credits have consistently concluded that overclaims are not rooted in internal control deficiencies, but instead are due to the complexities of verifying eligibility, including unavailability of relevant third-party data, for refundable tax credits within the time periods the tax system prescribes. Consequently, errors in taxpayer claims for credits are the result of factors beyond our control under current law and existing authority, and are therefore, included in the analysis of tax compliance.

## Refundable Tax Credits and the Challenges of Compliance

Refundable tax credits (RTC) generally have complex eligibility rules, often relating to personal family and living arrangements, and these eligibility rules can vary across RTCs. These two issues contribute to errors by taxpayers when claiming RTCs and relative high overclaim error rates for these credits. In some cases, due also in part to the complex rules, overclaims by an ineligible taxpayer could go to another family member who is eligible for, but fails to claim, the tax credit. Additionally, these eligibility rules are difficult for the IRS to verify, particularly at the time the taxpayer files a return, due to the lack of available and relevant third-party data. Much of the information necessary to validate the accuracy of an RTC claim before issuing a tax refund is not comprehensively available in any U.S. government database.

The IRS also has limited authority to correct mismatches at filing and traditionally uses audits to correct errors. The IRS runs various automated checks of certain data on a tax return before paying a refund but is otherwise limited in its ability to question and correct the taxpayer's claim. The IRS continually looks for complete and accurate data sources to verify eligibility for claimed refundable credits to reduce the burden on compliant taxpayers.

Faced with the complexities of the eligibility rules for certain refundable credits, many potential credit recipients seek help filing their tax returns from paid preparers. One-half of taxpayers claiming refundable credits use paid preparers. Preparer education and outreach are major components of the IRS's overall strategy to address the tax gap and to reduce errors. The IRS's education and outreach efforts seek to inform preparers about the availability of the credits and about the eligibility requirements that taxpayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community.

## TAX BURDEN

The Internal Revenue Code (IRC) creates the basis for a progressive tax system that applies higher rates of taxation to progressively higher levels of income. The amount of taxable income can be adjusted through the application of exemptions and deductions, which influence the amount of taxes taxpayers owe. In addition, many taxpayers qualify for one or more refundable tax credits, which collectively have a significant impact on tax administration, federal tax revenues, and refund payments.<sup>4</sup>

The IRS measures tax liability by income level for individuals, and by revenue and assets for corporations. Using these data, it is possible to illustrate how tax liability rises with increases in Adjusted Gross Income (AGI) for individuals (Figures 1.1 and 1.2 and Table 1). Similar data for corporations shows the tax burden based on the percentage of taxable income (Figure 2 and Table 2). This information is the most recent data available for individuals (TY 2022) and corporations (TY 2021).

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<sup>4</sup> Refundable tax credits that exceed income tax liability are not included in the calculation in Figures 1.1 and 1.2 and Table 1. Figure F of IRS Publication 1304 (Rev. 1-2025) shows information about income tax minus refundable credits. <https://www.irs.gov/pub/irs-pdf/p1304.pdf>

## INDIVIDUAL INCOME TAX LIABILITY

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2022

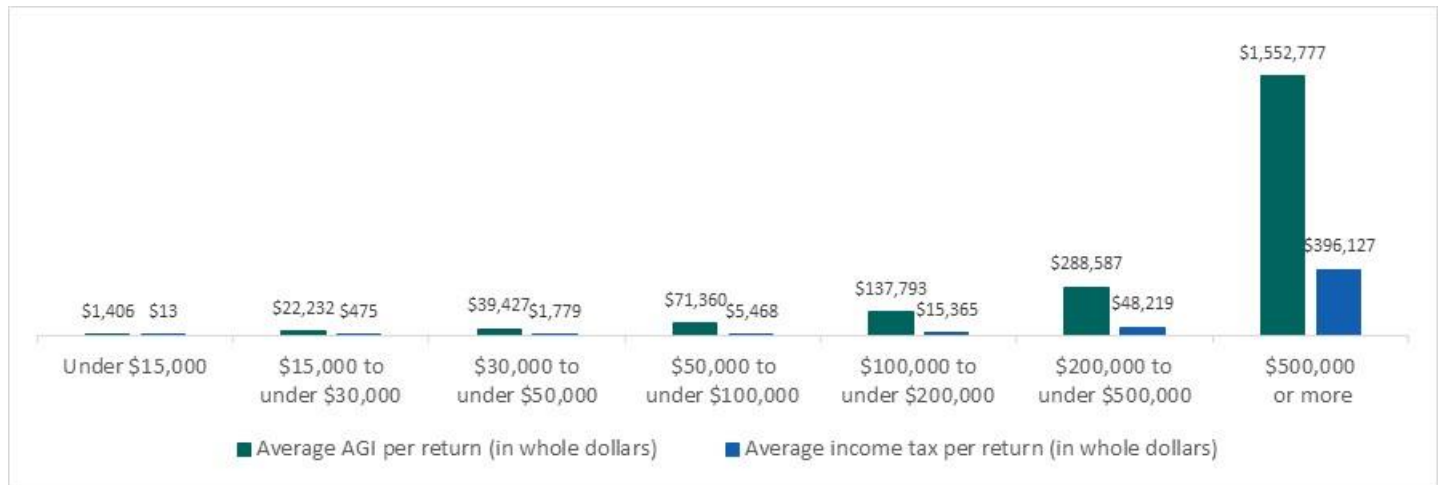


FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2022

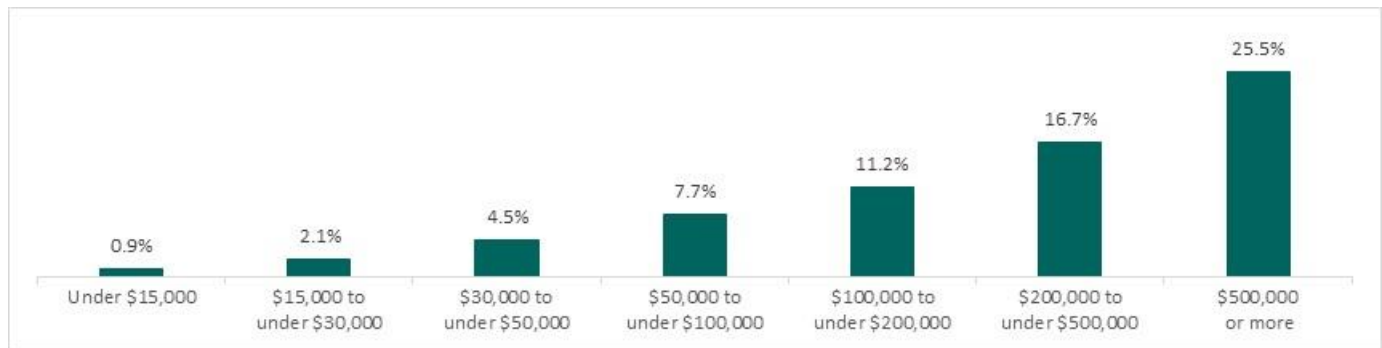


TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2022

| Adjusted Gross Income (AGI)  | Number of taxable returns (in thousands) | AGI (in millions)    | Total income tax (in millions) | Average AGI per return (in whole dollars) | Average income tax per return (in whole dollars) | Income tax as a percentage of AGI |
|------------------------------|------------------------------------------|----------------------|--------------------------------|-------------------------------------------|--------------------------------------------------|-----------------------------------|
| Under \$15,000               | 29,840                                   | \$ 41,952            | \$ 377                         | \$ 1,406                                  | 13                                               | 0.9%                              |
| \$15,000 to under \$30,000   | 25,099                                   | 558,008              | 11,917                         | 22,232                                    | 475                                              | 2.1%                              |
| \$30,000 to under \$50,000   | 29,027                                   | 1,144,446            | 51,632                         | 39,427                                    | 1,779                                            | 4.5%                              |
| \$50,000 to under \$100,000  | 38,987                                   | 2,782,106            | 213,183                        | 71,360                                    | 5,468                                            | 7.7%                              |
| \$100,000 to under \$200,000 | 25,887                                   | 3,567,048            | 397,758                        | 137,793                                   | 15,365                                           | 11.2%                             |
| \$200,000 to under \$500,000 | 10,018                                   | 2,891,065            | 483,057                        | 288,587                                   | 48,219                                           | 16.7%                             |
| \$500,000 or more            | 2,479                                    | 3,849,333            | 981,999                        | 1,552,777                                 | 396,127                                          | 25.5%                             |
| <b>Total</b>                 | <b>161,337</b>                           | <b>\$ 14,833,958</b> | <b>\$ 2,139,923</b>            |                                           |                                                  |                                   |

*All negative AGI under \$15,000 are treated as zero-dollar amount.*

## CORPORATION TAX LIABILITY

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2021

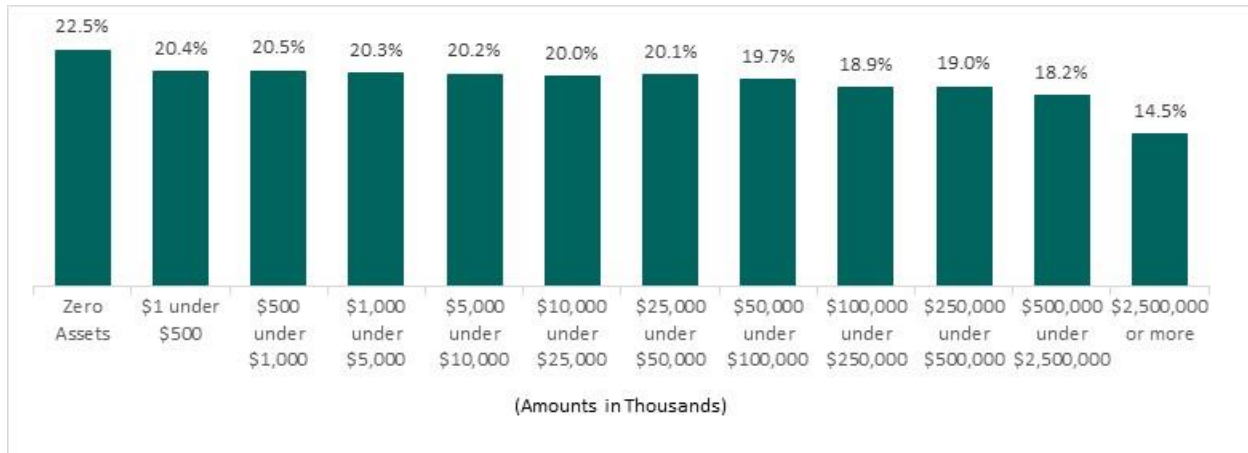


TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2021

| Total Assets<br>(in thousands) | Income subject to tax<br>(in millions) | Total income tax after credits<br>(in millions) | Percentage of income tax<br>after credits to taxable income |
|--------------------------------|----------------------------------------|-------------------------------------------------|-------------------------------------------------------------|
| Zero Assets                    | \$ 36,888                              | \$ 8,286                                        | 22.5%                                                       |
| \$1 under \$500                | 8,903                                  | 1,814                                           | 20.4%                                                       |
| \$500 under \$1,000            | 6,161                                  | 1,264                                           | 20.5%                                                       |
| \$1,000 under \$5,000          | 25,182                                 | 5,120                                           | 20.3%                                                       |
| \$5,000 under \$10,000         | 16,461                                 | 3,333                                           | 20.2%                                                       |
| \$10,000 under \$25,000        | 27,838                                 | 5,577                                           | 20.0%                                                       |
| \$25,000 under \$50,000        | 24,753                                 | 4,973                                           | 20.1%                                                       |
| \$50,000 under \$100,000       | 27,941                                 | 5,497                                           | 19.7%                                                       |
| \$100,000 under \$250,000      | 43,788                                 | 8,280                                           | 18.9%                                                       |
| \$250,000 under \$500,000      | 40,240                                 | 7,633                                           | 19.0%                                                       |
| \$500,000 under \$2,500,000    | 176,908                                | 32,255                                          | 18.2%                                                       |
| \$2,500,000 or more            | 1,986,987                              | 287,371                                         | 14.5%                                                       |
| <b>Total</b>                   | <b>\$ 2,422,050</b>                    | <b>\$ 371,403</b>                               |                                                             |

## SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES AND TREASURY RESPONSE

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In accordance with the *Reports Consolidation Act of 2000*, the Inspectors General are required to identify specific management and performance challenges we face. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary and cite any new challenges for the upcoming fiscal year. This section contains the management and performance challenges OIG and TIGTA identified and management's response.

## TREASURY INSPECTOR GENERAL MANAGEMENT CHALLENGES



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

December 4, 2025

### INFORMATION MEMORANDUM FOR SECRETARY BESSENT

**FROM:** Loren J. Sciurba  
Deputy Inspector General

**SUBJECT:** Management and Performance Challenges Facing the  
Department of the Treasury (OIG-CA-26-005)

In accordance with the Reports Consolidation Act of 2000, we are providing our perspective on the most serious management and performance challenges facing the Department of the Treasury (herein “Treasury” or “the Department”). In this year’s memorandum, my office is reporting five challenges, two new and three updated from last year.

The challenges discussed in detail below are as follows:

- Resource Optimization (New)
- Cyber Threats (Repeat)
- Artificial Intelligence Adoption (New)
- Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)
- Crypto and Digital Assets Growth (Repeat)

These challenges were identified based on the threats they pose to Treasury’s mission and stakeholders’ interests. We acknowledge within each challenge, if applicable, the Department’s accomplishments and efforts over the past year to mitigate these risks.

In addition to the five challenges, we are reporting concerns about the following matters: (1) streamlining access to Do Not Pay (DNP) data sources, (2) ongoing management of Coronavirus Disease 2019 (COVID-19) pandemic relief programs, (3) United States Mint (Mint) gold acquisitions, and (4) Bureau of Engraving and Printing’s (BEP’s) construction of a new facility.

We are available to discuss our views on the management and performance challenges and the other matters expressed in this memorandum in more detail.

cc: John W. York, Assistant Secretary for Management

## Challenge 1: Resource Optimization (New)

In assessing the Department's most pressing challenges, it is essential to consider both external factors and future uncertainties that may significantly impact operations. These include, but are not limited to, staff reductions, funding cuts, challenges related to recruiting and retaining qualified personnel, and the ability to meet the Administration's priorities.

Staff and funding cuts have the potential to streamline processes and generate cost savings, but may also undermine the Department's operational resilience. The recent retirements and deferred resignations of many experienced personnel across Treasury bureaus and offices have created a significant human capital gap, including the loss of institutional knowledge and continuity, which threatens the Department's ability to fulfill its mission. This challenge is compounded by potential reductions in force and ongoing government-wide hiring restrictions.<sup>1</sup> Although hiring exemptions exist for certain critical positions in law enforcement and national security, the Department will operate under a reduced budget and will need to adapt to newly established staffing levels. These challenges and limitations may increase workloads, delay implementation of critical initiatives, and reduce Treasury's agility in addressing emerging issues.

The Department also continues to face significant difficulties in attracting and retaining skilled personnel, particularly in specialized areas such as financial analysis, information technology, cybersecurity, regulatory compliance, manufacturing trades and crafts, and police officers (for the BEP and the Mint). Contributing factors include competitive labor market conditions, federal compensation limitations, and constrained advancement opportunities. The lack of specialized expertise increases the risk of operational inefficiencies, security vulnerabilities, and non-compliance with laws and regulations. If these challenges are not addressed, the Department will continue to struggle with talent shortages that could hinder its ability to meet increasingly complex operational demands, adapt to evolving policy priorities, and maintain secure and efficient systems.

In the face of these challenges, the Department remains committed to advancing the Administration's goals and is focusing on efforts to improve the efficiency and effectiveness of operations, as it reshapes and optimizes the Treasury workforce by improving processes and enterprise decision-making, and streamlining human capital management through centralization and standardization. To this end, Treasury OIG will evaluate the Department's efforts to create operational efficiencies and generate cost savings while balancing limited resources, reduced staff, and competing mission demands as it executes the Administration's priorities.

## Challenge 2: Cyber Threats (Repeat)

Cybersecurity remains a long-standing and serious challenge facing the Nation and continues to be reported by the Government Accountability Office (GAO) as a government-wide issue in its high-risk list published biennially.<sup>2</sup> A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats are an ever-present concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As these threats continue to evolve and become more sophisticated, subtle, and easier to perform, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing

<sup>1</sup> Presidential Memorandum, *Hiring Freeze* (January 20, 2025); Presidential Memorandum, *Extension of Hiring Freeze* (April 17, 2025); Presidential Memorandum, *Ensuring Accountability and Prioritizing Public Safety in Federal Hiring* (July 7, 2025); and Executive Order 14356, *Ensuring Continued Accountability in Federal Hiring* (October 15, 2025)

<sup>2</sup> GAO, *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness* (GAO-25-107743; February 25, 2025)

challenge, Treasury must be nimble and reinforce and/or redirect cybersecurity efforts to address unforeseen events when they arise, such as when serious flaws are discovered in software or systems that place Treasury's information and systems at risk of compromise.

Threat actors frequently probe trusted connections for weaknesses to exploit vulnerable networks or systems and gain access to government systems, leveraging vulnerabilities and varying their methods to disguise their attacks and make detection and prevention difficult. Criminal groups and nation-states are constantly seeking to steal information; commit [fraud](#); disrupt, degrade, or deny access to information systems; or infiltrate information systems and establish a foothold to enable future actions against the Department or those connected to the Department. Through information sharing, federal agencies are better prepared to thwart potential attacks on the cyber infrastructure of the Federal Government and the financial sector.

As the tools used to perpetrate cyber-attacks continue to become easier to use and more widespread, the technological knowledge and resources needed to launch attacks decrease and the chances of successful attacks increase. Artificial Intelligence (AI) is increasingly used to support and create more realistic social engineering attacks (phishing emails, deepfake voices and videos) and programs that find and/or exploit vulnerabilities with minimal effort on the attacker's part. In addition, supply chain security remains a concern for both software and hardware.

Efforts to address these cybersecurity concerns at the federal level include Executive Order (EO) 13873, *Securing the Information and Communications Technology and Services Supply Chain*, to secure the supply technology and services chain by banning the import, use, or sale of technology or services designed, developed, manufactured, or supplied from persons or companies that are owned or controlled by governments defined as hostile to the United States. On May 9, 2025, this EO was extended for 1 year.<sup>3</sup> Further, EO 14028, *Improving the Nation's Cybersecurity*, calls for federal agencies to, among other things, update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture.<sup>4</sup> EO 14144, *Strengthening and Promoting Innovation in the Nation's Cybersecurity*, mandates software providers selling to the U.S. Government prove they are using secure development practices. These EOs were amended and enhanced by EO 14306, *Sustaining Select Efforts To Strengthen the Nation's Cybersecurity and Amending Executive Order 13694 and Executive Order 14144*. To achieve the goals outlined in EO 14028, the Office of Management and Budget (OMB) issued M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* to provide the strategy for achieving a zero-trust architecture, and require agencies to meet specific cybersecurity standards and objectives by the end of fiscal year (FY) 2024. OMB also issued M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices* requiring agencies to only use software that complies with secure software development standards. The Department must not only stay on top of developments in cybersecurity, but also with federal requirements as those in turn adapt to the ever-shifting cybersecurity threat environment.

Furthermore, as part of prudent policy and as a cornerstone of implementing zero-trust architecture, Department management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors. Threats and risks to third parties' networks and systems are also risks to Treasury's networks and systems, due to necessary interconnections to conduct business with service providers and federal, state, and local agencies. Management must continue to monitor the overall threat environment, exercise due care evaluating and

<sup>3</sup> *Continuation of the National Emergency With Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 9, 2025)

<sup>4</sup> Zero-trust architecture is a method of designing a system in which all actions are presumed dangerous until reasonably proven otherwise, thereby reducing the chance of a successful attack causing further damage.

authorizing internetwork connections, and verify that third parties comply with federal policies and standards including any guidance issued to address new and/or expanded threats and risks. Management must also ensure that critical data and information maintained by third-party service providers are properly protected.

The financial sector and its institutions look to Treasury for effective leadership in the fight against cyber threats. As such, effective public-private coordination is essential to the Nation's financial infrastructure and national security. In this regard, the Office of Cybersecurity and Critical Infrastructure Protection coordinates Treasury's efforts to enhance the security and resilience of the financial services sector's critical infrastructure and reduce operational risks including those associated with cybersecurity. That said, Treasury and other federal agencies have yet to fully implement the National Institute of Standards and Technology (NIST) guidance to assist federal agencies in managing cybersecurity risks.<sup>5</sup> In 2018, GAO reported<sup>6</sup> that the extent of adoption of the NIST framework by critical infrastructure sectors was unknown and recommended that steps be taken to consult with respective sector partners to develop methods for determining the level and type of adoption by entities across the financial services sector. According to GAO, as of April 2025, Treasury's Financial Services Sector Risk Management Plan includes a line of effort aimed at promoting adoption of financial services sector-specific goals, which may correlate with aspects of the NIST cybersecurity framework; however, GAO noted Treasury did not identify steps it has taken in collaboration with sector partners to develop methods for determining adoption of NIST's cybersecurity framework or sector-specific goals that relate to the framework. Treasury's response to GAO stated that there are limitations on Treasury's ability to implement GAO's recommendation, as Treasury cannot compel entities to share cybersecurity framework adoption data and participation is voluntary.

In addition, quantum computing potentially permits hostile actors to attack the public-key cryptography used as the basis of financial services sector and Treasury signature, identity verification, and data encryption. NIST has released new Federal Information Processing Standards for Post-Quantum Cryptography.<sup>7</sup> In coordination with the Office of Cyber Security and Critical Infrastructure Protection, the Department acknowledges that all elements of the financial services sector should be urged to transition to these new standards, preferably completing transition by FY 2035.

In response to our 2024 letter, Treasury noted progress towards its cybersecurity and compliance goals, such as encrypting data at rest for nearly all High Value Assets,<sup>8</sup> and all data in transit for Department-wide network traffic. The Department also reported advancements towards zero trust architecture, by expanding its enterprise-wide authentication platform and phishing-resistant multi-factor authentication. The Department plans to overhaul the cyber compliance program to streamline activities, reduce paperwork, and centrally manage risk.

In addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing information technology systems.

<sup>5</sup> NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018)

<sup>6</sup> GAO, *Critical Infrastructure Protection: Additional Actions Are Essential for Assessing Cybersecurity Framework Adoption*, GAO-18-211 (February 15, 2018)

<sup>7</sup> The Federal Information Processing Standards are as follows: 203 entitled *Module-Lattice-Based Key-Encapsulation Mechanism Standard*, 204 entitled *Module-Lattice-Based Digital Signature Standard*, and 205 entitled *Stateless Hash-Based Digital Signature Standard*.

<sup>8</sup> High Value Assets are assets, information systems, information, and data for which an unauthorized access, use, disclosure, disruption, modification, or destruction could cause a significant impact to the U.S.' national security interests, foreign relations, economy, or to the public confidence, civil liberties, or public health and safety.

### Challenge 3: Artificial Intelligence Adoption (New)

AI is rapidly changing how organizations across government and the private sector operate. For the Department, AI represents both an opportunity and a risk. While it offers the potential to improve efficiency, refine analysis, and strengthen oversight, the technology remains an emerging and imperfect tool, with results that depend heavily on the quality of the data it uses. Results derived from AI can sometimes be biased, incomplete, or potentially fabricated. Risks related to information security and privacy increase as agencies adopt and scale AI infrastructure and usage. In addition, AI technology is evolving at a pace that can create challenges for existing policies and oversight structures. These realities make responsible and effective use of AI a significant management challenge for the Department.

Federal leaders have made clear that AI is a national priority. *America's AI Action Plan*<sup>9</sup> calls for innovation that reflects American values, while EO 14179, *Removing Barriers to American Leadership in Artificial Intelligence*, requires agencies to accelerate AI adoption by removing barriers and establishing consistent standards. Earlier guidance, such as EO 13960, *Promoting the Use of Trustworthy Artificial Intelligence in the Federal Government*, introduced principles of trustworthy AI, emphasizing accuracy, reliability, and transparency. More recent directives, including EOs on AI education,<sup>10</sup> workforce readiness,<sup>11</sup> unbiased AI principles,<sup>12</sup> and protection of American innovation abroad,<sup>13</sup> reflect how broad and fast-moving the government's priorities in this area have become. Together, these actions underscore that AI is a core responsibility that demands sustained attention.

For Treasury, meeting this responsibility poses unique challenges. The Department must ensure that AI is introduced carefully and used in ways that strengthen, rather than compromise, its mission. That requires clear governance structures, careful oversight of contractors and vendors, and continuous monitoring to ensure AI systems remain accurate and reliable over time. It also means recognizing the limitations of AI and resisting the temptation to treat it as a replacement for human judgment in areas where accountability, fairness, and transparency are essential. Balancing these demands while AI technology continues to evolve will be an ongoing test for the Department.

Without a coordinated and cautious approach, Treasury risks relying on AI systems that produce unreliable results that can undermine public confidence. By following the direction set in *America's AI Action Plan*, related EOs, and OMB guidance,<sup>14,15</sup> the Department has an opportunity to shape AI adoption in a way that improves efficiency while maintaining accountability and trust. Moving forward, Treasury will need to remain vigilant, strengthen its governance capacity, and adapt continuously to the rapid pace of technological change to ensure AI serves the public interest effectively and responsibly.

<sup>9</sup> The White House, *Winning the Race: America's AI Action Plan* (July 2025) <https://www.whitehouse.gov/wp-content/uploads/2025/07/Americas-AI-Action-Plan.pdf>

<sup>10</sup> EO 14277, "Advancing Artificial Intelligence Education for American Youth" (April 23, 2025)

<sup>11</sup> EO 14278, "Preparing Americans for High-Paying Skilled Trade Jobs of the Future" (April 23, 2025)

<sup>12</sup> EO 14319, "Preventing Woke AI in the Federal Government" (July 23, 2025)

<sup>13</sup> EO 14320, "Promoting the Export of the American AI Technology Stack" (July 23, 2025)

<sup>14</sup> OMB M-25-21, "Accelerating Federal Use of AI through Innovation, Governance, and Public Trust" (April 3, 2025) [www.whitehouse.gov/wp-content/uploads/2025/02/M-25-21-Accelerating-Federal-Use-of-AI-through-Innovation-Governance-and-Public-Trust.pdf](https://www.whitehouse.gov/wp-content/uploads/2025/02/M-25-21-Accelerating-Federal-Use-of-AI-through-Innovation-Governance-and-Public-Trust.pdf)

<sup>15</sup> OMB M-25-22, "Driving Efficient Acquisition of Artificial Intelligence in Government" (April 3, 2025) [www.whitehouse.gov/wp-content/uploads/2025/02/M-25-22-Driving-Efficient-Acquisition-of-Artificial-Intelligence-in-Government.pdf](https://www.whitehouse.gov/wp-content/uploads/2025/02/M-25-22-Driving-Efficient-Acquisition-of-Artificial-Intelligence-in-Government.pdf)

## Challenge 4: Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)

Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to national security through intelligence analysis, sanctions, and international private-sector cooperation. As previously reported, identifying, disrupting, and dismantling these networks continues to be challenging as criminals and other bad actors develop increasingly sophisticated money laundering methods to avoid detection.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia and Iran, as well as rogue actors, such as terrorists, narcotics traffickers, and malicious cyber groups, by using a variety of targeted financial measures including economic sanctions. Over the past few years, TFI has significantly increased sanctions against Russia related to its actions against Ukraine and its other specified harmful foreign activities. TFI authorities, including its Bank Secrecy Act (BSA)<sup>16</sup> authorities, have supported Administration priorities, including countering narcotics trafficking and ensuring border security. TFI's counter-terrorism designations disrupt the financial networks that support terrorist organizations. Other TFI tools, such as diplomatic and private sector engagement, regulatory oversight, and intelligence analysis, also play an important role. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury, as well as with other federal agencies, the private sector, and international partners.

Collaboration and coordination are key to successfully identifying and disrupting illicit financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. Treasury officials stated that TFI continues to strengthen its collaborative approach to achieve its mission to effectively implement U.S. policy and disrupt these financial networks. We continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high risk.

Data privacy, security, and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of information in the past. FinCEN is required to maintain a highly secure database for financial institutions to report BSA information. FinCEN has previously identified that the success of that system depends on the financial sector's confidence that those reports are adequately protected, but unauthorized disclosures threaten to undermine that confidence. The challenge for FinCEN is to ensure the BSA information remains secure in order to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners.

The Office of Intelligence and Analysis (OIA), as a member of the Intelligence Community, is required to take steps to adopt AI to improve intelligence collection and analysis.<sup>17</sup> The office appointed a Chief Artificial Intelligence Officer responsible for overseeing and coordinating efforts relating to AI, including the integration of acquisition, technology, human capital, and financial management aspects necessary for the adoption of AI solutions; however, various barriers, such as a lack of resources, as well as necessary updates to the information technology infrastructure, have negatively affected OIA's ability to take further steps to adopt AI.<sup>18</sup>

<sup>16</sup> P.L. 91-508, Bank Secrecy Act of 1970 (October 26, 1970)

<sup>17</sup> P.L. 117-263, James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 (December 23, 2022)

<sup>18</sup> Treasury OIG, *OIA Does Not Have Artificial Intelligence Capabilities and Faces Barriers to its Accelerated Adoption*, OIG-25-025 (April 2, 2025)

TFI and its components have a wide range of responsibilities in combatting terrorists, criminals, and bad actors. Thus, it is critical that TFI has the resources and tools needed to stay ahead of sophisticated terrorists' financial networks and criminal money laundering schemes.

## Challenge 5: Crypto and Digital Assets Growth (Repeat)

Interest in, and use of, digital assets including cryptocurrencies and stablecoins has increased rapidly over the past year. In January 2025, EO 14178, *Strengthening American Leadership in Digital Financial Technology*, established the President's Working Group on Digital Asset Markets to develop a federal regulatory framework for digital assets and prohibited federal agencies from undertaking any action to establish, issue, or promote central bank digital currencies (CBDC),<sup>19</sup> except to the extent required by law. On July 14, 2025, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System (FRB) issued a joint statement discussing general risk management considerations for engaging in fiduciary and non-fiduciary crypto-asset safekeeping activities.<sup>20</sup> Clarifying risk management considerations for crypto custody, stablecoin transactions, and blockchain networks facilitates institutional adoption and deeper financial integration with digital assets.

On July 18, 2025, the *Guiding and Establishing National Innovation for U.S. Stablecoins Act* (GENIUS Act)<sup>21</sup> was signed into law, marking the United States' first major legislative step towards federally regulating stablecoins. The GENIUS Act expands Treasury's authority and responsibilities related to cryptocurrencies and digital assets, including strengthening national security through enhanced sanctions and anti-money laundering enforcement, and requires the Secretary of the Treasury to issue regulations regarding illicit digital asset activity. With the Secretary chairing on the Stablecoin Certification Review Committee, Treasury will play a key role in certifying state stablecoin frameworks.

On July 30, 2025, the President's Working Group on Digital Asset Markets released a report containing recommendations to strengthen American leadership in digital financial technology.<sup>22</sup> The Working Group report requires regulators to coordinate on actions to modernize bank regulation for digital assets, and made a number of recommendations for rulemaking; however, the full impact of this report's findings depends on additional legislative action<sup>23</sup> and regulators' implementation of the recommendations.

While Treasury supports responsible innovation and the potential benefits of digital assets, the Financial Stability Oversight Council (FSOC)<sup>24</sup> reported that many crypto-asset firms may be acting outside of, or not in compliance with, applicable law(s) and may also lack sufficient risk governance and control frameworks. This increases the potential for fraud, illicit finance, sanctions evasion, operational failures, liquidity and maturity mismatches, and risk to investors and consumers, as well as contagion within the crypto-asset market.<sup>25</sup> Insufficient oversight or regulatory safeguards could create opportunities for illicit actors, such as cyber actors, ransomware cybercriminals, drug traffickers, human traffickers, sanctions evaders, and

<sup>19</sup> A central bank digital currency or CBDC is generally defined as a digital liability of a central bank that is widely available to the public. A central bank is a national bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.

<sup>20</sup> The Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. *Crypto-Asset Safekeeping by Banking Organizations* (July 14, 2025)

<sup>21</sup> [Crypto-Asset Safekeeping by Banking Organizations](#)

<sup>22</sup> P.L. 119-27, GENIUS Act (July 18, 2025)

<sup>23</sup> <https://www.whitehouse.gov/crypto/>

<sup>24</sup> H.R. 3633, the Digital Asset Market Clarity Act, passed the House of Representatives on July 17, 2025, and has been sent to the Senate for consideration. The bill seeks to clarify regulatory roles and provide consumer protections within the digital asset market.

<sup>25</sup> FSOC was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). FSOC is charged with identifying risks to the nation's financial stability, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial system. It is a collaborative body chaired by the Secretary of the Treasury.

<sup>26</sup> [FSOC, 2024 Annual Report](#), pp. 45-49

fraudsters who may be using cryptocurrencies and digital assets to transfer and launder illicit monies. The U.S. financial system's strength, size, and reliability make it a notable target, and misuse by illicit actors affects matters of national security.<sup>26</sup> The borderless nature of digital asset markets, combined with a lack of consensus, standards, and practices among crypto industry participants with respect to regulations seeking to counter money laundering and terrorist financing exacerbate these issues.

Volatility in the crypto-asset market also poses risks to the traditional financial system. As of August 2025, the crypto-asset market reached a combined market capitalization of \$3.9 trillion, up from approximately \$2 trillion in September 2024.<sup>27</sup> Financial institutions that develop concentrations in, or build their business models around partnering with or providing traditional banking products and services to a single industry, including the crypto-asset market, may be adversely impacted by disruptions in that industry. This volatility was demonstrated in the spring of 2023, when residual risks adjacent to the 2022 "crypto winter" contributed to the failure of Silvergate, Silicon Valley, and Signature banks (e.g., liquidity and asset/liability risk management, concentration risk management).<sup>28</sup>

Given recent legislative changes and continued growth and interest in digital assets including cryptocurrencies, the Department must determine how to exploit the opportunities these technologies provide while also taking appropriate steps to mitigate risks to the safety and soundness of the U.S. financial system.

## Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting four areas of concern: (1) streamlining access to "Do Not Pay" (DNP) data sources, (2) ongoing management of COVID-19 pandemic relief programs, (3) Mint gold acquisitions, and (4) BEP's construction of a new facility.

### Streamlining Access to DNP Data Sources

Reducing improper payments remains a government-wide priority and a persistent challenge for Treasury. EO 14249, *Protecting America's Bank Account Against Fraud, Waste, and Abuse*, requires executive branch agencies, in collaboration with Treasury, "to take action to defend against financial fraud and prevent improper payments." Such payments often result from incomplete or inaccurate data, insufficient eligibility verification, or weaknesses in program controls. The Payment Integrity Information Act of 2019 (PIIA)<sup>29</sup> further requires agencies to prevent, detect, and recover improper payments. Treasury supports agency compliance with PIIA through the DNP portal, a central resource for screening benefit recipients, vendors, and other payees against authoritative databases. The DNP portal has significantly expanded over time, incorporating critical data sources, such as the Social Security Administration's Death Master File (DMF) to

<sup>26</sup> President's Working Group on Digital Asset Markets. *Strengthening American Leadership in Digital*

*Financial Technology* (July 30, 2025) [Strengthening American Leadership in Digital Financial Technology – The White House](#), p. 100

<sup>27</sup> [Cryptocurrency Prices, Charts, and Crypto Market Cap](#) (accessed August 21, 2025)

<sup>28</sup> A crypto winter refers to a period when stocks and currencies in the crypto world lose popularity and value, becoming stagnant. The 2022 crypto winter was triggered, in part, by high inflation rates in the U.S., leading to aggressive interest rate increases by the FRB.

<sup>29</sup> P.L. 116-117, Payment Integrity Information Act of 2019 (March 2, 2020)

strengthen its ability to prevent improper payments. Treasury has also enhanced the portal with advanced analytics and system integration capabilities.

Despite these advancements, Treasury continues to face challenges. Agencies currently have access to the complete DMF, but that authority will expire on December 27, 2026,<sup>30</sup> without legislative action to make access permanent. Privacy, legal, and technical constraints also continue to slow integration of new federal and state data sources, limiting Treasury's ability to provide agencies with the full range of information needed to prevent improper payments. In addition, agencies vary in how effectively and consistently they use DNP tools, which reduces the overall government-wide impact of the system. To address these challenges and implement EO 14249, OMB issued M-25-32, *Preventing Improper Payments and Protecting Privacy Through Do Not Pay*. The guidance directs agencies to expand their use of DNP while ensuring strong privacy protections and provides new flexibility for sharing data with Treasury. In response, Treasury is developing a streamlined process for accessing additional data sources. Striking the right balance between modernization, data expansion, and privacy safeguards—while avoiding delays that could hinder agencies' ability to fully leverage DNP—remains a significant management challenge.

To strengthen the DNP portal and address challenges in expanding data access, Treasury should secure permanent legislative authority for the DMF, accelerate federal and state data-sharing agreements, and ensure robust privacy protections in coordination with OMB and oversight bodies. Simultaneously, Treasury should continue modernizing the DNP system through scalable technology and advanced data analytics, improving agency outreach and training to promote consistent use, and establishing performance measures to track impact on improper payments. Streamlining internal governance for onboarding new data sources will further reduce delays, enabling Treasury to maximize the DNP portal's effectiveness, protect privacy, enhance program integrity, and advance government-wide efforts to reduce fraud, waste, and abuse.

### Ongoing Management of COVID-19 Pandemic Relief Programs

In response to legislation passed to address the COVID-19 pandemic,<sup>31</sup> Treasury was tasked with disbursing over \$650 billion in aid to more than 30,000 recipients to support transportation industry workers; small businesses; renters and homeowners; and state, District of Columbia, local, territorial, and tribal government entities. The Department established the Office of Capital Access (OCA)<sup>32</sup> to implement and manage most of Treasury's COVID-19 pandemic programs.

Treasury's pandemic programs provided needed support to many people and businesses, but were subject to losses from fraud and other improper payments. My office has performed audits, reviews,<sup>33</sup> and investigations into many of the more than 10,000 complaints and recipient-reported cases received. For the Coronavirus Relief Fund and the first Emergency Rental Assistance program, Congress assigned the Treasury Office of Inspector General (OIG) the statutory authority to recoup funds if the Inspector General determined that a recipient failed to comply with the requirements related to the use of those funds. OCA is responsible for recouping ineligible payments and misuses of funds from other pandemic programs.

<sup>30</sup> On December 27, 2020, Congress passed the Consolidated Appropriations Act of 2021, amending the Social Security Act to authorize the Social Security Administration to share its complete death data with the Do Not Pay program for a three-year period beginning no later than December 27, 2023.

<sup>31</sup> P.L. 116-136, Coronavirus Aid, Relief, and Economic Security Act (March 27, 2020); P.L. 116-260, Consolidated Appropriations Act, 2021 (December 27, 2020); P.L. 117-2, American Rescue Plan Act of 2021 (March 11, 2021); and P.L. 117-328, Consolidated Appropriations Act, 2023 (December 29, 2022)

<sup>32</sup> Formerly known as the Office of Recovery Programs.

<sup>33</sup> As of September 2025, Treasury OIG has identified approximately \$4 billion in monetary impact (\$4.2 million in recoupment and \$4 billion in questioned costs) for pandemic programs under Treasury's purview.

The Coronavirus State and Local Fiscal Recovery Fund (SLFRF) program is one of several programs for which OCA is responsible for recoupment. Under the SLFRF program, recipients were required to obligate all award funds by December 31, 2024, and must expend funds by December 31, 2026, with the exception of Surface Transportation projects and Title I projects that have an expenditure deadline of September 30, 2026.<sup>34,35</sup> In a recent report, GAO highlighted the compliance procedures and guidance for the SLFRF program.<sup>36</sup> GAO noted that since 2022, Treasury has required SLFRF recipients to submit project and expenditure reports to provide information on how recipients used their awards, including obligations and spending amounts. In each year from 2022 to 2024, thousands of SLFRF recipients did not meet the reporting deadline for project and expenditure reports. GAO recommended that Treasury develop and document, in its internal procedures and guidance for recipients, the timing and circumstances under which Treasury will initiate recoupment of awards for recipients that have not met SLFRF reporting requirements. To enhance accountability in the program, OCA needs to develop the procedures and guidance recommended in GAO's report.

As many of the pandemic programs under Treasury's purview wind down, OCA needs to ensure recipients continue to use funds responsibly. OCA also must continue to resolve audit findings of grantees and their subrecipients, including those with questioned costs, that are reported through required audits under the *Single Audit Act* (Single Audit).<sup>37</sup> We reported in our memorandum last year that while progress has been made, OCA was not timely in issuing management decisions for Single Audit findings and that remains the case. Prompt actions are needed because, as GAO stated in a recent letter to Treasury, "as more time passes, it is less likely overpayments will be recovered."<sup>38</sup>

### United States Mint Gold Acquisitions

Despite purchasing over a half a billion dollars in gold annually, the Mint has limited engagement with its gold bullion suppliers or approved gold refineries to affirm that responsible sourcing requirements are met and that a majority of gold coins produced are minted from newly mined U.S. gold in compliance with U.S. law.<sup>39</sup> For a little over 20 years, the Mint has not requested or obtained documentation from gold refiners concerning the origin of the gold purchased. In a May 2024 report, we recommended that the Mint consider additional procedures to oversee refiners including, but not limited to, obtaining and periodically reviewing documentation from the Mint's approved refineries to ensure that refineries are sourcing gold responsibly in accordance with U.S. law and the best interests of the U.S. Government.<sup>40</sup> We also recommended that the Mint develop a plan that outlines the steps and controls the Mint will implement to comply with the law in the production of gold coins. Additionally, when purchasing gold for its coin program, the Mint's Basic Ordering Agreements with suppliers and representations to the public on its website need to reflect a validated methodology to ensure compliance with U.S. law.

As the Mint vets the options for improving the gold purchasing process, we will monitor the implementation of these controls to ensure they are sufficient to comply with U.S. law in the production of gold coins.

<sup>34</sup> Surface Transportation projects are funding projects eligible under specific Department of Transportation programs.

<sup>35</sup> Title I projects are funding projects eligible under Title I of the Housing and Community Development Act of 1974.

<sup>36</sup> GAO, *COVID-19 Relief: Treasury Could Improve Compliance Procedures and Guidance for State and Local Fiscal Recovery Funds*, GAO-25-107909 (July 22, 2025)

<sup>37</sup> P.L. 104-156, Single Audit Act Amendments of 1996 (July 5, 1996)

<sup>38</sup> GAO, *Priority Open Recommendations: Department of the Treasury*, GAO-25-108067 (August 12, 2025). GAO recommended that Treasury needs to develop processes, such as post-payment reviews or recovery audits, to strengthen its oversight of Emergency Rental Assistance funds. GAO also noted that implementing this priority recommendation could help Treasury more consistently identify and recover overpayments—including those resulting from potential fraud—for ineligible households.

<sup>39</sup> 31 U.S.C. § 5116

<sup>40</sup> Treasury OIG, *Bill and Coin Manufacturing - The Mint Needs to Enhance Controls Over Gold Acquisitions*, OIG-24-027 (May 29, 2024)

### BEP's Construction of a New Facility

Built in 1914, the BEP's Washington D.C. facility is over 100 years old and restricts the bureau's ability to effectively implement modern currency production processes and security features required in the new family of bank notes. The BEP's project to replace its Washington, D.C. facility with a new facility in Beltsville, Maryland, is currently on hold and being re-evaluated for opportunities to decrease the overall cost. According to Treasury, trade tariffs being applied under the International Emergency Economic Powers Act have contributed to increases in costs since the BEP does not have an exemption (similar to the National Aeronautics and Space Administration's exemption). For example, in FY 2025 the BEP paid \$5 million in tariffs for equipment alone and projects to incur in excess of an additional \$100 million under the current rate structure. The costs of tariffs erode the budget planned for the project. Further this delay has necessitated additional investment in the existing century old DC facility to remain operational as a safe workplace. The BEP has requested over \$650 million to mitigate long-standing deferred maintenance and improvements that are now necessary since the Bureau will remain in the existing facility for a longer time period. If the project resumes, the BEP will face ongoing challenges and will need to ensure effective project oversight for construction of the building and employment of a workforce to produce the new family of bank notes. Treasury OIG will coordinate with FRB OIG and the Department of Defense OIG, as necessary, to monitor the funding for and construction of the new facility and conduct related audit work.

## TREASURY MANAGEMENT RESPONSE TO THE OFFICE OF INSPECTOR GENERAL (OIG) IDENTIFIED CHALLENGES

**OIG Challenge 1 –Resource Optimization (New):** *In assessing the Department’s most pressing challenges, it is essential to consider both external factors and future uncertainties that may significantly impact operations. These include, but are not limited to, staff reductions, funding cuts, challenges related to recruiting and retaining qualified personnel, and the ability to meet the Administration’s priorities. The recent retirements and deferred resignations of many experienced personnel across Treasury bureaus and offices have created a significant human capital gap, including the loss of institutional knowledge and continuity, which threatens the Department’s ability to fulfill its mission. This challenge is compounded by potential reductions in force and an ongoing government-wide hiring freeze, raising serious concerns about Treasury’s staffing capacity in the foreseeable future. These challenges and limitations may increase workloads, delay implementation of critical initiatives, and reduce Treasury’s agility in addressing emerging issues. The Department also continues to face significant difficulties in attracting and retaining skilled personnel, particularly in specialized areas such as financial analysis, information technology, cybersecurity, regulatory compliance, and manufacturing trades and crafts, and police officers (for the BEP and the Mint). The lack of specialized expertise increases the risk of operational inefficiencies, security vulnerabilities, and non-compliance with laws and regulations. If these challenges are not addressed, the Department will continue to struggle with talent shortages that could hinder its ability to meet increasingly complex operational demands, adapt to evolving policy priorities, and maintain secure and efficient systems.*

**Management’s Response:** Since taking office, President Trump has prioritized improving government efficiency, restoring accountability, and eliminating waste, bloat, and insularity across the federal enterprise. In support of these goals, we have taken significant steps to modernize and strengthen the Treasury workforce including the following:

- We reduced the size of the workforce by implementing the OPM and Treasury Deferred Resignation Programs, achieving a 20 percent reduction in the size of the workforce without the need for Reductions in Force or other more disruptive tools for reshaping the workforce. The targeted nature of the program minimized the loss of key individuals and hard-to-fill positions in critical programs, providing us with the ability to continue providing efficient delivery of government services.
- To ensure the Department remains optimally staffed to deliver on Administration priorities—and to reinforce accountability in federal hiring—we deployed the HR Connect Position-Budget Module, significantly strengthening internal controls for creating and managing positions. We also established a cross-functional Agency Talent Team to implement the requirements of OPM’s Merit Hiring Plan. This team is leading efforts to modernize recruitment, expand skills-based hiring, and increase the use of validated technical assessments.
- We also developed an FY 2026 Agency Staffing Plan that identifies and prioritizes critical staffing needs, highlights key talent shortages, and ensures hiring is focused on closing the most essential gaps in accordance with EO 14356. This includes prioritizing recruitment for key national security, immigration enforcement, and public safety roles.
- Additionally, we launched the Treasury Common Services Center (TCSC), under the Office of the Assistant Secretary for Management, to consolidate HR, IT, acquisition, and travel support services. This consolidation will streamline transactional processes and enhance organizational agility through improved interoperability, and it is projected to generate more than \$1 billion in savings—freeing resources that can be redirected to frontline mission delivery.

OIG Challenge 2 - Cyber Threats (Repeat): *Cybersecurity remains a long-standing and serious challenge facing the Nation and continues to be reported by GAO as a government-wide issue in its high-risk list published biennially. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to carry out, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur, or when serious flaws are discovered in software or systems that increase potential risk of information compromise. There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's supply chain for information and communication technology and services. In addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors where interconnections with Treasury's networks and systems exist. While addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing Information Technology systems.*

**Management Response:** Reducing cybersecurity risk across the financial sector requires a shared understanding of critical services, recognition of sector-specific security and resilience challenges, and strong collaboration among stakeholders. To address this challenge in FY 2025, we implemented several initiatives that have advanced our Department and the financial sector's ability to identify, disrupt, and dismantle cyber threats. This includes:

- expanding Project Fortress, a whole-of-sector effort designed to enhance the security and resilience of the financial services sector. These efforts focus on strengthening the financial sector's cyber resilience, including deployment of the Automated Threat Information Feed and a new cyber-enabled fraud sub-feed;
- enhancing government–industry collaboration through T-Suite, led by the Office of Intelligence and Analysis, which provides financial institutions with tailored cyber threat data from the U.S. government, offering deeper insight into sector-specific risks;
- increasing financial sector participation in the Cybersecurity and Infrastructure Security Agency's (CISA) Cyber Hygiene program, reducing known vulnerabilities in internet-facing systems;
- conducting a large-scale cyber exercise, testing cross-state response and recovery coordination following a simulated cross-border cyber incident;
- improving our cybersecurity risk posture with improvements to key elements of our risk program;
- developing an initial Key Risk Indicator (KRI) and monitoring of results to proactively identify and respond to events and reduce our cybersecurity risks; and
- Launching an effort to improve the cyber risk assessments used when a risk acceptance is sought in certain circumstances. Authorizing Officials (AOs) receiving these assessments will see risk represented as a potential for loss in a dollar value over a 12-month period.

To address the growing cybersecurity threat, our ongoing initiatives include the following:

- scaling Project Fortress to include expanded automated threat feeds and new analytic products on ransomware, destructive malware, and AI-enabled fraud;

- increasing operational engagement between Treasury and cleared financial industry partners through an expanded T-Suite focus on high-impact cyber threats;
- expanding adoption of CISA Cyber Hygiene and Vulnerability Scanning across financial institutions to reduce systemic cyber risk; and
- Developing additional regional and cross-border cyber exercises with federal and state regulators to strengthen sector-wide preparedness and recovery capabilities.

As part of the new TCSC, cybersecurity is part of the Technology Services line and enables the mission to deliver secure, scalable commodity IT and shared application services to streamline common business functions, standardize processes, reduce duplication, increase efficiency, and allow bureaus to focus on mission-critical priorities. Ongoing initiatives within TCSC include:

- continuing to streamline cybersecurity activities, reduce the paperwork burden, and centrally manage Department-wide risk;
- awarding additional enterprise-wide contracts to provide consistent and efficient cybersecurity services support across the Department; and
- Continuing to mature and expand our logging and capabilities across the Department, further enabling real-time access to security information that we can use to detect and respond to cybersecurity threats.

Continuing the migration of component web properties to our enterprise hosting platform, which has integrated protective and detective security controls that allow for centralized risk management and rapid incident response.

**OIG Challenge 3 - Artificial Intelligence Adoption (New):** *Artificial Intelligence (AI) is rapidly changing how organizations across government and the private sector operate. While it offers the potential to improve efficiency, refine analysis, and strengthen oversight, the technology remains an emerging and imperfect tool, with results that depend heavily on the quality of the data it uses. The Department must ensure that AI is introduced carefully and used in ways that strengthen, rather than compromise, its mission. That requires clear governance structures, careful oversight of contractors and vendors, and continuous monitoring to ensure AI systems remain accurate and reliable over time. It also means recognizing the limitations of AI and resisting the temptation to treat it as a replacement for human judgment in areas where accountability, fairness, and transparency are essential. Without a coordinated and cautious approach, Treasury risks relying on AI systems that produce unreliable results that can undermine public confidence.*

**Management Response:** In 2025, our AI Transformation Office held its initial AI Governance Board and AI Council meetings. These events, held in June and September respectively, are the foundational blocks for advancing our adoption of AI and innovation. Required by OMB M-25-21, the AI Governance Board is chaired by the Treasury Deputy Secretary and provides a venue for Senior Treasury Officials to meet and discuss our governance, strategy, and oversight of AI adoption and use. The AI Council is comprised of AI and Technical Leads from each our offices and bureaus and ensures an effective and efficient communication mechanism between our senior leadership and our components. This group will continue to meet monthly and will be responsible for sharing lessons learned, better practices, and ensuring the Treasury AI use case inventory remains up to date.

We agree that while AI represents significant opportunity for improving the efficiency and effectiveness of Treasury

functions, it also carries new forms of risk that we must actively manage and mitigate. In alignment with the priorities established in America's AI Action Plan, as well as Executive Orders 14179 and 13960, we are prioritizing the timely adoption of modern AI capabilities while ensuring that deployment decisions are grounded in sound governance and aligned to mission needs. Leveraging the newly created TCSC, we have established enterprise contracts for generative chat as well as code-development tools, and we have begun implementing these capabilities. This phased approach enables us to scale AI adoption, build the workforce's technical proficiency, and contribute to the broader national objective of strengthening U.S. competitiveness and innovation, while maintaining appropriate safeguards for data security and operational integrity.

In FY 2026, our AI Transformation Office plans to hold an internal AI campaign intended to drive interest, innovation, and adoption of AI use. This six to 10-week campaign will focus on training, highlighting innovative use cases, recognizing AI champions and leaders in Treasury, and advancing the exchange of ideas and use cases. This campaign will be strongly employee driven with opportunities for employees outside the AI Transformation Office to highlight how they are using AI and explaining ways AI has allowed them to develop innovative solutions to problems or inefficiencies. By holding this campaign, the AI Transformation Office intends to drive interest and innovative thinking across the department as well as provide the tools and training to better understand how AI can be leveraged to increase efficiency and effectiveness of our mission and operations.

Our Office of the CIO, in partnership with the TCSC, is fostering the expansion of AI capabilities across the Department by broadening access to additional AI tools, through partnerships with GSA's USAi team, and through establishing additional enterprise-wide contract vehicles. We intend to utilize GSA's USAi offering to compare multiple Large Language Models (LLMs) for accuracy, cost to operate, and bias. We are actively updating our AI Use-Case inventory and developing governance processes for reviewing and approving high-impact use cases to ensure appropriate risk controls are in place. We are also developing mechanisms to identify and prioritize high-value AI opportunities for investment, enabling us to scale AI capabilities that enhance mission delivery and contribute to broader national objectives for U.S. technological leadership and competitiveness.

**OIG Challenge 4 – Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat):** *Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As criminals and other bad actors evolve and continue to develop sophisticated money laundering methods to avoid detection, identifying, disrupting, and dismantling these networks that support rogue regimes, terrorist organizations, transnational criminal organizations, and other threats to the national security of the United States and our allies continues to be challenging. In addition, the Financial Crimes Enforcement Network (FinCEN) faces the challenge of ensuring Bank Secrecy Act (BSA) information remains secure to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners. Furthermore, the Office of Intelligence and Analysis, as a member of the Intelligence Community, is required to take steps to adopt Artificial Intelligence (AI) to improve intelligence collection and analysis. However, various barriers, such as the lack of resources, as well as necessary updates to the information technology infrastructure have negatively affected its ability to take further steps to adopt AI.*

**Management Response:** To target global threats, TFI and FinCEN have made significant progress on several anti-money laundering and countering the financing of terrorism (AML/CFT) initiatives while also protecting the financial sector from abuse. This includes our critical work through FinCEN's BSA enforcement. Highlights of these efforts include targeting key adversaries by deploying our targeted policy, enforcement, intelligence, and regulatory tools and authorities to:

- undermine Russia's war economy by expanding sanctions on procurement networks, front companies, and financial facilitators, and coordinate with G7 partners to restrict access to other revenue channels. In FY 2025, actions on Russia's energy sector alone covered more than 250 vessels, oil traders, oilfield service providers, and maritime insurers. We also placed over 450 individuals and entities related to Russia's military base or sanctions evasion on the Specially Designated Nationals and Blocked Persons List.
- expand actions against Iran's destabilizing activities, including sanctions on IRGC-QF facilitators, oil shipment networks, ship-to-ship transfer operators, and foreign financial institutions aiding illicit petroleum sales or revenue generation. Our actions affected dozens of individuals, companies, and vessels that facilitate illicit shipments, denting Iran's military financing routes.
- designate financial facilitators, crypto exchange operators, charitable front organizations, and logistics companies enabling terrorism financing; complemented with new typology advisories for financial institutions. This includes sanctioning three maritime companies and vessels supplying oil and gas to Yemen's Houthi rebels.
- counter rogue PRC-based illicit finance enablers involved in manufacturing synthetic opioids fueling the global fentanyl crisis, sanctioning key Chinese suppliers, logistics brokers, and money-laundering organizations working with Mexican cartels. This is in addition to sanctioning Chinese hackers linked to China's Ministry of State Security.
- target DPRK's proliferation finance architecture, disrupt transnational organized crime (TOC), and kleptocracy networks, focused on corrupt oligarchs, procurement agents, and state-owned enterprises used to siphon public resources.

We also focused on enhanced reorganization and training. We are committed to ensuring our management of user access to the records contained in BSA Systems complies with all relevant laws, regulations, policies, and procedures. We consider rigorous oversight of FinCEN's user access management efforts to be a critical aspect of its mission. To this end, as part of a recent agency-wide reorganization, FinCEN has centralized its BSA audit and monitoring functions within a newly enhanced Office of Bank Secrecy Act Security & Audit to more efficiently identify and address concerns that may relate to safeguarding and appropriate use of sensitive information with respect to both internal FinCEN and external agency users. In addition, FinCEN enhanced internal BSA training requirements with an updated training module and requirement that all FinCEN employees complete this training annually whether they are authorized users of the BSA Portal system or not. This helps ensure that all FinCEN employees have access to the most updated information about the many steps FinCEN takes to safeguard BSA Information, and it reinforces all employees' responsibilities in this regard.

To address global threats, we are continuing to work on the following ongoing initiatives and efforts:

- disrupting Russia's sanctions-evasion architecture by tightening price cap enforcement, expanding secondary sanctions on FFIs, and targeting third-country procurement channels supplying Russia's defense sector;
- countering Iran-aligned terrorist financing through continued designations against facilitators; increasing pressure on oil smuggling networks; and expanding advisories on crypto and trade-based evasion;
- expanding actions against fentanyl supply chains by targeting PRC-based chemical suppliers, Mexican cartel money-laundering networks, and the global facilitators enabling precursor procurement, distribution, and laundering; and

- strengthening cyber-related sanctions with additional designations against state-sponsored cyber actors, ransomware networks, DPRK IT-worker shells, and crypto-laundering infrastructure typology alerts.

In FY 2025, we continued to lead global efforts to strengthen AML/CFT standards through active participation in Financial Action Task Force (FATF) plenaries, working groups, and strategic engagements. This engagement included:

- ensuring U.S. priorities—beneficial ownership, sanctions evasion, digital assets—were central to FATF's FY 2025 initiatives;
- strengthening global standards by advancing FATF updates to beneficial ownership transparency, updating FATF guidance on countering proliferation financing, and leading efforts to strengthen global supervision of virtual asset services;
- improving global compliance by pressing for strict examination of deficient jurisdictions while also supporting delisting for countries with completed action plans and providing experts for mutual evaluations and follow-up reviews;
- driving development of key typology reports on sanctions evasion, including Russian, Iranian, and DPRK networks;
- improving responses to financing of weapons of mass destruction and terrorist financing risks, financial inclusion, and standards for domestic and cross-border payments, and combatting sanctions evasion schemes; and
- working through FATF to revise recommendations related to a risk-based approach to assessing and mitigating money laundering and terrorist financing risks, including ensuring preventive or mitigation measures are commensurate with the risks identified.

Additionally, we are continuing to work with our international partners on these efforts including:

- advancing work on proliferation financing, including updates to FATF guidance on DPRK and Iran proliferation typologies, and incorporating lessons learned from Russia-related sanctions evasion;
- encouraging rigorous follow-up for high-risk jurisdictions, ensuring that jurisdictions with persistent deficiencies receive enhanced monitoring; and
- developing new typologies on emerging illicit finance risks, including networked money laundering, misuse of third-country intermediaries, and digital-asset-enabled sanctions evasion.

FinCEN continues to expand access to BSA information through Memoranda of Understanding (MOUs) with government agencies, allowing agencies to directly access BSA data via the BSA Portal, strengthening coordination and accelerating investigative efforts related to countering illicit finance and synthetic drug trafficking. To ensure that the MOUs reflect the most up-to-date security requirements and risk mitigations, FinCEN has been updating existing MOUs and has updated and fully executed 290 of the 408 MOUs identified for updates.

The refreshed MOUs have a five-year expiration date and may be renewed on the same terms for additional five-year terms upon mutual agreement between FinCEN and the agency.

OIG Challenge 5 – Crypto and Digital Assets (Repeat): *Interest in, and use of, digital assets, including cryptocurrencies and stablecoins has increased rapidly over the past year. The Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System issued a joint statement reaffirming the legal authority for banks to engage in custody of digital assets. Authorizing institutional participation in crypto custody, stablecoin transactions, and blockchain networks opens the door for widespread institutional adoption and deeper financial integration with digital assets. While Treasury supports responsible innovation and the potential benefits of digital assets, the Financial Stability Oversight Council reported that many crypto-asset firms may be acting outside of, or not in compliance with, applicable law(s) and may also lack sufficient risk governance and control frameworks. This increases the potential for fraud, illicit finance, sanctions evasion, operational failures, liquidity and maturity mismatches, and risk to investors and consumers, as well as contagion within the crypto-asset market. With the recent legislative changes and continued growth and interest in cryptocurrencies and digital assets, the Department must determine how to mitigate the risks and exploit the opportunities these technologies present both within and outside the established financial system.*

**Management Response:** In September 2025, the OCC elevated its chartering and licensing function by appointing a Senior Deputy Comptroller (SDC) to lead its new Chartering, Organization and Structure department. This structural enhancement reflects the strategic importance of chartering activities in an evolving financial marketplace, including the emergence of digital asset-related business models and payment stablecoin issuers.

In this role, the SDC oversees chartering as a distinct line of business and evaluates applications from national banks, federal savings associations, and payment stablecoin issuers, as well as proposals for growth, structure, and business model changes. The elevated governance structure enhances rigor, transparency, and consistency in assessing innovative entrants and digital-asset activities. The SDC also coordinates closely with the Chief Counsel's Office and bank supervision units across the OCC to ensure decisions are timely, risk-appropriate, and aligned with statutory and safety-and-soundness requirements, thereby reinforcing the agency's commitment to responsible innovation and a competitive, resilient federal banking system.

The OCC continues to invest in examiner readiness to assess novel business models, including digital-asset-related activities and payment stablecoin arrangements. To support a safe, sound, and fair national banking system, the agency delivered targeted training on stablecoins, covering underlying technology, design structures, use cases, risk considerations, and permitted activities under the GENIUS Act. The session remains available for on-demand review to reinforce examiner understanding as this market evolves. Additionally, the OCC is expanding access to knowledge-sharing resources across platforms to maintain strong supervisory capability in a rapidly changing environment.

At the Department level, we were a core contributor to the President's Working Group on Digital Asset Markets (PWG) Report. The report sets forth proposed actions for agencies and Congress to establish a clear regulatory framework for entities engaged in digital assets, including both banks and market participants. As the Inspector General's report notes, the report identifies implementation actions on the part of both the executive branch and Congress, and Treasury is involved in the implementation phase. We also organized an internal group of digital assets policy experts to advise on digital assets matters. This group works with offices across the Department, including Domestic Finance, International Affairs, Terrorism and Financial Intelligence, and Tax Policy, as well as our bureaus, such as FinCEN, IRS, and OCC. This group also coordinates policy related to digital assets with stakeholders across the government, including prudential and market regulators, and meets with industry and market participants.

We are moving quickly to implement the GENIUS Act, which expands the agency's authority to regulate, license, and supervise certain nonbank payment stablecoin issuers. This work is central to ensuring responsible innovation and risk-appropriate oversight in the emerging digital-asset ecosystem for entities and activities within the agency's remit. The law becomes effective on the earlier of 18 months after enactment or 120 days after final interagency regulations are issued, and the OCC is preparing the supervisory frameworks, policy guidance, and operational structures required to fulfill its new statutory responsibilities. Treasury is also working with market regulators to implement the PWG Digital Asset Report recommendations.

We remain steadfast in reducing regulatory burden for community banks and promoting tailored supervision. On October 6, 2025, we issued three key bulletins<sup>41</sup> which eliminate fixed supervisory requirements not mandated by statute, tailor reviews of Retail Nondeposit Investment Products (RNDIP) offerings to the risk profile of community banks and clarify that model risk management practices should be commensurate with a bank's size, complexity, and business activities. The OCC also published proposed rules to broaden eligibility for expedited or reduced licensing processes for community banks<sup>42</sup> and to rescind its Fair Housing Home Loan Data System regulation (12 CFR 27)<sup>43</sup>. These steps reaffirm the agency's commitment to streamlined, risk-based oversight that preserves the safety and soundness of the federal banking system while enabling community banks to serve their communities more efficiently.

## Matters of Concern

*OIG Concern 1: Streamlining Access to DNP Data Sources: The Do Not Pay (DNP) portal has significantly expanded over time, incorporating critical data sources, such as the Social Security Administration's Death Master File (DMF) to strengthen its ability to prevent improper payments. Treasury has also enhanced the portal with advanced analytics and system integration capabilities. Despite these advancements, Treasury continues to face several challenges. Agencies currently have access to the complete DMF, but that authority will expire in three years without legislative action to make access permanent. Privacy, legal, and technical constraints also continue to slow integration of new federal and state data sources, limiting Treasury's ability to provide agencies with the full range of information needed to prevent improper payments. Treasury should secure permanent legislative authority for the DMF, accelerate federal and state data-sharing agreements, and ensure robust privacy protections in coordination with OMB and oversight bodies. Simultaneously, Treasury should continue modernizing the DNP system through scalable technology and advanced data analytics, improving agency outreach and training to promote consistent use, and establishing performance measures to track impact on improper payments.*

**Management Response:** We streamlined the Do Not Pay agency onboarding process by authorizing a four-year waiver<sup>44</sup> of the requirement for entering into a Computer Matching Agreement under 5 U.S.C. 552a(o) for the class of matching programs that meet the criteria outlined in OMB Memorandum M-25-32, *Preventing Improper Payments and Protecting Privacy Through Do Not Pay*. We also updated the Do Not Pay agency enrollment process—streamlining every step to better ensure agencies can access Do Not Pay more efficiently and effectively while safeguarding privacy and security. Our new five-step enrollment process requires federal agencies to establish a single Department/Agency-level data sharing agreement that applies to programs throughout the agency, thereby reducing the number of agreements needed to fully enroll an agency. Also, in partnership with OMB, we developed a streamlined process to incorporate additional high-value

<sup>41</sup> OCC Bulletins 2025-24 (Examinations: Frequency & Scope for Community Banks), 2025-25 (Retail Nondeposit Investment Products: Exam Procedures for Community Banks), and 2025-26 (Model Risk Management: Clarification for Community Banks)

<sup>42</sup> OCC Bulletin 2025-28 (Community Bank Licensing Amendments: Notice of Proposed Rulemaking)

<sup>43</sup> OCC Bulletin 2025-27 (Rescission of 12 CFR 27, 'Fair Housing Home Loan Data System': Notice of Proposed Rulemaking)

<sup>44</sup> [Waiver of Computer Matching Agreements for Do Not Pay](#), 90 Fed. Reg. 43729 (Sept. 10, 2025).

databases that substantially assist in preventing the primary causes of improper payments.

For planned and ongoing initiatives, we plan to:

- onboard all federal agencies and more than 5,000 programs onto Do Not Pay using new streamlined agency enrollment processes;
- designate and onboard high-priority databases to Do Not Pay and make enhancements to improve usability; and
- continue to seek statutory authority to access certain federal databases that would be highly effective in reducing financial fraud and improper payments by allowing better verification of identity, financial status, and death.

***OIG Concern 2: Ongoing Management of COVID-19 Pandemic Relief:** In response to legislation passed to address the COVID-19 pandemic, Treasury was tasked with disbursing over \$650 billion in aid to more than 30,000 recipients to support transportation industry workers; small businesses; renters and homeowners; and state, District of Columbia, local, territorial, and tribal government entities. The Department established the Office of Capital Access (OCA) to implement and manage most of Treasury's COVID-19 pandemic programs. As many of the pandemic programs under Treasury's purview wind down, OCA needs to ensure recipients continue to use funds responsibly. OCA also must continue to resolve audit findings of grantees and their subrecipients, including those with questioned costs, that are reported through required audits under the Single Audit Act.*

**Management Response:** In FY 2025, we prioritized and addressed multiple OIG and GAO open audit recommendations, and we will continue to address internal and external audit findings to enhance our operating efficiency and effectiveness, as well as provide further accountability and transparency.

The first Emergency Rental Assistance program (ERA 1) was fully closed out as of January 31, 2025, with total recoveries (closeout and unobligated funds returns, and known OIG audit recoveries) of over \$902 million. In January 2025, we began desk reviews for the second ERA program (ERA2) and the Homeowners Assistance Fund program (HAF). The desk reviews target recipient compliance with program requirements by reviewing recipients' program policies and procedures, eligibility, use of funds, and subrecipient monitoring. We will continue to conduct desk reviews during FY 2026 to validate and assess the performance and implementation of the ERA2 and HAF program expenditures and guidelines.

As of the end of FY 2025, we have issued Management Decision Letters (MDLs) for 770 single audit reports with OCA findings. We intend to continue prioritizing review of single audit reports with questioned costs in FY 2026. We also initiated a Payroll Support Program (PSP) payment recapture audit that has already identified over \$5 million in potential improper payments.

***OIG Concern 3: U.S. Mint Gold Acquisitions:** Despite purchasing over a half a billion dollars in gold annually, the U.S. Mint (Mint) has limited engagement with its gold bullion suppliers or approved gold refineries to reaffirm that responsible sourcing requirements are met and that most gold coins produced are minted from newly mined U.S. gold in compliance with U.S. law. For a little over 20 years, the Mint has not requested or obtained documentation from gold refiners concerning the origin of the gold purchased. The OIG recommends that the Mint considers additional procedures to oversee refiners including, but not limited to, obtaining and periodically reviewing documentation from the Mint's approved refineries to ensure that refineries are sourcing gold responsibly in accordance with U.S. law and the best interests of the U.S. Government. The OIG also recommends that the Mint develop a plan that outlines the steps and controls the Mint will implement to comply with U.S. law in the production of gold coins.*

**Management Response:** We updated the U.S. Mint website to eliminate the verbiage stating that all material utilized in Mint coins was from the U.S. and adopted additional procedures to further engage with suppliers and refiners to enhance controls related to responsible sourcing as recommended by the OIG. These procedures include:

- annual reviews of refiner audit records related to London Bullion Market Association (LBMA) certification
- periodic updates from refiners regarding intake of U.S. Newly Mined gold; and
- review of monthly U.S. Geological Survey.

We continue to explore the development of legislative language such as that in 31 U.S. Code §5116 which would allow the purchase of gold from “other available sources” when U.S. Newly Mined and reserve gold are not available. Until legislative language is implemented, the Metals Management Branch will continue to review the newly mined gold intake information the Mint’s acceptable refiners provide. To the greatest extent possible, we will purchase U.S. newly mined gold.

**OIG Concern 4: BEP’s Construction of a New Facility:** The Bureau of Engraving and Printing (BEP) project to replace its Washington, D.C. facility with a new facility in Beltsville, Maryland, is currently being re-evaluated for opportunities to decrease the overall cost. Once the project resumes, BEP will need to ensure effective project oversight for construction of the building and purchase of equipment and machinery; proper accounting procedures; and employment of a workforce to produce the new family of notes.

**Management Response:** The Bureau of Engraving and Printing (BEP) concurs and acknowledges the significant infrastructure challenges associated with operating in a facility that is over a century old. Built in 1914, the Washington, D.C. facility presents limitations and challenges that hinder the efficient implementation of modern currency production processes, and the integration of advanced security features required for the next generation of U.S. currency. While the project to construct a new facility in Beltsville, Maryland is currently on hold and under re-evaluation for cost-saving opportunities, we have been compelled to embark on a series of critical infrastructure projects to maintain the existing facility. To address the immediate need for a safe and functional work environment, BEP has requested over \$650 million to support critical deferred maintenance and infrastructure improvements at the existing D.C. facility. These investments are necessary to maintain safe operations and to extend the facility’s viability while long-term facility planning continues. Looking ahead, BEP remains focused on ensuring effective oversight of any resumed facility construction efforts, including robust project management and coordination with stakeholders to control costs and timelines.

## TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

October 15, 2025

## MEMORANDUM FOR SECRETARY BESSENT

FROM: Heather M. Hill *Heather Hill*  
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the  
Internal Revenue Service for Fiscal Year 2026

The Reports Consolidation Act of 2000 requires the Treasury Inspector General for Tax Administration (TIGTA) to summarize its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS) for inclusion in the annual *Department of the Treasury Agency Financial Report*.

Each year, we evaluate IRS programs, operations, and management functions to identify the most vulnerable areas in the nation's tax system. For Fiscal Year (FY) 2026, we identified the IRS's top management and performance challenges, in no particular order, as:

- Managing a Reduced Workforce and Budget;
- Improving Operational Efficiencies;
- Protecting Taxpayer Data;
- Implementing Tax Law Changes;
- Improving Taxpayer Service and Protecting Taxpayer Rights;
- Modernizing Information Technology; and
- Ensuring Tax Compliance.

The following describes the challenges in detail and is provided to promote the economy, efficiency, and effectiveness of federal tax administration.

## MANAGING A REDUCED WORKFORCE AND BUDGET

### What's the challenge?

Between January 2025 and May 2025, the number of IRS employees decreased from approximately 103,000 to 77,000 (25 percent). These employees either separated or accepted a Deferred Resignation Program offer or other incentive to leave. They represented all experience levels, and their departures affected each function within the IRS.

In addition, various proposed FY 2026 budgets, if enacted, would reduce IRS's annual funding by approximately 20 percent. Although the Inflation Reduction Act (IRA) previously provided the IRS nearly \$80 billion in supplemental funding over a 10-year period, Congress subsequently reduced IRA funding to \$37.6 billion. As of March 2025, the IRS has spent \$13.8 billion (37 percent) of its IRA funds.

Completing IT modernization projects, providing quality service to taxpayers, and enforcing tax laws with a reduced workforce and budget will be challenging for the IRS. Despite numerous ongoing automation projects, the IRS still needs skilled and experienced employees to interpret tax law changes, investigate criminal activity, prevent fraudulent refunds, and implement complex coding changes for its information systems. For example:

- The IRS's IT function plays a critical role ensuring that required updates (such as annual inflationary adjustments and expiring or new tax provisions) are made to tax return processing systems before the start of every filing season. However, we reported that the IRS had lost 25 percent of its IT employees as of May 2025.
- The IRS's Return Integrity and Compliance Services function generally detects and prevents fraudulent refunds, such as refundable tax credits, before the refund is issued to the taxpayer. However, this function lost 18 percent of its staff as of May 2025, which we estimate may result in nearly \$360 million in fraudulent refunds that are not stopped during next year's tax filing season.

### What progress has the IRS made?

We reviewed IRS's performance during the 2025 filing season and found the agency made progress reducing the inventory of amended tax returns waiting to be processed by the Submission Processing function. According to IRS management, this was because Accounts Management employees helped work this inventory during the latter part of 2024. The IRS was also able to stop refunds for 99 percent of fraudulent returns identified, preventing the issuance—and theft—of more than \$2 billion.

Given recent staffing reductions, taxpayers may have to increasingly rely on IRS self-service tools. We found that the number of online account users continues to grow, and this past processing year exceeded 51 million (an increase of 12 million users from the prior year). An online account allows taxpayers to view specific details about their federal tax account, such as their balance and payment history. Taxpayers can also check the status of an audit and electronically sign a Power of Attorney form.

Despite an ongoing hiring freeze that began in January 2025, the IRS received an exception to hire customer service employees to assist with the 2026 Filing Season. The IRS will use its Direct Hire Authority, which eliminates certain steps in the hiring process, to fill these positions. We found that in recent years, the IRS had used Direct Hire Authority to reduce the average time to hire and onboard an employee—from 82 days to 69 days. Should the IRS resume hiring more broadly, recent efforts to streamline federal hiring and performance management will have an unknown impact.

The IRS also recently announced that it will use various tools to fill potential gaps in mission critical expertise caused by staffing reductions. These include external hiring, internal reassignments, and allowing certain employees to rescind a previously accepted deferred resignation and return to work at the IRS. Treasury leadership also anticipates that artificial intelligence (AI) will help offset IRS workforce reductions and enhance tax collections.

## What key recommendations have been implemented?

- Identified the potential causes for the low productivity examination results within the Large Business and International Division and monitored productivity measures to ensure the most productive returns are selected for examination.
- Ensured that the plan to use Inflation Reduction Act resources includes outcomes and key results and that associated projects are managed in a consolidated portfolio and overseen by appropriate governance boards.

## What ongoing work does TIGTA have to address the challenge?

Given the extent of staffing and funding reductions, we will review the IRS's performance during the 2026 filing season and its efforts to use enhanced technology to improve tax compliance in its Examination and Collection functions. We will also evaluate the impact on tax administration of the Criminal Investigation Division's reduced resources to assist other federal agencies.

**We planned 12 reviews to address this challenge.**

We will also assess whether workforce reductions have increased the use of overtime, compensatory time, and other premium pay.

## IMPROVING OPERATIONAL EFFICIENCIES

### What's the challenge?

A March 2025 Executive Order, *Modernizing Payments to and From America's Bank Account*, mandates the transition to electronic payments for all federal disbursements and receipts (with limited exceptions). One reason for the transition is that Department of the Treasury checks are much more likely to be reported stolen, altered, or returned as undeliverable than an electronic payment. Similarly, many of our reports and

investigations have shown that fraudsters exploited IRS programs or procedures to steal or alter refund checks. For example, we reported that the IRS did not adequately verify the identity of callers to certain telephone lines, which allowed the unauthorized disclosure of tax information. Fraudsters subsequently used this information to file Forms 941 (a quarterly tax return for businesses) to claim and receive tax refund checks.

The Executive Order requires the IRS to issue refunds to taxpayers electronically and to only accept electronic payments from taxpayers. The agency plans to begin this transition on October 1, 2025. While most taxpayers receive refunds via direct deposit, IRS data shows that more than 6 million taxpayers received a paper check refund during the 2025 tax filing season. The IRS will need to educate taxpayers—especially those without bank accounts—about the change and help them understand and navigate alternative electronic payment options.

Separately, the IRS can use automation to improve the efficiency of tax return processing. For example, we previously reported that the IRS could potentially save more than \$322 million a year by automating the processing of amended tax returns. Although the IRS accepts these returns electronically, once received, an employee still must manually review the returns and adjust the taxpayer's tax account. The IRS agreed to prioritize funding and the implementation of automated processing for amended tax returns.

## What progress has the IRS made?

The agency continues to make progress adopting technologies—like AI—to administer the tax system more effectively. As of April 2025, the IRS reported 101 projects that involve the use of AI. These projects focus on improving overall IRS operations, customer service, and enforcement. For instance, the IRS launched a collection chatbot in 2021 to provide taxpayers with self-service assistance for common questions. The IRS reported that the chatbot has handled nearly half a million interactions with taxpayers.

The IRS has also used AI to improve the efficiency and effectiveness of audits. For example, the IRS integrated statistical and machine-learning techniques into the process used to select tax returns for audit. This may lower the percentage of returns examined that result in no change to a tax return, an outcome that burdens taxpayers and represents an inefficient use of IRS resources.

The IRS has also made progress increasing the number of notices and forms that are available to taxpayers electronically. For example, instead of receiving a notice through the mail, a taxpayer can create or use their existing IRS online account to view, print, or download a notice in a digital format. As of October 2024, we reported that 234 notices were available to individual taxpayers through their online account.

In cases where the IRS still must mail notices, taxpayers can use the IRS's Document Upload Tool to respond online to eligible notices. The IRS has received almost 1.5 million responses through the tool since its inception in 2021. With continued use of the tool, the IRS estimates that more than 94 percent of individual taxpayers will no longer need to respond to notices via mail. This reduces the burden of processing paperwork for both taxpayers and the IRS. Despite this progress, many IRS programs that use the Document Upload Tool do not have systems to work the correspondence electronically, so documents are still printed and worked on paper.

## What key recommendations have been implemented?

- Completed a study to determine the feasibility of developing a tool for Individual Taxpayer Identification Number applicants to check the status of their application. However, the IRS does not currently have plans to implement this application.
- The Wage and Investment Division coordinated with the Information Technology organization to request programming that will allow for certain smaller dollar refunds to be issued systemically instead of manually. We recommended this to reduce the number of instances where it costs the IRS more to prepare a manual refund than the amount of the refund itself. We estimated that the IRS could potentially save \$1.7 million by implementing this recommendation.

## What ongoing work does TIGTA have to address the challenge?

We plan to review IRS's efforts to comply with the executive order to phase out paper check disbursements and receipts. We will also review unimplemented recommendations from recent IRS research projects to determine if any of these recommendations would advance current Treasury leadership's priorities.

**We planned 12 reviews to address this challenge.**

We will assess the costs versus the benefits of the National Distribution Center's fulfillment services and the Center's distribution of products to IRS internal and external customers in a paperless environment. The National Distribution Center supplies post offices, libraries, and other outlets with paper tax materials for public distribution.

## PROTECTING TAXPAYER DATA

### What's the challenge?

The IRS accumulates vast amounts of data as it annually processes hundreds of millions of tax returns and other forms. Much of this data is sensitive and stored in different computer systems available to IRS employees and contractors. However, preventing unauthorized access to, and disclosure of, sensitive taxpayer information continues to be a challenge for the IRS.

This challenge is likely to be amplified by recent changes involving the IRS's collection and storage of information used to detect unauthorized access and privileged access abuse. Moreover, the IRS plans to decommission IT systems that capture and track unauthorized access and data loss prevention incidents. It is important that our Office of Investigations be involved in these plans to understand how replacement audit trail systems can be used for investigations and ensure the new systems provide accurate data.

Additionally, our previous reviews indicate that it will be a challenge for the IRS to ensure that the more than 25,000 employees who separated from the agency earlier this year do not retain access to sensitive systems and return their equipment. For example, last year we reported that the IRS did not always remove contractor employees' access to IRS facilities, systems, and equipment when the contractor employees were

no longer assigned to an ongoing contract. We also reported that IRS's procedures to systemically remove users (employees and contractors) who no longer require access to sensitive systems were not always working as intended. In some cases, this issue was specific to separated employees. For example, we identified 279 individuals who separated from the agency but continued to have access to at least one sensitive IRS system. Although IRS network access was removed for each of these individuals, it does not eliminate the risk that they can access a sensitive system.

Another March 2025 Executive Order, *Stopping Waste, Fraud, and Abuse by Eliminating Information Silos*, aims to remove barriers and promote interagency data sharing. This may increase the frequency and volume of data sharing between the IRS and other agencies. However, the IRS's data repositories are complex, voluminous, and fragmented. This environment poses unique challenges to establishing accurate and secure data sharing agreements. For example, we recently reported that the IRS sent incorrect federal tax information to the Department of Education that potentially affected 7.2 million student aid applications. We believe it is important that lessons learned from existing data sharing agreements inform similar future arrangements to help prevent the transfer of inaccurate taxpayer data.

## What progress has the IRS made?

The Internal Revenue Code allows the IRS to share Federal Tax Information (FTI) to over 250 state, territory, and local agencies. We reported that IRS's efforts to oversee state agencies' access to FTI were generally successful. The IRS's Office of Safeguards, which is designed to ensure the confidentiality of taxpayer information sent to federal, state, and local agencies, has developed extensive training and guidance outlining the process state agencies must follow to safeguard FTI. In addition, the Office of Safeguards has developed and maintained a safeguard review schedule that led to completing reviews for 98 percent of active state agencies in the past three years.

In addition to sensitive data stored on IT systems, the IRS also receives and creates a significant volume of sensitive documents and is responsible for protecting them from receipt to disposal. After we performed on-site inspections at several IRS facilities that identified employees were using open containers to dispose of sensitive documents, the IRS replaced the open containers with secure lockable bins. They also replaced damaged lockable bins.

## What key recommendations have been implemented?

- Ensured that the agency's audit trail repository accurately displays and reports all login information for the Compliance Data Warehouse (a major IRS database containing taxpayer data accessible to research analysts at the IRS and Treasury Department). Failure to accurately and reliably report system login information limits the capability to determine unauthorized access to Personally Identifiable Information and FTI data.
- Developed processes and procedures to ensure that microfilm cartridges, which the IRS uses to store photographic records of business and individual tax information, are destroyed in compliance with record destruction time frames.

## What ongoing work does TIGTA have to address the challenge?

We plan to assess the IRS's efforts to provide effective governance, management, and oversight of the implementation of AI. We also plan to assess the security of taxpayer data at select contractor sites. We will also evaluate the process and

procedures for implementing the data sharing agreement between the Department of the Treasury and the IRS and the Department of Homeland Security and Immigration and Customs Enforcement.

**We planned 15 reviews to address this challenge.**

## IMPLEMENTING TAX LAW CHANGES

### What's the challenge?

The One Big Beautiful Bill Act (OBBA) contains major tax provisions for individual and business taxpayers that go into effect in 2025. New tax law changes complicate the IRS's processing of tax returns, as they require the agency to:

- Update computer programming;
- Create or revise tax forms, instructions, or guidance for taxpayers and tax professionals; and
- Increase or revise enforcement strategies.

For example, we previously reported that processing delays prevented businesses from receiving certain pandemic relief benefits. Due to a lack of updated programming and guidance, the IRS did not begin processing claims for qualified Sick and Family Leave Credits and the Employee Retention Credit for 12 months and claims for Social Security tax deferrals for 16 months after the pandemic relief legislation was enacted.

Taxpayer uncertainty around new tax law changes can affect voluntary compliance, and errors (caused by computers and employees) in the IRS's tax return processing systems may delay refunds, affect the accuracy of taxpayer accounts, and result in incorrect taxpayer notices.

### What progress has the IRS made?

The IRS has a lot of experience implementing major tax law changes. For example, within the last decade, the IRS has implemented tax changes from the Tax Cuts and Jobs Act, multiple pandemic relief laws, and the IRA. Generally, the IRS successfully implemented the tax provisions within these laws.

For example, the IRA—the most recent major legislation affecting the tax code—included provisions that created and revised clean vehicle tax credits. We found that the IRS developed a process for qualified manufacturers and sellers to submit information on qualifying vehicles and to report transfer elections through a newly developed online portal. This process allows the IRS to validate qualifying clean vehicles from manufacturing through reporting on the taxpayer's annual tax return. The IRS also updated existing and developed new tax forms, instructions, and publications; issued guidance to manufacturers, buyers, and sellers; and informed internal and external audiences about the clean vehicle tax credits and reporting requirements.

In addition, the Coronavirus Aid, Relief, and Economic Security Act allowed employers and self-employed individuals to defer payment of their Social Security tax. Employers who did not timely pay their deferred Social Security taxes are subject to the IRS's standard collection processes. We found that the IRS assessed an estimated \$591 million in penalties and interest on 403,711 tax accounts for employers who failed to timely pay their deferred Social Security taxes.

## What key recommendations have been implemented?

- Corrected computer programming to ensure the IRS did not incorrectly reject tax returns for taxpayers claiming clean vehicle tax credits.
- Reviewed nearly 1,000 tax returns with signs of potential identity theft to recover potentially erroneously paid Employee Retention Credits.

## What ongoing work does TIGTA have to address the challenge?

We plan to determine the IRS's strategy and implementation of recently enacted tax provisions to remove certain tax benefits for non-citizens and will evaluate the guidance and compliance plans for select provisions of the OBBB.

**We planned five reviews to address this challenge.**

We are also evaluating whether the IRS met all legislative requirements to terminate Direct File (an IRS-developed free tax return preparation tool) and report to Congress on a potential replacement system.

## IMPROVING TAXPAYER SERVICE AND PROTECTING TAXPAYERS' RIGHTS

### What's the challenge?

Every year, millions of taxpayers seek assistance from the IRS via its website, telephone helplines, Taxpayer Assistance Centers (TACs), social media platforms, and volunteer tax return preparation sites. These various service channels should help taxpayers quickly, accurately, and without the need for additional contact.

However, for some service channels such as telephone helplines, a taxpayer's experience can vary depending on the time of year and/or the reason for their call. The IRS tracks and widely reports on two customer service performance measures related to its telephone lines: 1) Level of Service (LOS), which measures the ability for a taxpayer to reach a telephone assistor when requested, and 2) average wait times.

The IRS reported that its LOS (88 percent) and average wait times (three minutes) showed improvement during the 2024 filing season. However, these measures do not capture expected average wait times and LOS for all IRS telephone lines throughout the entire year. Instead, the reported LOS and average wait times only include calls to 33 of the IRS's approximately 100 telephone lines during the 2024 filing season. Although these lines handled most of the calls answered by IRS assistants, using only these lines to publicize

performance can mislead taxpayers. For example, taxpayers who called one of the IRS's telephone lines for tax compliance issues—which are not included in the LOS—waited on average 19 minutes to speak with an assistor during the 2024 filing season. In a separate evaluation, we called all public-facing IRS phone lines (103 at the time) and were placed on hold for 30 minutes or more on 18 lines. Most of these 18 lines are not included in the LOS metric.

We also reviewed IRS telephone data for FY 2024 and found that approximately 33 percent of taxpayer calls were transferred from at least one telephone assistor to another. Transfers are sometimes necessary, but one-stop service saves time for both the IRS and the taxpayer.

It will be increasingly important for the IRS to maintain existing self-service options and consider the practicality of building new ones given recent staffing reductions. For example, we found that nearly half of the 100 self-service kiosks available to taxpayers at TACs were inoperable. Instead of fixing them, IRS management decided to discontinue the kiosk program and consider an alternative self-service option.



When the IRS serves taxpayers, it must remember that each and every taxpayer has a set of fundamental rights that need to be recognized. For example, taxpayers have a right to challenge the IRS's position and be heard. However, in FY 2024, we reported that the IRS did not notify some taxpayers and their authorized representatives of the right to a Collection Due Process hearing prior to issuing levies. With fewer employees to intervene at key points in the tax collection process, the IRS may not be able to fully ensure that taxpayers' rights are protected.

## What progress has the IRS made?

The IRS added voicebots to provide automated responses to certain taxpayer inquiries to reduce the number of taxpayers trying to reach live assistance and decrease the amount of time taxpayers spend waiting for a telephone assistor. The IRS is also developing a new telephone measure designed to view customer service performance across all automated and live assistance service channels.

We recently reported that revenue officers issued more than 99 percent of levies in accordance with legal requirements. When taxpayers do not pay delinquent taxes, the IRS has authority to work directly with financial institutions and other third parties to levy a taxpayers' assets. We found that IRS properly notified taxpayers and allowed them the opportunity to request a Collection Due Process levy hearing.

## What key recommendations have been implemented

- Conducted an analysis to determine if it would be beneficial to increase space sharing with the other federal or state agencies in locations where face-to-face taxpayer services are not being offered.
- Submitted programming requests to ensure that levies issued systemically by certain IRS systems only include appropriate tax records and are sent after the required 30-day notification period.

## What ongoing work does TIGTA have to address the challenge?

We will evaluate the experience taxpayers receive when calling a select number of IRS telephone lines during and after the filing season. Additionally, we plan to assess whether the IRS can benefit from adopting tools, including AI, used by private collection agencies to improve the efficiency and effectiveness of telephone service. We will also assess the IRS's efforts to enable taxpayers to make tax payments easily through all service channels.

**We planned 28 reviews to address this challenge.**

Each year, we complete statutorily mandated reviews involving computer security, taxpayer rights, and privacy issues. This includes evaluating whether the following actions were done in compliance with the Internal Revenue Code, Treasury Regulations, or IRS procedures: liens, seizures, and direct contact of taxpayers and their representatives.

## MODERNIZING INFORMATION TECHNOLOGY

### What's the challenge?

The modernization of IRS IT and business systems is essential to fulfilling its mission of providing America's taxpayers with top quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness. However, the IRS has a history of cost overruns and delays in its IT modernization efforts. As a result, the IRS continues to maintain some of the oldest IT systems in the federal government.

The IRS has more than 700 business systems, and half of them historically have been considered legacy systems that require replacement and decommissioning to reduce risks and improve functionality.<sup>49</sup> The IRS has upgraded several systems but has made little progress decommissioning what were previously considered legacy systems. For example, we recently identified 34 legacy case management systems that the IRS plans to incorporate and decommission as part of its larger effort to consolidate business unit case management systems. At this time, none of these legacy systems have been decommissioned. Instead, the IRS spent over \$39 million in FY 2024 to maintain and operate 20 of these legacy case management

<sup>49</sup> The IRS historically defined a legacy system as one that is 25 years or older, used obsolete programming language, or lacked vendor support. In April 2025, the Chief Information Officer issued a memorandum outlining a new definition, which focuses on business outcomes and mission alignment, shifting away from age- and technology-based criteria.

systems. Currently, IRS business units are identifying which IT systems meet the new definition of a legacy system while Treasury leadership works to ensure the integrity of data across all IRS systems.

Technical experts can help manage the complexity of IT modernization efforts. However, the IRS has lost approximately 25 percent of its IT staff to deferred resignation programs, attrition, and voluntary separation. In March 2025, the IRS reported that it placed 48 senior IT employees on administrative leave, 27 of which were either in key management positions or were individuals recruited for their expertise related to the IRS's restructuring efforts.

## What progress has the IRS made?

We reported that the IRS made progress advancing transformation efforts in 2024. These advancements include modernizing tax account processing, promoting agility across operations, implementing new technology solutions, empowering business growth, strengthening network communications, reinforcing enterprise security, and enhancing operations.

The IRS has also made progress modernizing tax processing. The 2024 Filing Season was the second year the IRS successfully performed parallel processing with its modern solution for individual tax processing. The IRS plans to decommission the old system that has been in place for over 60 years.

Earlier this year, IRS modernization priorities were changed, and work stopped on several ongoing programs. The IRS is now prioritizing modernization efforts focused on business outcomes and mission alignment. IRS leadership also highlighted the launch of the Technical Roadmapping Initiative that is organized around four key priorities that include establishing an interface to enable consistent and secure access to core systems and data across platforms. The initiative also aims to eliminate paper-based processes and focuses on making it easier to build, test, and deploy software with fewer barriers. The Chief Information Officer also issued a memorandum outlining a new definition of a legacy system. The new definition focuses on

business outcomes and mission alignment, shifting away from age- and technology-based criteria.

In August 2025, the Treasury Department announced that IT functions within all Treasury bureaus (which includes the IRS and TIGTA) are required to immediately integrate AI capabilities into daily operations. We plan on monitoring IRS's efforts to comply with this requirement.

## What key recommendations have been implemented?

Federal agencies are required to expand the use of shared services to enable broader use and adoption of cloud computing. Cloud computing is the delivery of computing services over the Internet to offer faster innovation, flexible resources, and economies of scale. The IRS must monitor its cloud systems or applications to mitigate the disclosure of sensitive data.

- After we identified a cloud system operating in a production environment without authorization, the IRS sought appropriate approvals for the system.

- We also identified that some cloud system documents were missing approvals or were not properly approved. IRS management subsequently ensured that management approvals were consistent and documented, as required.

## What ongoing work does TIGTA have to address the challenge?

We plan to evaluate the progress of implementing the Customer Account Data Engine 2 Individual Tax Processing Engine project. This is a system that will perform the core functions of posting, settlement, and analysis of individual taxpayer accounts.

**We planned seven reviews to address this challenge.**

We will also review whether data within Compliance Data Warehouse is sufficiently reliable to support the use of AI.

## ENSURING TAX COMPLIANCE

### What's the challenge?

One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance cost the country billions of dollars in lost revenue and shift the tax burden from those who do not pay their taxes to those who pay on time every year.

As the economy evolves, the IRS must ensure that it collects taxes from emerging sources of income. For example, the gambling industry has reached unprecedented levels of popularity across the United States, with total gaming revenue reaching an all-time high of \$72 billion in 2024, according to industry estimates. However, we reported that nearly 150,000 individuals with approximately \$13.2 billion in total gambling winnings over a three-year period did not file a tax return. The IRS calculated it could collect more than \$1 billion from these nonfilers but had not started any enforcement actions.

Certain refundable tax credits remain challenging for the IRS to administer. The IRS has not reduced the improper payment rate estimates to less than 10 percent (the goal required by the Payment Integrity Information Act) for any of its reported high-risk programs. In FY 2024, the IRS estimated an overall improper payment rate of 21.9 percent and estimated improper payments totaling approximately \$21.4 billion for the Additional Child Tax Credit, American Opportunity Tax Credit, Earned Income Tax Credit, and Net Premium Tax Credit. The IRS would need to reduce erroneous payments for each of these credits by \$11.7 billion to meet the 10 percent threshold. However, this will be difficult because eligibility rules differ for each credit and the IRS must address complicated family relationships and residency arrangements to determine eligibility.

## Improper Payment Rates for High-Risk IRS Programs (Fiscal Year 2024)

29%

Net Premium Tax Credit

28%

American Opportunity Tax Credit

27%

Earned Income Tax Credit

11%

Additional Child Tax Credit

IRS has not satisfied the goal to reduce improper payment rates to less than 10%.

### What's an improper payment?

Any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.



### What progress has the IRS made?

The IRS had made progress addressing the tax implications of virtual currencies, another emerging industry. In the last 15 years, virtual currencies have grown into a trillion-dollar industry and have proven challenging for the IRS from both a guidance and an enforcement perspective. The IRS considers virtual currency as property, that when sold, can create taxable consequences each time the virtual currency is used. For some taxpayers, the anonymity of virtual currency is appealing, and it complicates the IRS's enforcement efforts.

We reported that IRS Criminal Investigation used analytics to address virtual currency noncompliance. Between FYs 2018 to 2023, IRS investigated 390 cases involving virtual currencies. In that period, 224 cases were completed with a recommendation for prosecution.

The IRS has also made progress using different enforcement strategies to improve taxpayer compliance. For example, sweeps (done by revenue officers) are used to address an increase in unassigned high priority inventory in an understaffed location or to support a compliance initiative, like pursuing high-income nonfilers. We reported that in recent years, sweeps of high-income non-filer cases were effective at securing tax returns and referring delinquent returns for examination.

### What key recommendations have been implemented?

- Updated processes to ensure the proper identification and review of all tax-exempt hospitals subject to a Community Benefit Activity Review. These reviews are done to ensure that hospitals demonstrate that they operate to benefit a community. For example, a hospital operating an

emergency room that is open to all, regardless of ability to pay, is a factor that IRS can consider when determining if a hospital meets the community benefit standard.

- Developed guidance for the applicability and computation of the failure to file penalty for delinquent Forms 5329, which is used to report additional taxes on individual retirement accounts or other qualified retirement plans.

## What ongoing work does TIGTA have to address the challenge?

We will review whether the IRS's processes and controls for identifying and placing a ban on individuals previously determined to have filed reckless or fraudulent Earned Income Tax Credit claims are effective and applied consistently.

**We planned 17 reviews to address this challenge.**

Additionally, we plan to assess whether the IRS has sufficiently increased its enforcement efforts of unscrupulous tax return preparers who fraudulently or negligently claim the Earned Income Tax Credit on behalf of ineligible taxpayers.

We also plan to determine whether the IRS is effectively addressing federal employees who fail to file their tax returns and pay their balances due.

## Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2026. Our Annual Program Plan contains our proposed reviews for FY 2026 and will be published on our website.

cc: Deputy Secretary of the Treasury  
Assistant Secretary for Management  
Deputy Chief Financial Officer  
Chief Executive Officer of the Internal Revenue Service

## Appendix: Significant TIGTA Reports Referenced

TIGTA, Report No. 2024-308-306, *Former Contractor Employees Retained Access to IRS Facilities, Systems, and Equipment* (Sept. 2024).

TIGTA, Report No. 2025-300-021, *Revenue Officer Compliance Sweeps of High-Income Nonfilers Were Impactful, but Tracking Data and Training Could Be Improved* (Apr. 2025).

TIGTA, Report No. 2024-300-030, *Virtual Currency Tax Compliance Enforcement Can Be Improved* (July 2024).

TIGTA, Report No. 2025-408-014, *Inflation Reduction Act: Implementation of the Clean Vehicle Tax Credits* (Mar. 2025).

TIGTA, Report No. 2025-100-040, *Telephone Level of Service and Average Wait Times Do Not Fully Reflect the Taxpayer Experience* (Aug. 2025).

TIGTA, Report No. 2025-400-026, *Interim Results of the 2025 Filing Season* (June 2025).

TIGTA Report No. 2024-300-064, *The IRS Could Collect Over a Billion Dollars in Taxes From Unreported Wagering Income* (Sept. 2024).

TIGTA Report No. 2025-2S8-041, *Progress of Information Technology Modernization Efforts for Calendar Year 2024* (Aug. 2025).

TIGTA Report No. 2025-400-025, *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements* (May 2025).

TIGTA, Report No. 2025-208-050, *Although Enterprise Case Management Modernization Has Begun, No Legacy Systems Have Been Decommissioned* (Sept. 2025).

TIGTA, Report No. 2024-IE-R008, *Assessment of Processes to Grant Access to Sensitive Systems and to Safeguard Federal Tax Information* (Feb. 2024).

TIGTA, Report No. 2025-IE-R027, *Snapshot Report: IRS Workforce Reductions as of May 2025* (July 2025).

TIGTA, Report No. 2025-IE-R003, *Governance Efforts Should Be Accelerated To Ensure the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* (Nov. 2024).

TIGTA, Report No. 2025-IE-R007, *Limited Testing Showed Taxpayers May Not Receive the Service They Expect When Calling the IRS Toll-Free Telephone Lines* (Feb. 2025).

## IRS MANAGEMENT RESPONSE TO TIGTA IDENTIFIED CHALLENGES FACING THE IRS FOR FISCAL YEAR 2026

The IRS appreciates TIGTA's identified management and performance challenges to improve taxpayer services and its operations, strengthen its compliance efforts, and protect taxpayer information. In FY 2025, the IRS made steady progress in each of these areas despite having fewer resources and a reduced workforce. The IRS is committed to building on these accomplishments to be more modern, efficient, and responsive. The following are the IRS's responses.

### *TIGTA Challenge 1 - Managing a Reduced Workforce and Budget*

The IRS must eliminate wasteful spending and build an operational foundation that delivers its core mission with maximum efficiency. Between the start of the 2025 filing season and May, the IRS workforce decreased by approximately 25 percent. Staffing and budget reductions have affected many of the IRS's processes and responsibilities, from processing returns to protecting taxpayer data. Despite these challenges, the IRS will accomplish its objectives and fulfill the nation's core tax administration responsibilities while maintaining high standards for service and compliance.

In FY 2025, the IRS developed a robust workforce planning process. This process identifies essential positions on a recurring basis, ensuring resources are allocated to roles that are critical for statutory compliance, taxpayer assistance, and enforcement activities. To ensure the IRS maintains mission-critical roles, the IRS implemented exceptions to its hiring freeze, focusing its efforts on recruitment of positions that directly support statutory obligations, taxpayer services, and enforcement. These exceptions have enabled the IRS to hire additional staff in high-priority areas, such as customer service, to support taxpayers during the 2026 Filing Season.

Even with a reduced workforce, the IRS has made measurable progress in processing tax return inventories and reducing backlogs. Between May and September 2025, the IRS processed approximately 303,000 individual amended returns, reducing the inventory to just over 63,000. This represents a decrease from the mid-May inventory of 366,000 and is substantially lower than the 120,000 cases pending at the same time the previous year.

Automation has played a key role in reducing backlogs. The 1040X Automation Project went live in July 2025, with 13 approved use cases covering non-complex tax year 2023 and 2024 amended returns. These automations handle changes to wages and withholding, retirement income, self-employment income and taxes, farm income, interest and dividends, capital gains and losses, and supplemental income, such as rental property, royalties, partnerships, S corporations, estates, and trusts. The initial automations address approximately 42 percent of total use cases and, as of September 30, 2025, achieved an accuracy rate of 92.6 percent. Programming updates continue weekly, and additional use-case expansions are underway.

Resource limitations in other areas continue to create operational challenges. The Criminal Investigation Division has reduced capacity to assist other federal agencies, which impacts interagency support for investigations and compliance initiatives. To address this issue, the IRS plans to onboard an approximately 100 additional Special Agents, as part of a broader initiative to strengthen the IRS's investigative capacity. Despite limitations, the IRS prioritizes cases that protect government revenue and enforce the tax code effectively.

### *TIGTA Challenge 2 – Improving Operational Efficiencies*

The IRS continues to look for ways to simplify processes, reduce paperwork, and use technology to better serve taxpayers. EO 14247, *Modernizing Payments To and From America's Bank Account*, directs federal agencies to prioritize electronic payments and deposits to and from bank accounts, accelerating efforts the IRS had already begun implementing. The IRS progressed on several initiatives to automate manual processes, expand digital tools, and ensure that payment and refund processes are accurate, timely, secure, and accessible.

In FY 2025, the IRS added new capabilities to IRS Online Account, through which, taxpayers can view their tax balance, make payments electronically, and monitor refunds. The platform now supports multiple saved bank accounts, digital wallets, and debit/credit card payments. Taxpayers may also make same-day payments, schedule recurring payments, and establish or modify payment plans without relying on traditional paper forms. As the IRS continues to centralize data systems and enhance digital capabilities, the Online Account will remain a key feature in reducing reliance on paper-based processes.

Additionally, the IRS conducted outreach through press releases, updates on IRS.gov, and coordination with software providers to encourage taxpayers to use direct deposit. Currently, over 90 percent of individual tax refunds are issued electronically. Businesses represent the largest opportunity for growth in electronic refunds, as only four percent of business refunds are electronic. To expand electronic deposits for businesses, the IRS updated tax forms to include fields for direct deposit information, making it easier for businesses to receive refunds directly into their accounts.

The IRS continued to use text-based chatbot and voice-bot self-service tools in collections to improve taxpayer access and move away from traditional phone interactions. These bots address common inquiries, such as questions about payment plans or checking account balances and are available in multiple languages. In FY 2025, the IRS focused on resolving a substantial number of taxpayer issues through bots without escalation to live assistants. The IRS is committed to identifying ways that these services can be more efficient and useful to taxpayers, including by adding new topics, using surveys to gather feedback, and enhancing its self-service options.

In FY 2025, the IRS used artificial intelligence to make its operations faster and more accurate and efficient. To support this effort, the IRS launched several pilot projects to speed up case review by automatically comparing addresses, reading attachments for amended returns, and helping identify which cases need manual review. The IRS also tested artificial intelligence tools that can help draft standard taxpayer letters, allowing IRS personnel to focus on complex collection cases. To ensure that the IRS uses artificial intelligence responsibly, the IRS adopted an interim artificial intelligence governance policy that sets rules for protecting taxpayer rights, privacy, and data security.

Many of the operational changes will be in effect for the 2026 filing season, including new and updated forms, expanded options for direct deposit to checking and savings accounts, and verified digital payment accounts. While systems and processes are updated, the IRS will continue to accept paper checks and maintain lockbox operations until January 2027.

By combining expanded electronic payment options, digital submissions, targeted outreach, and modernization of paper-based processes, the IRS has strengthened its taxpayer services. These initiatives lay the groundwork for a more streamlined, digital-first tax administration process while preparing the IRS for continued progress in future filing seasons.

### ***TIGTA Challenge 3 – Protecting Taxpayer Data***

Safeguarding taxpayer data remains one of the IRS's most critical responsibilities. Each year, the IRS processes millions of returns, generating a vast amount of sensitive information, and protecting this data from unauthorized access or misuse is essential to maintaining taxpayer trust. Retiring older systems that tracked taxpayer data and incidents of potential exposure has allowed the IRS to consolidate monitoring tools, improve detection of unauthorized access, and prevent data loss more effectively. The transition to modernized platforms enhances both the security and reliability of taxpayer information while reducing the complexity of legacy systems.

In FY 2025, the IRS strengthened its procedures to ensure that former employees do not retain access to sensitive systems. The IRS improved its processes to removed user accounts and track IRS-issued resources such as computers, badges, and devices. These measures prevent the possibility of unauthorized access and help maintain the integrity of sensitive data. The IRS also strengthened identity controls, endpoint monitoring, and behavior-based access oversight across the workforce. These tools enable rapid identification of non-compliant or unknown devices and enables the IRS to isolate potential threats while supporting the secure recovery of government equipment.

The IRS also continued to refine interagency data-sharing processes. The IRS routed all information through the Enterprise Data Platform to reduce duplication and provide partner agencies with a single, authoritative source of information. Before transmitting Federal Tax Information to any other federal agencies, the IRS evaluates requests to confirm authority under the Internal Revenue Code and determines which data elements it can share and implements the required data security measures. The IRS periodically reviews agencies to ensure they adhere to safeguards for confidential taxpayer information. In FY 2025, the IRS Office of Safeguards conducted 84 reviews of approximately one-third of these agencies, providing feedback to 240 agencies based on 357 corrective action submissions.

In FY 2025, the IRS expanded multi-factor authentication across its workforce and strengthened access controls, to reduce the risk of unauthorized access. Instead of allowing all systems or users inside the organization to communicate freely, the IRS limited access to sensitive data and quickly flagged unusual activity. The IRS will continue to make progress on implementing its Zero Trust protocols by continuously verifying every user and the multiple connections to reduce the risk of security breaches by both external and internal threats. The IRS plans to continue these efforts, including launching an Unauthorized Access Awareness Day and additional system updates.

The IRS also strengthened audit trail and system monitoring capabilities for the Compliance Data Warehouse. Using Splunk Enterprise as a central audit platform, sign-ins and access events are tracked consistently and accurately, with machine-learning dashboards flagging anomalous behavior, such as credential misuse or password-spray attempts. Authorized personnel can generate reports to ensure transparency and accountability. Building on these improvements, the IRS will leverage artificial intelligence and machine learning to automate log collection, normalization, correlation, and analysis, allowing faster detection of anomalies and enabling real-time monitoring across systems.

#### ***TIGTA Challenge 4 – Implementing Tax Law Changes***

Each new law that brings changes to the tax code requires the IRS to update systems, forms, guidance, and enforcement approaches. The OBBB, which was signed into law on July 4, 2025, provided pro-growth tax cuts and included provisions affecting both individual and business taxpayers. In FY 2025, the IRS focused on making sure these new provisions are as straightforward as possible so that taxpayers can meet their obligations without delays.

Another important area of focus in FY 2025 has been processing claims for the Paid Sick and Family Leave Credits and the Employee Retention Credit. These pandemic-era credits have been especially challenging; the IRS has faced fraud risks, complex eligibility questions, and a large volume of claims. The OBBB brought changes to the Employee Retention Credit to strengthen compliance and mitigate improper claims, including a cutoff such that no new claims for the third and fourth quarter of 2021 may be allowed or refunded if those claims were filed after January 31, 2024, even if otherwise eligible.

The IRS has also increased examinations of Employee Retention Credit claims. Using advanced data analytics and case selection models, the IRS is better equipped to detect patterns associated with erroneous filings and promote faster resolution of legitimate claims. The OBBB helped to reinforce the IRS's compliance and integrity measures, allowing the IRS to process the credit accurately and timely. The IRS will continue its extensive work to validate all claims, recover

improper payments, and balance preventing fraud with paying qualified businesses more efficiently as we transform into a data-driven organization.

These efforts reflect a broader IRS strategy as tax laws change, the IRS must not only build out state-of-the-art systems and processes but also manage risk carefully. The IRS is adapting to the numerous tax law changes while maintaining the integrity, fairness, and efficiency that the public expects in tax administration.

#### ***TIGTA Challenge 5 – Improving Taxpayer Service and Protecting Taxpayer Rights***

The IRS is committed to strengthening service delivery while continuing to protect taxpayer rights. Every taxpayer who contacts the IRS, whether through a phone call, online, or in person, brings a unique need. Delivering high-quality service and protecting taxpayer rights require the IRS to balance limited resources with growing demand, while continuing to adapt its tools and processes to better serve the public. At the same time, the IRS must also ensure that its actions uphold the fundamental rights taxpayers are entitled to under the law. Protecting taxpayer rights is central to maintaining public trust in tax administration.

In FY 2025, the IRS focused on its front-line capacity so taxpayers could receive timely, accurate assistance without unnecessary barriers. To prepare for the filing season, the IRS ensured that all new hires were fully onboarded and trained before the February peak period. As a result, the IRS exceeded its 85 percent Filing Season Level of Service target, delivering a Level of Service of 87.6 percent through April 19, 2025.

The IRS is scaling up its workforce to maintain strong service levels while preparing for increased demand. The IRS received approval to hire 2,000 seasonal and 1,500 term Customer Service Representatives. The IRS held 10 direct-hire events and plans to onboard approximately 3,500 employees. To ensure these employees are available for taxpayer support during the filing season, the IRS established two training paths for handling inquiries by phone and paper correspondence.

In FY 2025, the IRS strengthened processes to ensure taxpayers receive clear information, timely notice, and meaningful opportunities to exercise their rights. The IRS expanded efforts to reinforce Collection Due Process protections. For example, the IRS published updated guidance for employees conducting account reviews when a levy may have been incorrectly issued. These updates clarified steps for reviewing potentially inaccurate or outdated tax records before initiating levy action. The IRS enhanced systems that check and match taxpayer information automatically, ensuring systemic levies apply only to the correct accounts.

The IRS also enhanced internal safeguards to ensure taxpayers and their authorized representatives receive timely and accurate Collection Due Process notices. This includes reinforcing employee responsibilities related to reviewing accounts, issuing notices, and documenting actions taken. These updates promote adherence to statutory and administrative requirements while ensuring taxpayers understand their rights and how to exercise them.

In FY 2025, the IRS also improved protections surrounding taxpayer information during telephone interactions. The IRS clarified and updated Internal Revenue Manual instructions related to verifying the identity of callers before disclosing sensitive information. These improvements help ensure frontline employees consistently apply authentication requirements, reducing the risk of unauthorized disclosures. To support this effort, the IRS is developing additional resources and job aids.

#### ***TIGTA Challenge 6 – Modernizing Information Technology***

Modernizing information technology is one of the IRS's most complex and high-stakes challenges. The IRS maintains some of the oldest systems in government, and it is introducing new platforms that can deliver faster service, protect sensitive data, and support evolving tax laws. While the IRS has made strides in updating core systems and processes, it must

advance efforts that ensure that it can administer the nation's tax laws efficiently, effectively, and securely well into the future.

In FY 2025, the IRS made progress in retiring outdated legacy systems and consolidating disjointed systems. The IRS considered multiple factors in determining which systems should be retired, including a revised definition of "legacy system," shifting from age and technology-based criteria to business value criteria. This ensures the IRS directed modernization resources to systems posing the greatest risk of delays. These efforts will be closely aligned with the IRS's ongoing work on the Enterprise Data Platform, which is an official, trusted digital platform that ensures real-time updates across systems.

Further, IRS also modernized taxpayer account processing, a foundational requirement for the nation's tax system. In July 2025, the IRS completed a major milestone by moving approximately 90 percent of the Individual Master File's posting, settlement, and analysis logic from assembler code to modern Java. This transition greatly improved functionality without burdening taxpayers. The IRS also focused on retiring aging systems that support critical tax processing programs containing more than 15 million lines of Common Business Oriented Language code.

The IRS initiated a Technical Road Mapping Initiative to guide the modernization and strategic direction of the information technology infrastructure and systems. In April 2025, we and the IRS held a kickoff meeting, which was organized around four key priorities: establishing an interface to enable consistent and secure access to core systems and data across platforms; enabling easier and faster software build, test, and deployment; eliminating paper-based processes and moving toward digital workflows; and updating vendor contracts to save money and ensure contractors are focused on the IRS's priorities.

### ***TIGTA Challenge 7 – Ensuring Tax Compliance***

Fair and consistent tax compliance is the foundation of trust in the tax system. The IRS is committed to ensuring that all taxpayers meet their obligations, while also keeping pace with an economy that is constantly evolving. The IRS plans to implement new strategies to address noncompliance in both traditional and emerging areas. These efforts are designed to protect the nation's bank account and ensure that taxpayers who meet their responsibilities are not unfairly burdened by those who do not.

A continuing challenge is reducing improper payments associated with refundable tax credits, especially those involving reckless or fraudulent claims. Much of the information needed to validate these credits before refunds are issued is not available in databases, making pre-refund verification difficult. Historically, the IRS expended enforcement resources auditing returns that claim refundable credits, a process that increased delays and administrative costs. To meet this challenge, the IRS shifted toward prevention, expanding outreach, education, and early intervention, rather than relying solely on pre-refund audits.

In FY 2025, the IRS increased its engagement with taxpayers and paid preparers, who assist more than half of all individuals claiming refundable credits. The IRS updated its Interactive Due Diligence Training Module, completed by more than 23,750 preparers, and delivered extensive due diligence education at the annual Nationwide Tax Forum. These efforts strengthen the ability of preparers to identify eligibility issues, apply due diligence requirements, and reduce errors before they file returns.

The IRS continues to fulfill its responsibilities in the Global High Wealth and International Individual Compliance programs, which are key to addressing noncompliance in this population. In addition, the IRS continues its enforcement work on domestic and foreign businesses with significant assets and U.S. reporting obligations. The IRS is committed to ensuring that all taxpayers meet their tax obligations consistently and fairly.

Field enforcement activities remain an important component of compliance. In FY 2025, the IRS's revenue officers continued to conduct targeted sweeps, with a particular focus on high-income non-filers. These sweeps intend to bring taxpayers back into the system, collect assessments already owed, and reinforce that failure to file is not without consequence. This strategy is intended to increase visibility, boost voluntary compliance, and help prevent long-term accumulation of unpaid liabilities.

The IRS continues to confront noncompliance in virtual currency and other digital asset transactions. Criminal Investigation and other enforcement divisions are expanding analytics, strengthening collaborations with law enforcement agencies and private sector partners, and using new tools to identify concealed income, false reporting, and unfiled tax obligations of digital assets. These efforts intend to reduce the growing tax gap associated with rapidly evolving financial technologies.

## SECTION D: PAYMENT INTEGRITY

### Refundable Tax Credit Programs

We currently report erroneous payments for refundable tax credits (RTCs) within this section in accordance with the improper payment reporting requirements of the PIIA and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (OMB Appendix C). We also report these erroneous payments as part of the tax gap estimate program (see Part 3, Section B: *Tax Gap and Tax Burden*), as we have long held that these RTCs are more appropriately addressed in this section. Improper payment reporting does not simultaneously provide a comprehensive understanding of the extent and nature of taxpayer compliance with Internal Revenue Code tax credit provisions needed for tax administration purposes. The IRS's tax gap estimate and enterprise risk management framework better equip the IRS to analyze and address noncompliance throughout the federal tax system.

Moreover, while internal control deficiencies are generally considered to be a principal root cause of improper payments, internal control issues are not the root cause of RTC errors. Instead, they are largely the result of factors beyond the IRS's control, such as the statutory design of the RTCs, the complexity of the eligibility requirements, the lack of comprehensive third-party data for verification, and the IRS's reliance on taxpayers' self-certification of the accuracy of their returns. TIGTA has agreed that risk assessments the IRS conducted indicate that improper payments from RTCs are not rooted in internal control weaknesses, financial management deficiencies, or reporting failures. Both GAO and TIGTA concur with our view by similarly reporting that RTC errors are largely due to the statutory design and complexity of the RTC programs, and the IRS's need to rely on self-certified, taxpayer-provided information that cannot be verified at the time of filing. We continue to support the reporting of RTC errors as part of the tax gap estimate.

We refer to erroneous claims for RTCs as “overclaims” and improper payment rates as “error” rates. Accordingly, we report error rates as outlined in the PIIA and OMB Appendix C, for four refundable tax credits—the EITC, AOTC, ACTC, and net PTC—which have error rates similar in concept to “significant improper payments.” Each of these RTCs is described below. Additional current and prior year Payment Integrity information, including Agency plans to bring these RTCs into compliance with PIIA, can be accessed at <https://paymentaccuracy.gov/>, a public facing website that serves as a centralized location for current and historical information about improper payments made under federal programs that have been determined to be susceptible to significant improper payments based on assessments of all government programs.

#### Earned Income Tax Credit

Congress enacted the EITC in 1975 through the *Tax Reduction Act* (Public Law (P.L.) 94-12), as a temporary anti-poverty measure to offset inflation and rising Social Security payroll taxes. In addition to encouraging work and reducing dependence on cash welfare, the credit was also viewed as a means to encourage economic growth in the face of the 1974



Source: Adobe Stock

#### Primary Causes of RTC Errors

- Complex statutory eligibility rules
- Inability to verify taxpayer-provided information prior to refunding due to lack of independent data sources
- Lack of correctable error authority
- Statutory requirement to issue tax refunds within 45 days of the filing deadline without paying interest

recession and rising food and energy prices.<sup>1</sup> Since then, the EITC has undergone numerous legislative changes, most notably by the *Revenue Act of 1978* (P.L. 95-600), which made the EITC a permanent refundable tax credit. Congress believed the EITC would be an effective way to provide financial assistance to working families, with or without children, who might otherwise rely on government subsidized welfare payments.

## American Opportunity Tax Credit

Education tax credits have generally been intended to provide federal financial assistance to students from middle-income families who may not benefit from other forms of traditional student aid.<sup>2</sup> Congress enacted the AOTC as part of the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) to replace the Hope Credit and to expand the education tax credit to lower- and upper-income students. The AOTC is a partially refundable tax credit that provides financial assistance to taxpayers (or their children) with qualified educational expenses who are pursuing a higher education. Like other education tax credits, the AOTC was enacted with the goal of making higher education more affordable.

## Child Tax Credit (CTC) and Additional Child Tax Credit

Congress enacted the CTC to help ease the financial burdens for families with children as part of the *Taxpayer Relief Act of 1997* (P.L. 105-34). If the CTC exceeds the tax liability, taxpayers may receive a portion of the credit as a refund, known as the ACTC. Various legislative changes over the past 20 years have made significant changes to the CTC, which have expanded it from a non-refundable credit generally available only to the middle- and upper-middle class, to a partially refundable credit that more low-income families are eligible to claim. The *Tax Cuts and Jobs Act of 2017* (P.L. 115-97) doubled the maximum CTC amount per qualifying child, increased the amount that taxpayers could claim as a refund, and extended eligibility to include more upper-middle class families. The One Big Beautiful Bill Act (P.L. 119-21) increased the maximum credit amount per qualifying child, effective in 2025, and adjusted it for inflation thereafter.

## Net Premium Tax Credit

The Premium Tax Credit, created under the *Affordable Care Act of 2010* (P.L. 111-148), was designed to make health insurance more affordable for individuals and families with lower incomes and helps cover the premiums for their health insurance purchased through the Health Insurance Marketplace. This program is operationally divided between the Department of Health and Human Services (HHS) and Treasury. The HHS, through the Centers for Medicare & Medicaid Services (CMS), administers advance payments to insurance providers on behalf of applicants/taxpayers through the federally facilitated exchange. These payments are referred to as advance payments of the Premium Tax Credit or “advance PTC”. Treasury and the IRS administer the federal income tax return process where a tax credit (a repayment or zero repayment are other possibilities) is based on reconciliation of advance PTC amounts with final allowable Premium Tax Credits determined in tax filing. Payment of this credit is referred to as “net PTC”.

<sup>1</sup> Congressional Research Report, *The Earned Income Tax Credit (EITC): A Brief Legislative History*, March 20, 2018.

<sup>2</sup> Congressional Research Report, *The American Opportunity Tax Credit: Overview, Analysis, and Policy Options*, Updated June 4, 2018.

## REDUCING RTC ERRORS

Compliance with the improper payment legislation and OMB reporting guidance requires reducing each program's improper payment rate to ten percent or less. Currently, the IRS must deploy a variety of costly enforcement tools, including audits, to verify the information on the tax return prior to paying tax refunds or collecting any tax due. The IRS allocation of enforcement resources needs to be carefully considered in compliance with PIIA. To meet OMB's metric of reducing the improper payment rate to ten percent or less for FY 2025, RTC programs would need to reduce erroneous payments by \$17.5 billion, based on FY 2025 estimates. Table 1 below, which shows the total RTC claims, estimated improper payments, and estimated improper payment rates for the EITC, ACTC, AOTC, and net PTC, illustrates the reductions needed to meet the 10 percent metric.

**TABLE 1:**

| RTC Claims and Improper Payments, TY 2023 <sup>(1)</sup><br>(dollars in billions) |                |                   |                                           | Reduction of Improper Payments to 10% of claims value |                            |
|-----------------------------------------------------------------------------------|----------------|-------------------|-------------------------------------------|-------------------------------------------------------|----------------------------|
| Program                                                                           | Claims         | Improper Payments | Improper Payment Rates <sup>(2) (4)</sup> | 10% of claims value                                   | Reduction needed for ≤ 10% |
| EITC                                                                              | \$64.7         | \$21.1            | 32.7%                                     | 6.5                                                   | \$14.6                     |
| ACTC                                                                              | 33.4           | 4.5               | 13.6%                                     | 3.3                                                   | 1.2                        |
| AOTC                                                                              | 5.0            | 1.5               | 30.7%                                     | 0.5                                                   | 1.0                        |
| net PTC <sup>(3)</sup>                                                            | 2.6            | 0.8               | 31.6%                                     | 0.3                                                   | 0.5                        |
| <b>Total <sup>(5)</sup></b>                                                       | <b>\$105.7</b> | <b>\$28.1</b>     | <b>26.5%</b>                              | <b>\$10.6</b>                                         | <b>\$17.3</b>              |

(1) In FY 2025, we are reporting on claims and improper payments associated with tax year 2023 tax returns filed in 2024 and 2025.

(2) Total improper payments ÷ Total RTC claims (\$28.1 ÷ \$105.7).

(3) Includes amounts for federal and state exchanges.

(4) Percentages may not calculate due to rounding.

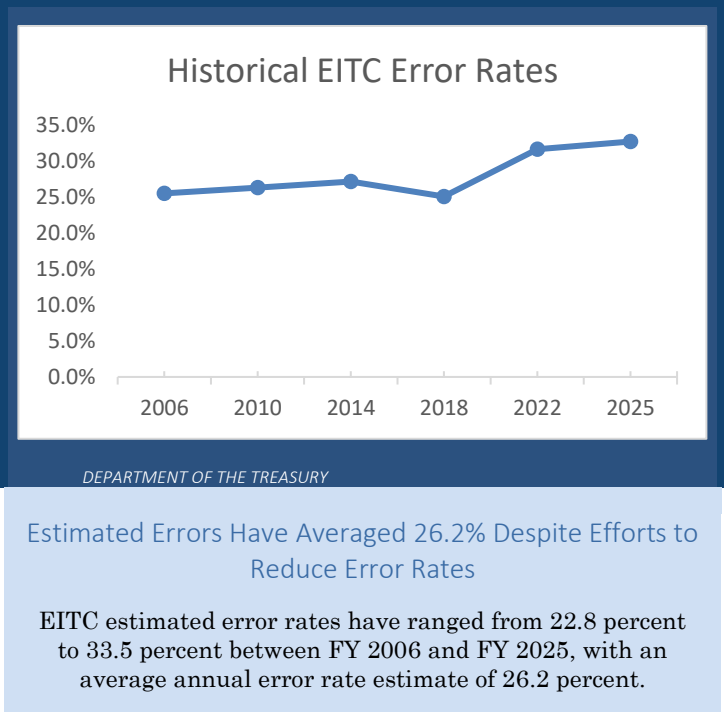
(5) Total amounts may not calculate due to rounding.

The estimated improper payment rates for the RTCs for FY 2025 were not statistically different from the estimated rates reported for FY 2024. The sample precision margins at 95 percent confidence, for FY 2025 estimated rates are +/- 3.92 percent for EITC, +/- 2.89 percent for ACTC, +/- 2.69 percent for AOTC, and +/- 4.06 percent for net PTC. A two-sample test with 95% confidence determined that the differences in the FY 2025 EITC, ACTC, AOTC, and net PTC estimated improper payment rates, and the respective FY 2024 improper payment rates, are not statistically significantly different from zero. Accordingly, based on these samples, there is not significant evidence that the true population improper payment rates for EITC, ACTC, AOTC, or net PTC have changed.

As PTC has been determined to be susceptible to significant improper payments, the IRS and Treasury collaborated with HHS to develop a joint methodology for reporting improper payment information for advance PTC (reported by HHS) and net PTC (reported by Treasury).

Treasury reports net PTC for both the federal and state exchanges in Table 1 above. HHS reports advance PTC in its improper payment table within its AFR. Both agencies disclose a combined advance and net PTC rate in their AFRs. To satisfy reporting to OMB and PaymentAccuracy.gov requirements, the HHS reports disbursements/outlays, estimated error rates, and other data for advance PTC. The IRS similarly reports estimated overclaims and error rates for net PTC. The combined advance and net PTC rates are for informational purposes only and will not be included in either agency’s overall improper payment rate as reported on PaymentAccuracy.gov. For TY 2023, the HHS reported advance PTC outlays of \$73.8 billion and improper payments of \$657.5 million. For TY 2023, IRS reported net PTC claims of \$1.5 billion and estimated improper payments of \$470 million. The combined advance PTC and net PTC improper payment estimate is \$75.3 million out of \$1.1 billion total Premium Tax Credit outlays/claims, or a combined improper payment rate of 1.5 percent.<sup>3</sup>

The error rate for EITC has averaged 26.2 percent from FY 2006 to FY 2025 despite the ongoing base enforcement and EITC compliance strategies. The current improper payment statutory framework does not consider recoveries of improper payments as reductions to the error rate. Therefore, remediation efforts would need to be preventive in nature, which create challenges given the tax framework and the need to process returns timely or incur interest payment obligations. Accordingly, all enforcement activity would need to be in the pre-refund environment to be considered as a reduction of errors. The control activities specific to reducing the improper payment rate to less than ten percent are the same as those being deployed to reduce the RTC portion of the tax gap: additional audits, system build-outs or enhancements (upgrades), increased outreach, additional or enhanced third-party databases to verify taxpayer data, and others. The IRS would have to increase these control activities significantly in an entirely pre-refund environment to reduce the erroneous RTC payments, which would come with highly diminishing returns. Refer to Table 2 for other tax administration strategies.



The FY 2025 estimates are projected using multiple years of historical sample data from the National Research Program (NRP) Individual Income Tax reporting compliance studies. In response to smaller NRP sample sizes and the expected impact on the precision of the estimates, the IRS used statistical models to estimate the improper payment rate for each refundable credit (ACTC, AOTC, EITC, and the Net PTC) beginning in FY 2025. Using statistical models to improve the precision of estimates with limited samples is a common practice by U.S. statistical agencies, and the IRS uses models to estimate portions of the tax gap. The statistical models are unique to each credit and are trained on NRP data from 2010 (2014 for Net PTC) to 2020 and then applied to the TY 2023 universe of returns.

RTC IMPROPER PAYMENT REDUCTION STRATEGIES

Much of the information necessary to validate the accuracy of RTC claims before issuing a tax refund is not comprehensively available in any U.S. government database. As a result, the IRS historically allocated enforcement resources to audit returns that claim one or more RTCs. Over-reliance on pre-refund audits to resolve basic errors results in interest costs to the U.S. government by delaying the issuance of refunds to taxpayers. In response to these challenges, the IRS is realigning

<sup>3</sup> The combined APTC and net PTC improper payment amounts in this paragraph reflect payment amounts for taxpayers using the federal exchange only.

resources internally to accelerate progress toward its strategic priorities. The IRS seeks to inform preparers about the availability of the credits and about the eligibility requirements that taxpayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community. Table 2 highlights the IRS's RTC improper payment reduction strategies.

**TABLE 2:**

| RTC Improper Payment Reduction Strategies        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Nationwide Tax Forum</b>                      | The IRS hosts annual tax forums that offer tax professionals the opportunities to learn the latest news and gain valuable insight on the tax industry from the IRS leadership and experts. In FY 2025, preparers attended presentations entitled, <i>Stand Out As a Trusted Tax Professional!</i> , <i>A Guide to Prepare Accurate Refundable Tax Credit Returns for Your Clients!</i> , and <i>Law and Audit: The Due Diligence Process</i> , to increase their understanding of the eligibility rules for the refundable tax credits and their due diligence requirements. |
| <b>Interactive Due Diligence Training Module</b> | The IRS updated the training module on IRS.gov. These modules cover the technical aspects of tax preparer's due diligence requirements. In FY 2025, more than 23,751 preparers received a certificate of completion.                                                                                                                                                                                                                                                                                                                                                         |
| <b>Tax Preparer Toolkit</b>                      | The IRS updated the Tax Preparer Toolkit on IRS.gov, which educates and assists tax return preparers with returns claiming the EITC, ACTC, AOTC, and net PTC as well as other credits and tax benefits.                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Software Developers Working Group</b>         | The IRS holds meetings with members of tax preparation companies and software industry representatives to identify software enhancements that can help reduce refundable credit errors and to assist paid preparers in meeting their due diligence requirements.                                                                                                                                                                                                                                                                                                             |
| <b>Filing Season Readiness Webinars</b>          | The IRS conducts educational webinars and relays messages to educate and provide legislative information to tax professionals. In FY 2025, nearly 12,000 preparers attended the virtual webinar on refundable tax credit eligibility and due diligence requirements entitled, <i>The ABCs of Due Diligence and Steering Clear of Mistakes – A Review of Refundable Credit Eligibility Rules</i> .                                                                                                                                                                            |
| <b>Tax Preparer Alerts</b>                       | IRS updates alerts on IRS.gov to provide return preparers with current news and information on key refundable credit and return filing topics.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Refundable Credits Summit</b>                 | In FY 2025, the IRS held its annual summit attended by more than 40 participants from 29 external organizations and agencies. The objectives of the 2025 Summit were to share information on current IRS compliance and outreach activities and to solicit input on ways to increase participation, improve administration and reduce overclaims with respect to refundable credits.                                                                                                                                                                                         |
| <b>Dependent Database (DDb) Meeting</b>          | In FY 2025, IRS held its annual Dependent Database (DDb) meeting with all stakeholders that have a vested interest in refundable tax credits. The meeting was held to evaluate the value of prior-year compliance filters and audit selection criteria and to discuss improvement opportunities to refundable tax credits for the next filing season.                                                                                                                                                                                                                        |

Further improving the payment integrity of the RTC programs will take actions beyond our control. Legislative changes over time have been proposed to provide the IRS with more effective tools for managing RTCs, including expanding penalties for paid preparers, increasing oversight of e-file participants, and clarifying the Secretary's authority to regulate preparer conduct. Recognizing that education is a critical tool in preventing errors, the IRS continues to invest in extensive outreach to taxpayer and tax professionals. As outlined in the chart above, these efforts include targeted communications, updates to

guidance, and expanded engagement with tax professionals to address common filing issues. These efforts, combined with systemic filter calibration, interagency data matching, and targeted taxpayer education, reflect a combination of approaches to mitigate improper payment risks inherent in RTC administration.

## Pandemic Relief Programs and Incentives

Certain COVID-19 pandemic relief programs were determined to be susceptible to significant improper payments. Because of their short-term nature, we did not report estimates of improper payments for these programs. However, Treasury continues to conduct risk assessments of these programs in accordance with OMB guidelines.

One of Treasury's COVID-19 pandemic relief programs, the Emergency Rental Assistance Program (ERA), is susceptible to significant improper payments. At Congress' direction, Treasury created and implemented this program under extraordinary emergency conditions and on an expedited timeframe. Treasury is actively identifying and attempting to recover those payments deemed to be improper under this program.

In addition, two IRS COVID-19 pandemic relief incentives involving, U.S. Coronavirus Payments<sup>1</sup>, and U.S. Coronavirus Refundable Credits<sup>2</sup>, are susceptible to significant improper payments. The IRS is focusing on combating a growing wave of fraudulent tax schemes fueled by misleading social media posts and bad actors posing as tax experts. Many of these schemes encourage taxpayers to improperly claim credits for which they are not eligible, such as the Sick and Family Leave Credit, which applies to certain businesses and self-employed individuals.

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<sup>1</sup> U.S. Coronavirus Payments include the economic impact payments and the recovery rebate credit.

<sup>2</sup> U.S. Coronavirus Refundable Credits include the paid sick and family leave credit and the employee retention credit.

## SECTION E: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* (2015 Act) amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (Inflation Adjustment Act), to improve the effectiveness of civil monetary penalties (CMPs) and to maintain their deterrent effect. The 2015 Act requires agencies to annually adjust the level of CMPs for inflation and report on these adjustments in AFRs. Agencies are required to follow annual OMB guidance to make inflation adjustments and publish the latest penalty levels in the Federal Register no later than January 15 each year. The Inflation Adjustment Act and the 2015 Act exclude penalties under the IRC and the *Tariff Act of 1930*.

Information about the latest inflation adjustments to the CMPs within our jurisdiction can be found at the following locations:

Alcohol and Tobacco Tax and Trade Bureau: 90 FR 4634

<https://www.federalregister.gov/documents/2025/01/16/2025-00912/civil-monetary-penalty-inflation-adjustment-alcoholic-beverage-labeling-act>

Financial Crimes Enforcement Network: 90 FR 5629

<https://www.federalregister.gov/documents/2025/01/17/2025-01374/financial-crimes-enforcement-network-inflation-adjustment-of-civil-monetary-penalties>

Office of Investment Security: 90 FR 8429

<https://www.federalregister.gov/documents/2025/01/29/2025-01633/notice-on-penalty-inflation-adjustments-for-civil-monetary-penalties-for-violations-of-provisions>

Office of Foreign Assets Control: 90 FR 3687

<https://www.federalregister.gov/documents/2025/01/15/2025-00786/inflation-adjustment-of-civil-monetary-penalties>

Office of the Comptroller of the Currency: 90 FR 1848

<https://www.federalregister.gov/documents/2025/01/10/2025-00374/notification-of-inflation-adjustments-for-civil-money-penalties>

Terrorism Risk Insurance Program and Treasury-wide: 90 FR 25483

<https://www.federalregister.gov/documents/2025/06/17/2025-10963/inflation-adjustment-of-civil-monetary-penalties>

## SECTION F: GRANTS PROGRAMS

The summary table below shows the total number and balances of federal grants and cooperative agreements that we awarded for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

| CATEGORY                                                          | 2-3 Years           | 4-5 Years   | More than 5 Years |
|-------------------------------------------------------------------|---------------------|-------------|-------------------|
| Number of Grants/Cooperative Agreements with Zero Dollar Balances | 231                 | 1           | -                 |
| Number of Grants/Cooperative Agreements with Undisbursed Balances | 65                  | -           | -                 |
| <b>Total Amount of Undisbursed Balances</b>                       | <b>\$ 1,346,554</b> | <b>\$ -</b> | <b>\$ -</b>       |

The undisbursed balances decreased significantly from last year, primarily due to the closeout of the remaining grants awarded by the Emergency Rental Assistance program created under the CAA (ERA1). Additionally, the IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see a decrease in the number of expired grant and cooperative agreements with a period of performance over two years from 500 in FY 2024 to 290 in FY 2025. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System, which continues to be a challenge to the closeout of awards. Other factors include competing priorities, employee turnover, and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2026.

## APPENDIX: GLOSSARY OF ACRONYMS

| Abbreviation                     | Description                                                               |
|----------------------------------|---------------------------------------------------------------------------|
| <b>2015 Act</b>                  | Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 |
| <b>ACTC</b>                      | Additional Child Tax Credit                                               |
| <b>AFR</b>                       | Agency Financial Report                                                   |
| <b>AGI</b>                       | Adjusted Gross Income                                                     |
| <b>AI</b>                        | Artificial Intelligence                                                   |
| <b>AML/CFT</b>                   | Anti-Money Laundering and Countering the Financing of Terrorism           |
| <b>AO</b>                        | Authorizing Official                                                      |
| <b>AOTC</b>                      | American Opportunity Tax Credit                                           |
| <b>APR</b>                       | Annual Performance Report                                                 |
| <b>ARC</b>                       | Administrative Resource Center                                            |
| <b>ARP</b>                       | American Rescue Plan Act of 2021                                          |
| <b>ARRA</b>                      | American Recovery and Reinvestment Tax Act of 2009                        |
| <b>ASM</b>                       | Assistant Secretary for Management                                        |
| <b>BCRA</b>                      | Banco Central de la República Argentina                                   |
| <b>BEP</b>                       | Bureau of Engraving and Printing                                          |
| <b>BFS</b>                       | Bureau of the Fiscal Service                                              |
| <b>BGP</b>                       | Bond Guarantee Program                                                    |
| <b>BSA</b>                       | Bank Secrecy Act                                                          |
| <b>CAA</b>                       | Consolidated Appropriations Act, 2021                                     |
| <b>CARES Act</b>                 | Coronavirus Aid, Relief, and Economic Security Act                        |
| <b>CDFI</b>                      | Community Development Financial Institutions                              |
| <b>CEG</b>                       | Cyber Experts Group                                                       |
| <b>CIFS</b>                      | Critical Individual Filing Season                                         |
| <b>CFIUS</b>                     | Committee on Foreign Investment in the United States                      |
| <b>CFO</b>                       | Chief Financial Officer                                                   |
| <b>CIFS</b>                      | Critical Individual Filing Season                                         |
| <b>CISA</b>                      | Cybersecurity and Infrastructure Security Agency                          |
| <b>Civil Service Fund</b>        | Civil Service Retirement and Disability Trust Fund                        |
| <b>CMP</b>                       | Civil Monetary Penalties                                                  |
| <b>CMS</b>                       | Centers for Medicare & Medicaid Services                                  |
| <b>Compliance Framework</b>      | FFMIA Compliance Determination Framework                                  |
| <b>COVID-19</b>                  | Coronavirus Disease 2019                                                  |
| <b>CPI</b>                       | Consumer Price Index                                                      |
| <b>CRO</b>                       | Chief Risk Officer                                                        |
| <b>CSBS</b>                      | Conference of State Bank Supervisors                                      |
| <b>CSR</b>                       | Customer Service Representative                                           |
| <b>CSRS</b>                      | Civil Service Retirement System                                           |
| <b>CTC</b>                       | Child Tax Credit                                                          |
| <b>D.C.</b>                      | District of Columbia                                                      |
| <b>D.C. Federal Pension Fund</b> | D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund  |

| Abbreviation                          | Description                                          |
|---------------------------------------|------------------------------------------------------|
| <b>DDb</b>                            | Dependent Database                                   |
| <b>DMF</b>                            | Death Master File                                    |
| <b>DO</b>                             | Departmental Offices                                 |
| <b>DOL</b>                            | Department of Labor                                  |
| <b>Do Not Pay</b>                     | Do Not Pay Working System                            |
| <b>DRP</b>                            | Deferred Resignation Program                         |
| <b>EITC</b>                           | Earned Income Tax Credit                             |
| <b>EO</b>                             | Executive Order                                      |
| <b>ERA</b>                            | Emergency Rental Assistance                          |
| <b>ERM</b>                            | Enterprise Risk Management                           |
| <b>ESA</b>                            | Exchange Stabilization Agreement                     |
| <b>ESAPR</b>                          | Enterprise Self-Assistance Participation Rate        |
| <b>ESF</b>                            | Exchange Stabilization Fund                          |
| <b>Fannie Mae</b>                     | Federal National Mortgage Association                |
| <b>FARS</b>                           | Financial Analysis and Reporting System              |
| <b>FASAB</b>                          | Federal Accounting Standards Advisory Board          |
| <b>FATF</b>                           | Financial Action Task Force                          |
| <b>FCDA</b>                           | Foreign Currency Denominated Assets                  |
| <b>FCRA</b>                           | Federal Credit Reform Act                            |
| <b>FDC</b>                            | Funds from Dedicated Collections                     |
| <b>FECA</b>                           | Federal Employees' Compensation Act                  |
| <b>Federal Reserve Act</b>            | Federal Reserve Act of 1913                          |
| <b>Federal Reserve Board or Board</b> | Federal Reserve Board of Governors                   |
| <b>FEGLI</b>                          | Federal Employees Group Life Insurance               |
| <b>FEHBP</b>                          | Federal Employees Health Benefits Program            |
| <b>FERS</b>                           | Federal Employees' Retirement System                 |
| <b>FFB</b>                            | Federal Financing Bank                               |
| <b>FFMIA</b>                          | Federal Financial Management Improvement Act of 1996 |
| <b>FHFA</b>                           | Federal Housing Finance Agency                       |
| <b>Financial Report</b>               | Financial Report of the U.S. Government              |
| <b>FinCEN</b>                         | Financial Crimes Enforcement Network                 |
| <b>FISMA</b>                          | Federal Information Security Modernization Act       |
| <b>FMFIA</b>                          | Federal Managers' Financial Integrity Act            |
| <b>FOMC</b>                           | Federal Open Market Committee                        |
| <b>FR System</b>                      | Federal Reserve System                               |
| <b>FRB</b>                            | Federal Reserve Bank                                 |
| <b>FRBB</b>                           | Federal Reserve Bank of Boston                       |
| <b>FRBNY</b>                          | Federal Reserve Bank of New York                     |
| <b>Freddie Mac</b>                    | Federal Home Loan Mortgage Corporation               |
| <b>FRN</b>                            | Floating Rate Note                                   |
| <b>FSOC</b>                           | Financial Stability Oversight Council                |
| <b>FTO</b>                            | Fine Troy Ounce                                      |

| Abbreviation                    | Description                                                           |
|---------------------------------|-----------------------------------------------------------------------|
| <b>FY</b>                       | Fiscal Year                                                           |
| <b>G Fund</b>                   | Government Securities Investment Fund                                 |
| <b>G7</b>                       | Group of Seven                                                        |
| <b>G20</b>                      | Group of 20                                                           |
| <b>GAAP</b>                     | Generally Accepted Accounting Principles                              |
| <b>GAO</b>                      | U.S. Government Accountability Office                                 |
| <b>General Fund</b>             | General Fund of the U.S. Government                                   |
| <b>GENIUS Act</b>               | Guiding and Establishing National Innovation for U.S. Stablecoins Act |
| <b>GPRA</b>                     | Government Performance and Results Act                                |
| <b>GSA</b>                      | General Services Administration                                       |
| <b>GSE</b>                      | Government Sponsored Enterprise                                       |
| <b>HAF</b>                      | Homeowner Assistance Fund                                             |
| <b>HERA</b>                     | Housing and Economic Recovery Act of 2008                             |
| <b>HFA</b>                      | Housing Finance Agency                                                |
| <b>HHS</b>                      | Department of Health and Human Services                               |
| <b>IAP</b>                      | International Assistance Programs                                     |
| <b>IMF</b>                      | International Monetary Fund                                           |
| <b>Inflation Adjustment Act</b> | Federal Civil Penalties Inflation Adjustment Act of 1990              |
| <b>IRA</b>                      | Inflation Reduction Act                                               |
| <b>IRC</b>                      | Internal Revenue Code                                                 |
| <b>IRS</b>                      | Internal Revenue Service                                              |
| <b>Judicial Retirement Fund</b> | District of Columbia Judicial Retirement and Survivors Annuity Fund   |
| <b>KRI</b>                      | Key Risk Indicator                                                    |
| <b>LBMA</b>                     | London Bullion Market Association                                     |
| <b>LLC</b>                      | Limited Liability Company                                             |
| <b>LLM</b>                      | Large Language Model                                                  |
| <b>LOS</b>                      | Level of Service                                                      |
| <b>MDB</b>                      | Multilateral Development Bank                                         |
| <b>MDI</b>                      | Minority Deposit Institution                                          |
| <b>MSF</b>                      | MS Facilities 2020 LLC                                                |
| <b>NAB</b>                      | New Arrangements to Borrow                                            |
| <b>NAFA</b>                     | North American Framework Agreement                                    |
| <b>NIBP</b>                     | New Issue Bond Program                                                |
| <b>NIST</b>                     | National Institute of Standards and Technology                        |
| <b>NRP</b>                      | National Research Program                                             |
| <b>NTDO</b>                     | Non-Treasury Disbursing Office                                        |
| <b>OBBS</b>                     | One Big Beautiful Bill                                                |
| <b>OCA</b>                      | Office of Capital Access                                              |
| <b>OCC</b>                      | Office of the Comptroller of the Currency                             |
| <b>OCCIP</b>                    | Office of Cybersecurity and Critical Infrastructure Protection        |
| <b>OCIO</b>                     | Office of the Chief Information Officer                               |
| <b>ODCP</b>                     | Office of D.C. Pensions                                               |

| Abbreviation                | Description                                                         |
|-----------------------------|---------------------------------------------------------------------|
| <b>OFR</b>                  | Office of Financial Research                                        |
| <b>OIA</b>                  | Office of Intelligence and Analysis                                 |
| <b>OIG</b>                  | Office of the Inspector General                                     |
| <b>OMB</b>                  | Office of Management and Budget                                     |
| <b>OPEB</b>                 | Other Post-Employment Benefits                                      |
| <b>OPM</b>                  | Office of Personnel Management                                      |
| <b>OPM Funds</b>            | Civil Service Fund and Postal Benefits Fund                         |
| <b>ORB</b>                  | Other Retirement Benefits                                           |
| <b>OSPPI</b>                | Office of Strategy, Planning, and Performance Improvement           |
| <b>OTC</b>                  | Over-the-Counter                                                    |
| <b>Outbound</b>             | Outbound Investment Security Program                                |
| <b>P.L.</b>                 | Public Law                                                          |
| <b>PEP</b>                  | Platform Evolution Program                                          |
| <b>PILA</b>                 | Payment Integrity Information Act of 2019                           |
| <b>PIK</b>                  | Payment-in-Kind                                                     |
| <b>PIO</b>                  | Performance Improvement Officer                                     |
| <b>Postal Benefits Fund</b> | Postal Service Retiree Health Benefits Fund                         |
| <b>PP&amp;E</b>             | Property, Plant, and Equipment                                      |
| <b>PRGT</b>                 | Poverty Reduction and Growth Trust                                  |
| <b>PROTECTS</b>             | Providing Treasury Enterprise Cybersecurity Technology and Services |
| <b>PSP</b>                  | Payroll Support Program                                             |
| <b>PTC</b>                  | Premium Tax Credit                                                  |
| <b>PTIN</b>                 | Preparer Tax Identification Number                                  |
| <b>PWC</b>                  | President's Working Group on Digital Asset Markets                  |
| <b>RTC</b>                  | Refundable Tax Credits                                              |
| <b>SBLF</b>                 | Small Business Lending Fund                                         |
| <b>SBR</b>                  | Statement of Budgetary Resources                                    |
| <b>SDC</b>                  | Senior Deputy Comptroller                                           |
| <b>SDR</b>                  | Special Drawing Rights                                              |
| <b>Secretary</b>            | Secretary of the Treasury                                           |
| <b>SFFAS</b>                | Statement of Federal Financial Accounting Standards                 |
| <b>Single Audit</b>         | Single Audit Act                                                    |
| <b>SLFRF</b>                | Coronavirus State and Local Fiscal Recovery Funds                   |
| <b>SLGS</b>                 | State and Local Government Series                                   |
| <b>SOAR</b>                 | Strategic Objective Annual Review                                   |
| <b>SOC</b>                  | Security Operations Center                                          |
| <b>SOMA</b>                 | System Open Market Account                                          |
| <b>SPSPA</b>                | Senior Preferred Stock Purchase Agreements                          |
| <b>SPV</b>                  | Special Purpose Vehicle                                             |
| <b>TAC</b>                  | Taxpayer Assistance Centers                                         |
| <b>TAS</b>                  | Treasury Account Symbol                                             |
| <b>TCSC</b>                 | Treasury Common Services Center                                     |

| Abbreviation     | Description                                       |
|------------------|---------------------------------------------------|
| <b>TEOAF</b>     | Treasury Executive Office of Asset Forfeiture     |
| <b>TFI</b>       | Office of Terrorism and Financial Intelligence    |
| <b>TFS</b>       | TIER Financial Statements                         |
| <b>TGA</b>       | Treasury General Account                          |
| <b>TIER</b>      | Treasury Information Executive Repository         |
| <b>TIGTA</b>     | Treasury Inspector General for Tax Administration |
| <b>TIPS</b>      | Treasury Inflation-Protected Securities           |
| <b>TRIA</b>      | Terrorism Risk Insurance Act                      |
| <b>TRIP</b>      | Terrorism Risk Insurance Program                  |
| <b>TSOC</b>      | Treasury Security Operations Center               |
| <b>TSP</b>       | Thrift Savings Plan                               |
| <b>TTB</b>       | Alcohol and Tobacco Tax and Trade Bureau          |
| <b>TY</b>        | Tax Year                                          |
| <b>U.S.</b>      | United States                                     |
| <b>U.S. Mint</b> | United States Mint                                |
| <b>USC</b>       | United States Code                                |
| <b>USDA</b>      | United States Department of Agriculture           |
| <b>USPS</b>      | United States Postal Service                      |
| <b>USSGL</b>     | United States Standard General Ledger             |
| <b>XBRL</b>      | eXtensible Business Reporting Language            |

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