Future challenges will not deter the OCC from maintaining a strong internal control environment, or from pursuing a fiscally sound approach in operating the agency.

Section Six

Financial Management Discussion and Analysis

Letter From the Chief Financial Officer

I am pleased to present the OCC's financial statements as an integral part of the *Fiscal Year 2011 Annual Report*. For FY 2011, our independent auditors have again rendered an unqualified opinion with no material internal control weaknesses.

The financial statements include the assets and liabilities transferred to the OCC from the OTS on July 21, 2011, as required by Dodd–Frank, and they are presented in accordance with generally accepted accounting principles (GAAP) for U.S. federal agencies.

The foundation for an unqualified audit opinion begins with a strong internal control environment. For the past six years, the OCC has diligently applied the concepts and requirements embodied in the OMB's Circular A-123, "Management's Responsibility for Internal Control, Appendix A—Internal Control Over Financial Reporting." Once again, the OCC provided unqualified assurance that its internal control over financial reporting operated effectively and that no material weaknesses were found in the design or operation of those internal controls.

Annually, the Financial Management Department conducts a detailed risk assessment of the financial statements and applies rigorous tests of controls. This year's risk assessment includes the impact of assuming the bulk of the OTS's assets and liabilities. We performed a detailed analysis of the OTS balance sheet, and the results guided the proper classification of OTS accounts into the OCC's financial records.

While the impact of assuming the functions formerly performed by the OTS has been discussed throughout the *Annual Report,* I would like to take a few moments to review the financial impact of these changes. The OCC, which remains a nonappropriated agency after the passage of Dodd–Frank, continues to receive its main source of funding through assessments on national banks and, with the integration of the OTS, federal savings associations. These assessments are used to fund the OCC's operating costs, which include personnel, travel, and training. These three items alone represent 73 percent of the total annual operating budget.

Unused budgetary funds are placed into the OCC's financial reserves and are essential to the prudent financial management of the agency. These reserves allow

Thomas R. Bloom, Chief Financial Officer

the OCC to plan for structural changes to the national banking system, replace capital assets, and fund unanticipated, one-time needs—such as the impact of Dodd–Frank—without continuous changes to the bank assessment rate structure.

After careful analysis, the Financial Management Department determined that in FY 2012 the combined assessments from national banks and federal savings associations will be adequate to fund normal operations. Our analysis also shows that, overall, federal savings associations will pay less using the current OCC assessment structure. Although some federal savings associations will pay higher fees under the OCC assessment schedule, others will pay less. If all federal savings associations had been on the OCC assessment schedule in FY 2010, the federal savings association industry overall would have paid an estimated $18 million less in annual assessments.

This year, the OCC entered into a lease agreement for a new office building in Washington, D.C., to serve as the OCC's headquarters. The agreement enables the OCC to consolidate several office locations in Washington, provide the needed space to house former OTS staff, and realize the operating efficiencies afforded by such a move. In FY 2012, the OCC budget will include funding for leasehold improvements related to this new office space. It is anticipated that funds from the financial reserves will be used for this purpose.

In conjunction with the transfer of OTS assets and liabilities, the OCC assumed ownership of the OTS's former headquarters office building. While that property was not large enough to house the OCC headquarters, it is appropriate for the needs of the new CFPB. The OCC also assumed a significant pension liability, which it is required to fund according to the provisions of Dodd–Frank. A discussion of this liability can be found in Note 8 to the Financial Statements. The OCC expects to be able to fund this liability through current operations and, if required, through the use of the agency's financial reserves.

While the OTS consolidation was a momentous priority, other structural changes occurred during the year to improve the overall operating efficiency of the OCC's administrative functions. The Information Technology Services (ITS) division was re-aligned to the Office of Management (OM). To improve the effectiveness and efficiency of the technology function, the ITS division was restructured and is adopting process improvement programs, such as Lean Six Sigma (LSS), currently in place in OM.

OM's LSS program was established in FY 2005 primarily to improve the processes at the OCC. Over time, this program has produced substantial cost savings and improved benchmark performance in many areas. In FY 2011, the OCC completed 16 business process improvement projects, primarily with LSS, which resulted in $4.9 million of total cost savings. Since the inception of the program, 141 LSS projects have been completed with total cost savings or avoidance of $26.0 million. In addition, the OCC maintains a robust Black Belt and Green Belt training program. All OM executives have received formal training, and 46 staff members are certified as Master Black Belts, Black Belts, or Green Belts.

As we look forward to FY 2012 and beyond, the OCC will have the financial resources needed to accomplish its mission to supervise, charter, and regulate national banks and federal savings associations. While the coming year holds many challenges, it will not deter the OCC from maintaining a strong internal control environment, or from pursuing a fiscally sound approach in operating the agency.

Thomas R. Bloom
Chief Financial Officer

Financial Summary

The OCC received an unqualified opinion on its FY 2011 and FY 2010 financial statements. The OCC's financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents the financial statements and notes on a comparative basis, providing financial information for FY 2011 and FY 2010. The financial statements were prepared from the OCC's accounting records in conformity with GAAP. The financial statements include the assets and liabilities that were transferred to the OCC from the OTS on July 21, 2011, the transfer date, as required by Dodd–Frank. The financial statements, followed by notes and the auditor's opinion, begin on page 52.

The following sections of the report address the OCC's financial activities in FY 2011 and FY 2010.

Office of Thrift Supervision Transfer

On July 21, 2010, President Obama signed Dodd–Frank into law. The act includes the Enhancing Financial Institution Safety and Soundness Act of 2010, which transferred all of the OTS's assets and liabilities to the OCC on July 21, 2011, at book value as of the close of business on July 20, 2011. The transfer of the OTS balance sheet complies with GAAP.

The fluctuations caused by the transfer-in of assets and liabilities from the OTS are discussed in more detail below.

Assets totaling $321.0 million and liabilities totaling in excess of $50.1 million were transferred to the OCC's Balance Sheet. The majority of the transfer of net assets includes $284.6 million in the fund balance with Treasury (FBWT) and $24.7 million from the land and a building owned by the OTS. Actuarial liabilities of $24.7 million, including the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra DB Plan), formerly known as the Financial Institutions Retirement Fund, annual leave of $13.0 million, and $10.4 million in payroll-related liabilities, represent the majority of the transfer of liabilities.

Under the provisions of Dodd–Frank, in FY 2011 the OCC assumed the cost of the Pentegra DB Plan, a special retirement system in which some of the transferred OTS employees participate. The current fund target for this significant pension liability is $481.3 million, with plan assets of $406.5 million and an estimated minimum required contribution to the FY 2012 plan year of $36.1 million. The OCC expects to be able to fund the costs associated with this liability using assets transferred from the OTS. The remaining costs will be funded as required through current operations.

The figure below shows the full impact of the OTS transfer of assets and liabilities to the OCC.

OTS Transfer (in Millions)

		FY 2011
Fund balance with Treasury	$	284.6
Accounts receivable		9.6
Building and land		24.7
Equipment and leasehold improvements		2.1
Total assets (net)	**$**	**321.0**
Accrued liabilities		2.0
Accrued payroll and benefits		10.4
Accrued annual leave		13.0
Accrued postretirement benefits		24.7
Total liabilities	**$**	**50.1**
Net position		270.9
Total liabilities and net position	**$**	**321.0**

Source: OCC financial system data.

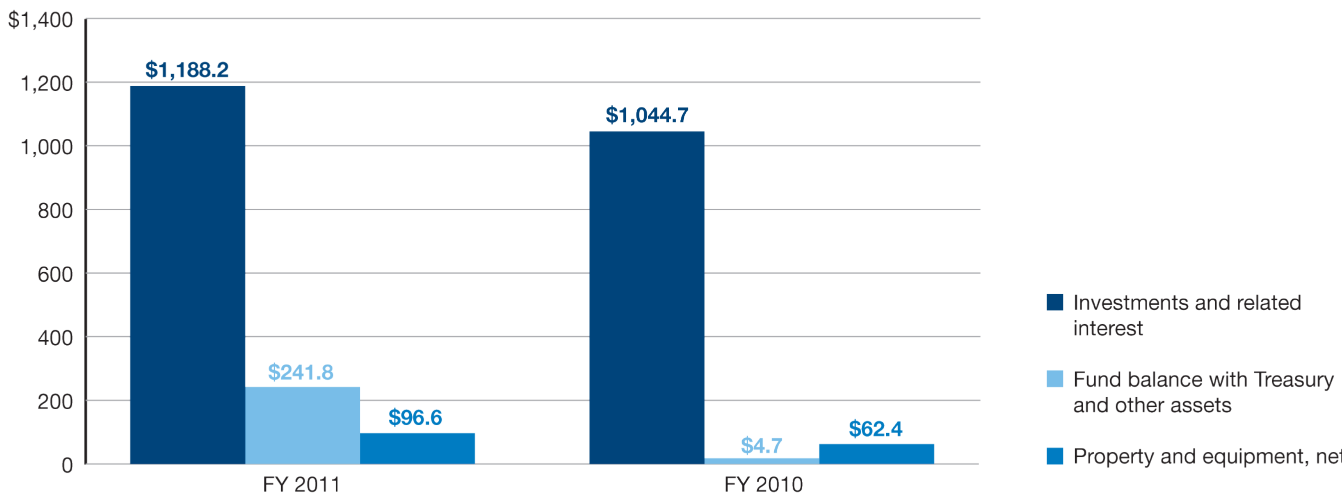
Assets

The OCC's assets include both "entity" and "non-entity" assets. The OCC uses entity assets, which belong to the agency, to fund operations. The OCC acquires revenue through the collection of assessments from national banks and federal savings associations and from other income, including interest on investments in U.S. Treasury securities. Non-entity assets are assets that the OCC holds on behalf of another federal agency. The OCC's non-entity assets presented as accounts receivable are civil money penalties due the federal government through court-enforced legal actions.

As of September 30, 2011, total assets were $1,526.6 million, an increase of $414.8 million, or 37.3 percent, from the level on September 30, 2010. The majority of this increase is attributable to the transfer of assets, including those from the liquidation of the OTS's long-term investments prior to the transfer date as reflected in the FBWT and other assets amount shown in the figure below. Also included were fixed assets, notably the land and a building owned by the OTS. The remaining increase is primarily attributable to the growth in the OCC's investment portfolio. Investments and related interest rose by $143.5 million, or 13.7 percent, due in part to the transfer of assets, which resulted in an increase in operating cash and, subsequently, the ability to invest additional funds in overnight securities.

Figure 8 shows the OCC's composition of assets for FY 2011 and FY 2010.

Figure 8: Composition of Assets (in Millions)



Source: OCC financial system data.

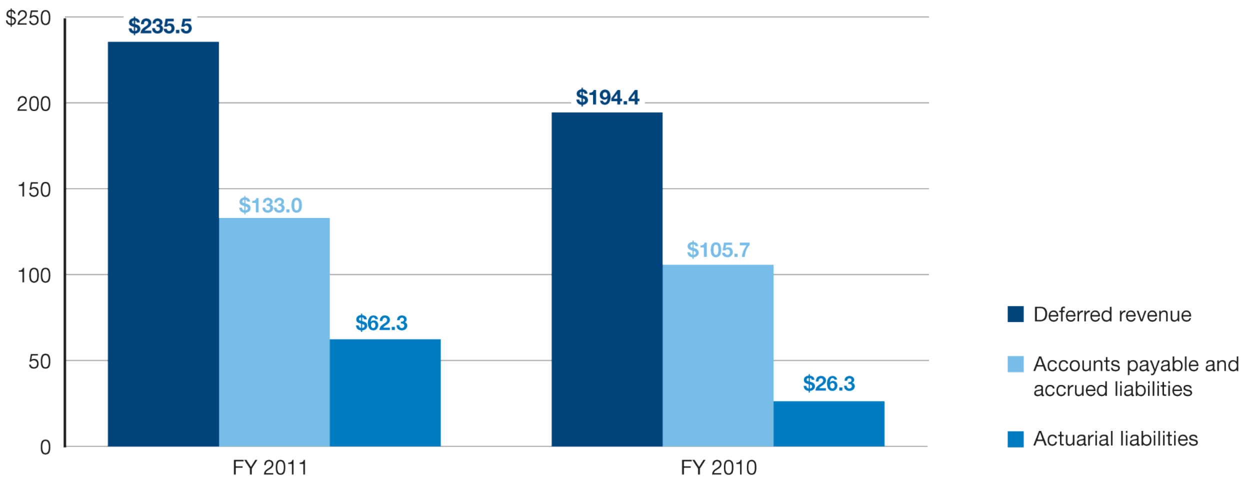
Liabilities

The OCC's liabilities represent the resources due to others or held for future recognition and are composed largely of deferred revenue, accrued liabilities, and accounts payable. Deferred revenue represents the unearned portion of semiannual assessments that have been collected but not earned.

As of September 30, 2011, total liabilities were $430.8 million, a net increase of $104.4 million, or 32.0 percent, over the level on September 30, 2010. The increase of $41.1 million, or 21.1 percent, in deferred revenue was a result of an increase in assessment collections during FY 2011, the majority of which is attributable to assessments collected from federal savings associations that the OCC now supervises. The majority of the increase of $27.3 million, or 25.8 percent, in accounts payable and accrued liabilities was caused by an increase in payroll and employee benefits, primarily a result of the transfer of 670 former OTS employees to the OCC on July 21, 2011.

Figure 9 illustrates the OCC's composition of liabilities for FY 2011 and FY 2010.

Figure 9: Composition of Liabilities (in Millions)



Source: OCC financial system data.

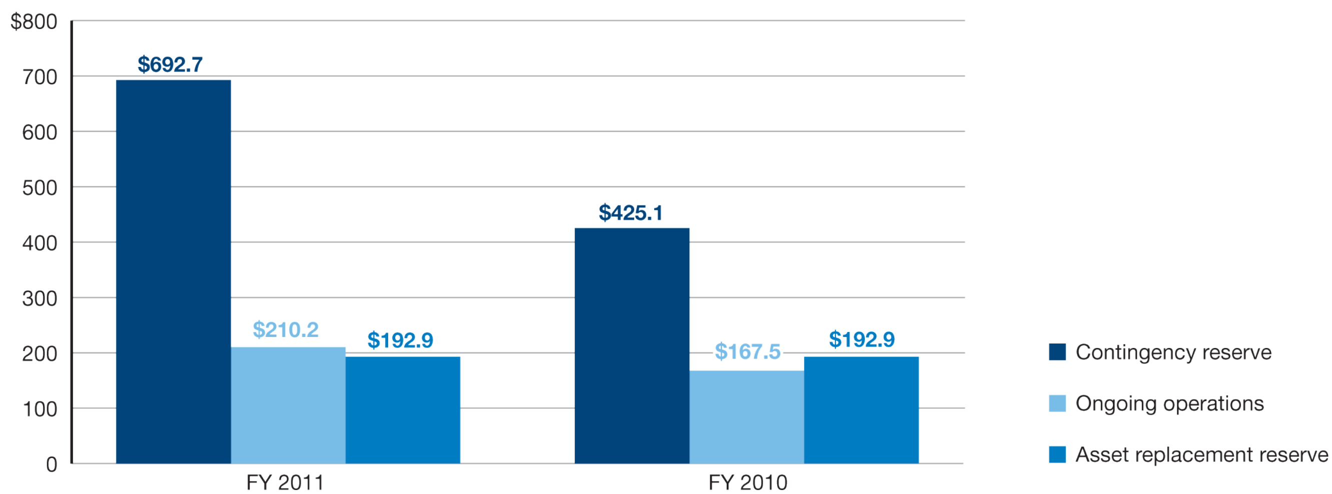
Net Position

The OCC's net position of $1,095.8 million as of September 30, 2011, and $785.5 million as of September 30, 2010, represent the cumulative net excess of the OCC's revenues over the cost of operations since inception and includes the transfer-in of $270.9 million from the OTS. The majority of the increase of $310.3 million, or 39.5 percent, is directly attributable to the transfer of the OTS net position. The net position is presented on both the Balance Sheets and the Statements of Changes in Net Position.

The OCC reserves a significant portion of the net position to supplement resources made available to fund the OCC's annual budget and to cover foreseeable but rare events or new requirements and opportunities. The OCC also sets aside funds for ongoing operations to cover undelivered orders, the consumption of assets, and capital investments.

Figure 10 shows the OCC's composition of net position for FY 2011 and FY 2010.

Figure 10: Composition of Net Position (in Millions)



Source: OCC financial system data.

Reserves

The establishment of financial reserves is integral to the effective stewardship of the OCC's resources, particularly because the agency does not receive congressional appropriations. The contingency reserve reduces the impact on the OCC's operations from revenue shortfalls, from unanticipated expenses resulting from foreseeable but rare events that are beyond the OCC's control, or from new requirements and opportunities. Examples of such events might include a major change in the national banking system, a fire or flood, or significant impairment to the OCC's information technology network that interferes with the OCC's ability to accomplish its mission.

These reserves also allow the OCC to fund special one-time needs, such as those that arose from the regulatory restructuring required by Dodd–Frank, and which could include the funding of the Pentegra DB Plan liability transferred from the OTS. In FY 2011, the transfer of the OTS's net position caused the significant increase in the contingency reserve. The asset replacement reserve is for the replacement of information technology investments, leasehold improvements, and furniture replacement for future years. During FY 2011, the OCC entered into a long-term lease for a new headquarters office building for which the leasehold improvements will be funded from the asset replacement reserve.

Revenues and Costs

The OCC's operations are funded primarily by assessments collected from national banks and federal savings associations and from interest received on investments in U.S. Treasury securities. The OCC, in accordance with 12 USC 482, establishes budget authority for a given fiscal year. The total budget authority available for use by the OCC in FY 2011 was $876.5 million, which represents an increase of $84.8 million, or 10.7 percent, over the $791.7 million budget in FY 2010 and includes $62.0 million in budget authority transferred from the OTS.

Total FY 2011 revenue of $843.2 million reflects a $56.5 million, or 7.2 percent, increase over FY 2010 revenues of $786.7 million. The increase is largely attributable to asset growth in the national banking system and the collection of assessments from the federal savings associations that the OCC began supervising in FY 2011. Total national bank assets under OCC supervision rose as of June 30, 2011, to $8.8 trillion, up 3.5 percent from $8.5 trillion a year earlier. Of this total, $7.7 trillion, or 87.5 percent, is attributable to large national banks. Midsize and community banks' share represents $915.1 billion, or 10.2 percent, followed by federal branches at $179.4 billion, or 2.3 percent. Although not yet consolidated with the OCC, the OTS had thrift assets totaling $908.3 billion as of June 30, 2011.

Figure 11 depicts the components of total revenue for FY 2011 and FY 2010.

Figure 11: Components of Total Revenue (in Millions)

	FY 2011	FY 2010	Change ($)	Change (%)
Assessments	$ 814.6	$ 764.4	$ 50.2	6.6%
Investments and other income[a]	28.6	22.3	6.3	28.3
Total revenue	$ 843.2	$ 786.7	$ 56.5	7.2%

Source: OCC financial system data.

[a] Other sources of revenue include reimbursable activities and other miscellaneous sources.

Investments

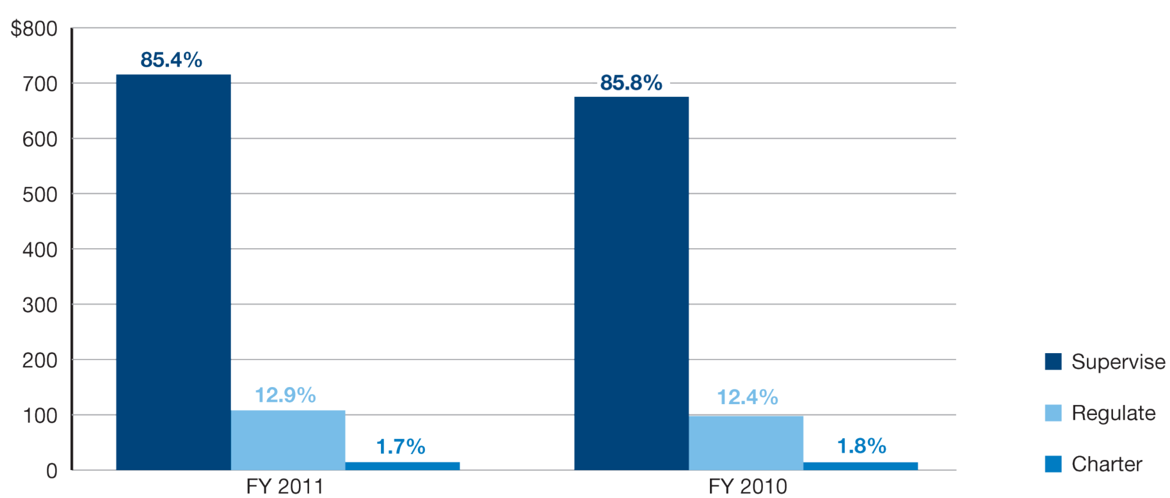
The book value of the OCC's investment portfolio on September 30, 2011, was $1,184.6 million, compared with $1,041.1 million a year earlier. The market value of the OCC's portfolio in excess of book value rose to $38.9 million from $37.9 million on September 30, 2010. The OCC invests available funds in non-marketable U.S. Treasury securities issued through the Treasury Department's Bureau of Public Debt in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC manages risk by diversifying its portfolio across maturities within established parameters. Diversifying maturities of the individual securities is meant to help manage the inherent risk of interest-rate fluctuations. The weighted average maturity of the OCC's investment portfolio as of September 30, 2011, and September 30, 2010, was 1.62 years and 1.87 years, respectively. The portfolio earned an annual yield for FY 2011 of 2.3 percent, compared with 2.6 percent in FY 2010. The OCC calculates annual portfolio yield by dividing the total interest earned during the year by the average ending monthly book value of investments.

Cost of Operations

The OCC's net cost of operations is reported on the Statements of Net Cost and the Statements of Changes in Net Position. The OCC uses an activity-based time reporting system to allocate costs among the agency's programs. Costs are further divided into those resulting from transactions between the OCC and other federal entities (intragovernmental) and those between the OCC and nonfederal entities (with the public). The Statements of Net Cost present the full cost of operating the OCC's three major programs—supervise, regulate, and charter national banks. FY 2011 data include the costs associated with operating these programs beginning July 21, 2011, for federal savings associations.

Figure 12 illustrates the breakdown of costs of operations by major program for FY 2011 and FY 2010.

Figure 12: Costs of Operations by Major Program (in Millions)



Source: OCC financial system data.

The full cost presented in the Statements of Net Cost includes costs contributed by the Office of Personnel Management (OPM) on behalf of the OCC to cover the cost of the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) retirement plans and the Federal Employees Health Benefits (FEHB) and Federal Employees' Group Life Insurance (FEGLI) plans, totaling $33.7 million in FY 2011 and $32.9 million in FY 2010. FY 2011 total program costs of $837.7 million reflect an increase of $51.1 million, or 6.5 percent, from $786.6 million in FY 2010. The increase was primarily due to an increase in the cost of pay and benefits, including those for former OTS employees who were transferred to the OCC. Additional contributing factors include increases to contractual services for systems maintenance, rent, and travel costs.

The full cost is reduced by earned revenues to arrive at net cost. Earned revenues increased by $56.5 million, or 7.2 percent, to $843.2 million in FY 2011, due to an increase in FY 2011 bank assessments that was slightly offset by minor decreases in other revenues. The increases in assessments are a direct result of bank asset growth in both the national banking system, particularly the largest banks, and the federal savings association industry. Correspondingly, the costs of supervising the national banks and federal savings associations have risen because of the increasing size and complexity of their assets.

Budgetary Resources

The Statements of Budgetary Resources, found on page 55, provide information about how budgetary resources were made available to the OCC for the year and present the status of these resources and the net outlay of budgetary resources at the end of the year. The OCC executed $819.5 million, or 93.5 percent, of the FY 2011 budget of $876.5 million.

Office of the Comptroller of the Currency
Balance Sheets

As of September 30, 2011 and 2010

(in Thousands)

	2011	2010
Assets		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 237,036	$ 3,981
Investments and related interest (Note 3)	1,188,159	1,044,678
Accounts receivable (Note 4)	3,931	0
Other assets	316	0
Total intragovernmental	**1,429,442**	**1,048,659**
Accounts receivable, net (Note 4)	542	661
Property and equipment, net (Note 5)	96,617	62,460
Other assets	24	49
Total assets	**$ 1,526,625**	**$ 1,111,829**
Liabilities		
Intragovernmental:		
Accounts payable and other accrued liabilities	$ 3,300	$ 2,489
Total intragovernmental	**3,300**	**2,489**
Accounts payable	8,056	9,772
Accrued payroll and benefits	43,811	32,463
Accrued annual leave	47,630	37,476
Other accrued liabilities	30,249	23,442
Deferred revenue	235,514	194,443
Other actuarial liabilities (Note 8)	62,272	26,290
Total liabilities	**430,832**	**326,375**
Net position (Note 9)	**1,095,793**	**785,454**
Total liabilities and net position	**$ 1,526,625**	**$ 1,111,829**

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

Office of the Comptroller of the Currency

Statements of Net Cost

For the Years Ended September 30, 2011 and 2010

(in Thousands)

		2011		2010
Program costs				
Supervise				
Intragovernmental	$	103,977	$	94,707
With the public		611,387		580,615
Subtotal—supervise	**$**	**715,364**	**$**	**675,322**
Regulate				
Intragovernmental	$	16,003	$	13,972
With the public		91,977		83,415
Subtotal—regulate	**$**	**107,980**	**$**	**97,387**
Charter				
Intragovernmental	$	2,212	$	2,063
With the public		12,148		11,796
Subtotal—charter	**$**	**14,360**	**$**	**13,859**
Total program costs	**$**	**837,704**	**$**	**786,568**
Less: earned revenues not attributed to programs		(843,203)		(786,717)
Net program costs before gain/loss from changes in assumptions	**$**	**(5,499)**	**$**	**(149)**
Actuarial (gain)/loss (Note 8)		(196)		1,903
Net cost of operations (Note 10)	**$**	**(5,695)**	**$**	**1,754**

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

Office of the Comptroller of the Currency
Statements of Changes in Net Position
For the Years Ended September 30, 2011 and 2010

(in Thousands)

	2011	2010
Beginning balances	$ 785,454	$ 754,318
Budgetary financing sources:		
Transfer-in without reimbursement (Note 13)	259,222	0
Other financing sources:		
Transfer-in without reimbursement (Note 13)	11,675	0
Imputed financing (Note 11)	33,747	32,890
Net cost of operations	5,695	(1,754)
Net change	310,339	31,136
Ending balances	**$ 1,095,793**	**$ 785,454**

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

Office of the Comptroller of the Currency
Statements of Budgetary Resources

For the Years Ended September 30, 2011 and 2010

(in Thousands)

	2011	2010
Budgetary resources		
Unobligated balance, brought forward, October 1	$ 847,259	$ 793,371
Spending authority from offsetting collections		
Earned		
Collected	891,591	794,029
Receivable from federal sources	3,914	79
Subtotal	895,505	794,108
Nonexpenditure transfer, net, actual	245,034	0
Total budgetary resources	**$ 1,987,798**	**$ 1,587,479**
Status of budgetary resources		
Obligations incurred	$ 824,994	$ 740,220
Unobligated balance available	1,162,804	847,259
Total status of budgetary resources	**$ 1,987,798**	**$ 1,587,479**
Change in obligated balance		
Obligated balance, net, beginning of period		
Unpaid obligations brought forward, October 1	$ 184,501	$ 177,517
Uncollected customer payments from federal sources, October 1	(3,579)	(3,500)
Total unpaid obligated balance, net	180,922	174,017
Obligations incurred	824,994	740,220
Gross outlays	(797,892)	(733,236)
Obligated balance transfer, net		
Unpaid obligations transferred	39,562	0
Uncollected customer payments from federal sources transferred	0	0
Total unpaid obligated balance transferred, net	39,562	0
Change in uncollected customer payments from federal sources	(3,914)	(79)
Obligated balance, net, end of period		
Unpaid obligations	251,164	184,501
Uncollected customer payments from federal sources	(7,493)	(3,579)
Obligated balance, net, end of period	243,671	180,922
Net outlays		
Gross outlays	$ 797,892	$ 733,236
Offsetting collections	(891,591)	(794,029)
Net outlays	**$ (93,699)**	**$ (60,793)**

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

Notes to the Financial Statements

Note 1—Significant Accounting Policies

A. Reporting Entity

The OCC was created as a bureau within the Treasury Department by an act of Congress in 1863. The mission of the OCC was to establish and regulate a system of federally chartered national banks. The National Currency Act of 1863, rewritten and reenacted as the National Bank Act of 1864, authorized the OCC to supervise national banks and to regulate the lending and investment activities of federally chartered institutions. With the passage of Dodd–Frank on July 21, 2010, the OCC now also oversees federally chartered savings associations.

The financial statements report on the OCC's three major programs: supervise, regulate, and charter national banks and federal savings associations. The OCC's major programs support the agency's overall mission by ensuring a safe and sound system of national banks and federal savings associations (collectively, banks); promoting equal access to financial services and fair treatment of bank customers; maintaining a flexible legal and regulatory framework that enables a strong, competitive system of banks; and having a competent, highly motivated, and diverse workforce.

B. Basis of Accounting and Presentation

The accompanying financial statements present the operations of the OCC, which include the recently transferred OTS functions. The OCC's financial statements are prepared from the agency's accounting records in conformity with GAAP as set forth by the Federal Accounting Standards Advisory Board (FASAB). The OCC's financial statements are presented in accordance with the form and content guidelines established by the OMB in Circular No. A-136, "Financial Reporting Requirements."

In addition, the OCC applies financial accounting and reporting standards issued by the Financial Accounting Standards Board only as outlined in Statement of Federal Financial Accounting Standards (SFFAS) 34, "The Hierarchy of Generally Accepted Accounting Principles," including the "Application of Standards Issued by the Financial Accounting Standards Board."

The OCC's financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and Statements of Budgetary Resources. The OCC presents its financial statements on a comparative basis, providing information for FY 2011 and FY 2010. Fiscal year 2011 data include balances transferred from the OTS financial statements for the period ending July 20, 2011, and activity of the combined entity from the transfer date through September 30, 2011. The FY 2010 financial statements represent OCC financial information as originally published, before the consolidation.

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is recorded before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds.

In accordance with GAAP, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could affect the amounts reported and disclosed herein.

Throughout these financial statements, assets, liabilities, earned revenues, and costs have been classified according to the entity responsible for these transactions. Intragovernmental earned revenues are collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals of expenditures to other federal entities.

C. Revenues and Other Financing Sources

The OCC derives its revenue primarily from assessments and fees paid by national banks and federal savings associations, and from income on investments in nonmarketable U.S. Treasury securities. The OCC does not receive congressional appropriations to fund any of the agency's operations. Therefore, the OCC has no unexpended appropriations.

By federal statute 12 USC 481, the OCC's funds are maintained in both a U.S. government trust revolving fund and a non-trust revolving fund. The funds remain available to cover the annual costs of the OCC's operations in accordance with policies established by the Comptroller of the Currency.

D. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. In accordance with FASAB SFFAS No. 27, "Identifying and Reporting Earmarked Funds," all of the OCC's revenue meets this criterion and constitutes an earmarked fund.

E. Fund Balance With Treasury

The Treasury Department processes the OCC's cash receipts and disbursements. Sufficient funds are maintained in two U.S. government revolving funds and are available to pay current liabilities. The OCC's Statements of Budgetary Resources reflect the status of the agency's FBWT.

F. Investments

It is the OCC's policy to invest available funds in accordance with the provisions of 12 USC 481 and 12 USC 192. The OCC invests available funds in non-marketable U.S. Treasury securities, which may include one-day certificates, bills, notes, and bonds. The OCC does not invest funds with state or national banks. The OCC has the positive intent and ability to hold all U.S. Treasury securities to maturity in accordance with Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and does not maintain any available-for-sale or trading securities.

G. Accounts Receivable

In accordance with SFFAS No. 1, "Accounting for Selected Assets and Liabilities," the OCC updates the "allowance for loss on accounts receivable" account annually or as needed to reflect the most current estimate of accounts that are likely to be uncollectible. Accounts receivable from the public are reduced by an allowance for loss on doubtful accounts.

H. Property and Equipment

Property and equipment as well as internal-use software are accounted for in accordance with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," and SFFAS No. 10, "Accounting for Internal Use Software."

Property and equipment purchases and additions are stated at cost. The OCC expenses acquisitions that do not meet the capitalization criteria, such as normal repairs and maintenance, when they are received or incurred.

In addition, property and equipment are depreciated or amortized, as applicable, over their estimated useful lives using the straight-line method. They are removed from the OCC's asset accounts in the period of disposal, retirement, or removal from service. Any difference between the book value of the property and equipment and amounts realized is recognized as a gain or loss in the same period that the asset is removed.

I. Liabilities

The OCC records liabilities for amounts that are likely to be paid as a result of events that have occurred as of the relevant Balance Sheet dates. The OCC's liabilities consist of routine operating accounts payable, accrued payroll and benefits, and deferred revenue. The OCC's liabilities represent the amounts owed or accrued under contractual or other arrangements governing the transactions, including operating expenses incurred but not paid. The OCC accounts for liabilities in accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government."

Accounts Payable

Payments are made in a timely manner in accordance with the Prompt Payment Act. Interest penalties are paid when payments are late. Discounts are taken when cost effective and when the invoice is paid within the discount period.

Accrued Annual Leave

In accordance with SFFAS No. 5, annual leave is accrued and funded by the OCC as it is earned, and the accrual is reduced as leave is taken or paid. Each year, the balance in the accrued annual leave account is adjusted to reflect actual leave balances with current pay rates. Sick leave and other types of leave are expensed as incurred.

Deferred Revenue

The OCC's activities are primarily financed by assessments on assets held by national banks, federal savings associations, and the federal branches of foreign banks. These assessments are due March 31 and September 30 of each year, based on their asset balances as of December 31 and June 30, respectively. Assessments are paid mid-cycle and are recognized as earned revenue on a straight-line basis. The unearned portions of collected assessments are classified as deferred revenue.

J. Employment Benefits

Retirement Plans

All of the OCC's employees participate in one of three retirement systems—two administered by OPM (CSRS and FERS) and one for which the OCC assumed the role of benefit administrator in FY 2011 (the Pentegra DB Plan). Pursuant to the enactment of Public Law 99-335, which established FERS, most OCC employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired before January 1, 1984, are covered by CSRS, with the exception of those who, during the election period, joined FERS.

The OCC does not report CSRS or FERS assets or accumulated plan benefits that may be applicable to its employees in its financial statements; OPM reports them. Although the OCC reports no liability for future payments to employees under these programs, the federal government is liable for future payments to employees through the various agencies administering these programs.

As benefit administrator for the Pentegra DB Plan—in which some of the transferred OTS employees participate and which is closed to new entrants—the OCC is committed to adhering to sound financial policies and management oversight of the plan to ensure its sustainability for current and future retirees.

Thrift Savings Plan

The OCC's employees are eligible to participate in the federal Thrift Savings Plan. For employees under FERS, a Thrift Savings Plan account is automatically established, and the OCC contributes a mandatory 1.0 percent of base pay to this account. The OCC also matches employee contributions up to an additional 4.0 percent of pay, for a maximum OCC contribution of 5.0 percent of base pay.

OCC 401(k) Plans

In addition to the federal Thrift Savings Plan, OCC employees can elect to contribute a portion of their base pay to the OCC-sponsored 401(k) plan, subject to Internal Revenue Service regulations that apply to employee contributions in both the federal Thrift Savings Plan and the OCC-sponsored 401(k) plan.

As required by law, for OTS employees transferred to the OCC, the OCC continues to offer a separate 401(k) plan. The amount of each participant's matching contribution is based on the applicable retirement system under which each participant is covered.

Federal Employees Health Benefits and Federal Employees' Group Life Insurance

Employees and retirees of the OCC are eligible to participate in the FEHB and FEGLI plans administered by OPM that involve a cost sharing of biweekly coverage premiums by employee and employer. The OCC does not fund post-retirement benefits for these programs. Instead, the OCC's financial statements recognize an imputed financing source and corresponding expense that represent the OCC's share of the cost to the federal government of providing these benefits to all eligible OCC employees.

Post-retirement Life Insurance Benefit Plan

The OCC sponsors a life insurance benefit plan for current and retired employees. This plan is a defined benefit plan for which the benefit is earned over the period from the employee's date of hire to the date on which the employee is assumed to retire. The valuation of the plan is conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. Specifically, the OCC uses the actuarial cost method as outlined in SFAS No. 87, "Employers' Accounting for Pensions," to determine costs for its retirement plans. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan. The actuarial assumptions and methods used in calculating actuarial amounts comply with the requirements for post-retirement benefits other than pensions as set forth in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," and for health benefit plans as set forth in American Institute of Certified Public Accountants Statement of Position 92-6.

In addition, for the one-year period following the transfer date, the OCC will continue to administer a separate life insurance plan for those OTS employees transferred to the OCC who meet eligibility requirements.

K. Custodial Revenues and Collections

Non-entity receivables, liabilities, and revenue are recorded as custodial activity and include amounts collected for fines, civil money penalties, and related interest assessments. Revenues are recognized as cash collected that will be transferred to the General Fund of the U.S. Treasury at the end of the fiscal year.

L. Effects of Recent Accounting Pronouncements

In FY 2010, the OCC began displaying gains and losses from changes in long-term assumptions used to estimate federal employee pensions, other retirement benefits, and other post-employment benefit liabilities as a separate line item on the Statements of Net Cost in accordance with the guidance outlined in SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses From Changes in Assumptions and Selecting Discount Rates and Valuation Dates."

On August 4, 2010, the FASAB published SFFAS No. 39, "Subsequent Events: Codification of Accounting and Financial Reporting Standards Contained in the AICPA [American Institute of Certified Public Accountants] Statements on Auditing Standards." This statement does not establish new accounting guidance but rather incorporates the existing guidance (to the extent appropriate in the federal government environment) into the FASAB standards. The statement's requirements improve financial reporting by incorporating authoritative accounting and financial reporting literature into a single source and thereby better enabling entities to prepare basic information and required supplementary information in conformity with GAAP. The statement addresses the circumstances under which an entity should recognize or disclose events or transactions occurring after the end of the reporting period but before issuance of the financial report. The OCC adopted SFFAS No. 39 upon issuance, as required, without material effect.

Note 2—Fund Balance With Treasury

The status of the FBWT represents the budgetary resources that support the FBWT and is a reconciliation between budgetary and proprietary accounts. The OCC's FBWT comprises two separate U.S. Treasury fund symbols. The first is designated as a trust fund established by 12 USC 481 that governs the collection and use of assessments and other funds by the OCC. The second is a new fund symbol designated as a revolving fund and was established to allow for the transfer of OTS funds to the OCC on July 21, 2011. The OCC's FBWT consists of unobligated and obligated balances that reflect the budgetary authority remaining for disbursement against current or future obligations.

The unobligated balance represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and is classified as available for future OCC use without further congressional action. The obligated balance not yet disbursed represents funds that have been obligated for goods that have not been received or services that have not been performed. It also represents goods and services that have been delivered or received but for which payment has not been made. The nonbudgetary FBWT account represents adjustments to budgetary accounts that do not affect the FBWT. The OCC's balance represents investment accounts that reduce the status of the FBWT.

The figure below depicts the OCC's FBWT amounts for FY 2011 and FY 2010.

Fund Balance With Treasury (in Thousands)

	FY 2011		FY 2010	
Fund balance:				
Revolving fund	$	226,413	$	0
Trust fund		10,623		3,981
Total fund balance	**$**	**237,036**	**$**	**3,981**
Status of fund balance with Treasury				
Unobligated balance—available	$	1,162,804	$	847,259
Obligated balance not yet disbursed		243,671		180,922
Non-budgetary fund balance with Treasury		(1,169,439)		(1,024,200)
Total	**$**	**237,036**	**$**	**3,981**

Note 3—Investments and Related Interest

The OCC's investments are stated at amortized cost and the related accrued interest. Premiums and discounts are amortized over the term of the investment using the effective interest method.

The fair market value of investment securities was $1,223.5 million on September 30, 2011, and $1,079.0 million on September 30, 2010. The overall portfolio earned an annual yield of 2.3 percent for FY 2011 and 2.6 percent for FY 2010.

The yield-to-maturity on the non-overnight portion of the OCC's investment portfolio ranged from 0.9 percent to 4.5 percent in FY 2011 and from 0.7 percent to 4.5 percent in FY 2010.

FY 2011 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	$ 1,192,820	Effective interest	$ (8,224)	$ 1,184,596	$ 1,223,491
Accrued interest	3,563		0	3,563	3,563
Total intragovernmental investments	**$ 1,196,383**		**$ (8,224)**	**$ 1,188,159**	**$ 1,227,054**

FY 2010 Investments and Related Interest (in Thousands)

	Cost	Amortization method	Amortized (premium) discount	Investments, net	Market value disclosure
Intragovernmental securities:					
Non-marketable market-based	$ 1,048,359	Effective interest	$ (7,260)	$ 1,041,099	$ 1,079,001
Accrued interest	3,579		0	3,579	3,579
Total intragovernmental investments	**$ 1,051,938**		**$ (7,260)**	**$ 1,044,678**	**$ 1,082,580**

Note 4—Accounts Receivable

As presented in the OCC's Balance Sheets, accounts receivable represent monies due from the public, for services and goods provided that are retained by the OCC upon collection. The amounts shown for federal receivables represent pension sharing costs for OTS employees transferred to other federal agencies rather than to the OCC. Also included are civil money penalty (CMP) amounts assessed against people, national banks, or federal savings associations for violations of law, regulation, and orders; unsafe or unsound practices; and breaches of fiduciary duty. Because CMPs are not debts due the OCC, the amount outstanding does not enter into the calculation for the allowance for uncollectible accounts. The OCC has recognized $41.6 million and $50.7 million in CMP non-entity revenue as of September 30, 2011 and 2010, respectively.

FY 2011 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Federal receivables	$ 3,931	$ 0	$ 3,931
Civil money penalties receivables	486	0	486
Nonfederal receivables	81	(25)	56
Total accounts receivable	**$ 4,498**	**$ (25)**	**$ 4,473**

FY 2010 Accounts Receivable (in Thousands)

	Gross	Allowance for uncollectible accounts	Accounts receivable, net
Civil money penalties receivables	$ 643	$ 0	$ 643
Nonfederal receivables	45	(27)	18
Total accounts receivable	**$ 688**	**$ (27)**	**$ 661**

Note 5—Property and Equipment, Net

Property and equipment purchased at a cost greater than or equal to the noted thresholds below with useful lives of three years or more are capitalized at cost and depreciated or amortized, as applicable. Depreciation is expensed on a straight-line basis over the estimated useful life of the asset with the exception of leasehold improvements. Leasehold improvements are amortized on a straight-line basis over the lesser of the terms of the related leases or their estimated useful lives.

Land, leasehold improvements in development, and internal-use software in development are not depreciated. Major alterations and renovations, including leasehold and land improvements, are capitalized, while maintenance and repair costs are charged to expenses as incurred. All other property and equipment are depreciated or amortized, as applicable, on a straight-line basis over their estimated useful lives.

For FY 2011 and FY 2010, the OCC reported $1.9 million and $312.3 thousand, respectively, of fully depreciated assets removed from service. In FY 2011, there was no gain or loss on asset disposal. In FY 2010, the OCC recognized a loss of $5.7 million on the disposal of other assets. The figures below summarize property and equipment balances as of September 30, 2011 and 2010.

FY 2011 assets include the land and a building owned by the OTS that were transferred to the OCC on July 21, 2011. The building is a rental income property that the OCC uses to supplement its operating budget. See Note 6.

FY 2011 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	$ 7,101	$ 0	$ 7,101
Building	50	50	49,188	(31,812)	17,376
Leasehold improvements	50	5–20	78,766	(48,536)	30,230
Equipment	50	3–10	30,918	(24,170)	6,748
Internal use software	500	5	69,025	(57,797)	11,228
Internal use software—development	500	NA	19,990	0	19,990
Leasehold improvements—development	50	NA	3,944	0	3,944
Total			**$ 258,932**	**$ (162,315)**	**$ 96,617**

FY 2010 Property and Equipment, Net (in Thousands)

Class of assets	Capitalization threshold	Useful life	Cost	Accumulated depreciation/amortization	Net book value
Land	NA	NA	$ 0	$ 0	$ 0
Building	50	50	0	0	0
Leasehold improvements	50	5–20	71,974	(37,701)	34,273
Equipment	50	3–10	27,180	(21,662)	5,518
Internal use software	500	5	63,496	(51,948)	11,548
Internal use software—development	500	NA	9,858	0	9,858
Leasehold improvements—development	50	NA	1,263	0	1,263
Total			**$ 173,771**	**$ (111,311)**	**$ 62,460**

Note: NA means not applicable.

Note 6—Rental Income

Before the transfer date, the OTS leased a portion of its former headquarters building as office and retail space under non-cancellable operating leases expiring at various dates through 2021. Some of these leases provide renewal options. The leases provide for annual base rent and additional rents for building operating expenses. Some leases provide for fixed future increases in rents over the term of the lease. After the transfer date, the OCC assumed ownership over the leases and received rental income from both existing and new tenants.

The future minimum rentals to be received under non-cancellable operating lease arrangements, not including renewals, are shown below.

The OCC has been negotiating an occupancy agreement with another federal agency for the remaining space at the OTS's former headquarters. The figure below does not include anticipated future rental income for the OCC.

FY 2011 Future Rental Income (in Thousands)

Year	Amount
2012	$ 2,468
2013	647
2014	599
2015	374
2016	305
2017 and beyond	1,141
Total	**$ 5,534**

Note 7—Leases

The OCC leases equipment and office space for its Headquarters operations in Washington, D.C., and for district and field operations. During FY 2011, the OTS transferred its 10 leases for office space in various locations throughout the continental United States to the OCC. In addition, the OCC entered into six new lease occupancy agreements that ranged between two and 193 months, as old leases expired, including a new lease for Headquarters. All of the OCC's leases are treated as operating leases. All annual lease costs under the operating leases are included in the Statements of Net Cost.

Under existing commitments, the minimum yearly lease payments through FY 2017 and thereafter are shown below.

FY 2011 Future Lease Payments (in Thousands)

Year	Amount
2012	$ 45,569
2013	59,915
2014	48,826
2015	45,078
2016	45,657
2017 and beyond	420,088
Total	**$ 665,133**

FY 2010 Future Lease Payments (in Thousands)

Year	Amount
2011	$ 35,528
2012	24,055
2013	19,654
2014	16,757
2015	13,016
2016 and beyond	43,587
Total	**$ 152,597**

Note 8—Other Actuarial Liabilities

The OCC's other actuarial liabilities are reported on the Balance Sheets and include the following components.

Actuarial Liabilities Category (in Thousands)

Component	FY 2011	FY 2010
Federal Employees' Compensation Act	$ 5,513	$ 1,299
Pentegra DB Plan	9,027	0
Post-retirement life insurance benefits	47,732	24,991
Total actuarial liabilities	**$ 62,272**	**$ 26,290**

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to cover federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for OCC employees covered under the Federal Employees' Compensation Act are administered by the U.S. Department of Labor and later billed to the OCC. FY 2011 and FY 2010 present value of these estimated outflows is calculated using a discount rate of 3.5 percent in the first year and 4.0 percent in subsequent years, and 3.7 percent in the first year and 4.3 percent in subsequent years, respectively.

Pentegra Defined Benefit Plan

According to the provisions of Dodd–Frank, in FY 2011, the OCC assumed the role of benefit administrator for a special retirement system—Pentegra DB Plan. The Pentegra DB Plan is a defined benefit plan that the OTS assumed from its predecessor agency when it was created in 1989. The Pentegra DB Plan is a system in which all costs are paid by the employer into one general account. At retirement, employees may either receive a lump sum or opt for an annuity/lump sum split. There are 299 OTS employees who transferred to the OCC and participate in the Pentegra DB Plan, 542 retirees who receive a Pentegra DB Plan annuity, and 708 separated employees who are deferred vested in the Pentegra DB Plan. Total expenses recognized for the Pentegra DB Plan during FY 2011 were $9.0 million. The unfunded portion of the liability that is actuarially determined was $86.2 million as of September 30, 2011.

Post-retirement Life Insurance Benefits

The OCC sponsors a life insurance benefit plan for current and retired employees. In addition, for one year after the transfer date, the OCC will continue to administer a separate life insurance plan for those OTS employees transferred to the OCC who meet eligibility requirements. The significant increase year over year as shown in the figure above is a result of the transfer of the existing OTS plan liability, which offered higher benefits than the OCC-sponsored plan. Transferred OTS plan participants that remain with the OCC will be converted to the OCC-sponsored plan on July 28, 2012. Liabilities related to the OCC-sponsored plan are significantly lower than the OTS-sponsored plan's. Because the actuarial calculations rely on a variety of factors, it is uncertain whether next year's liability will be reduced once the former OTS employees join the OCC-sponsored plan. The weighted-average discount rate used in determining the accumulated post-retirement benefit obligation was 4.75 percent. Gains or losses owing to changes in actuarial assumptions are amortized over the service life of the plan.

The figure above shows the balance of each of the three components of the OCC's actuarial liabilities.

Net periodic post-retirement benefit costs for life insurance provisions under the plans include the components shown on this page. The total benefit expenses are recognized as program costs in the Statements of Net Cost. Any gains or losses from changes in long-term assumptions used to measure liabilities for post-retirement life insurance benefits are displayed separately on the Statements of Net Cost, as required.

The following table presents a reconciliation of the beginning and ending post-retirement life insurance liability and provides material components of the related expenses.

Reconciliation of Beginning and Ending Post-retirement Liability and the Related Expense (in Thousands)

Change in actuarial and accrued benefits	FY 2011	FY 2010
Actuarial post-retirement liability beginning balance	$ 45,472	$ 21,674
Actuarial expense:		
Normal cost	1,374	747
Interest on the liability balance	2,385	1,198
Actuarial (gain)/loss:		
From experience	495	375
From assumption changes	(691)	1,528
Prior service costs	80	0
Total expense	3,643	3,848
Less amounts paid	(1,383)	(531)
Actuarial post-retirement liability ending balance	**$ 47,732**	**$ 24,991**

Note 9—Net Position

Net position represents the net result of operations since inception and includes cumulative amounts related to investments in capitalized assets held by the OCC. The OCC sets aside a portion of its net position as contingency and asset replacement reserves for use at the Comptroller's discretion. In addition, funds are set aside to cover the cost of ongoing operations.

The contingency reserve supports the OCC's ability to accomplish its mission in the case of foreseeable but rare events. Foreseeable but rare events are beyond the control of the OCC and include a major change in the national banking system or the federal savings association industry or, for instance, a fire, flood, or significant impairment of the agency's information technology systems. In addition, reserves are available to address special one-time needs resulting from the regulatory restructuring required by Dodd–Frank, which could include payments for the Pentegra DB Plan. See Note 8.

The asset replacement reserve funds the replacement of information technology investments, leasehold improvements, and furniture replacements for future years. The target level for the replacement reserve is established annually based on the gross value of existing property and equipment plus a growth-rate factor and a margin for market cost adjustments.

The figure below reflects balances for FY 2011 and FY 2010.

Net Position Availability (in Thousands)

Component	FY 2011	FY 2010
Contingency reserve	$ 692,690	$ 425,048
Asset replacement reserve	192,900	192,900
Set aside for ongoing operations:		
Undelivered orders	64,440	58,906
Consumption of assets	112,114	79,408
Capital investments	33,649	29,192
Net position	**$ 1,095,793**	**$ 785,454**

Note 10—Net Cost of Operations

The Net Cost of Operations represents the OCC's operating costs deducted from assessments and fees paid by national banks and federal saving associations and from investment interest income earned. The operating costs include the gain or loss from actuarial experience and assumption changes per the guidance in SFFAS No. 33. The imputed financing sources for net cost of operations are reported on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

The following figure illustrates the OCC's operating expense categories for FY 2011 and FY 2010.

Net Cost of Operations by Expense Category (in Thousands)

	FY 2011		FY 2010	
Personnel compensation and benefits	$	546,739	$	508,575
Contractual services		115,912		106,476
Rent, communication, and utilities		50,381		49,985
Travel and transportation of persons and things		51,963		48,701
Imputed costs		33,747		32,890
Depreciation		18,437		25,490
Other		20,329		16,354
Total	**$**	**837,508**	**$**	**788,471**

Note 11—Imputed Costs and Financing Sources

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pension and other retirement benefits to be paid by OPM trust funds. These amounts are recorded as imputed costs and imputed financing for other agencies. Annually, OPM provides federal agencies with cost factors for the computation of current year imputed costs. These cost factors are multiplied by the current year salary or number of employees, as applicable, to provide an estimate of the imputed financing that OPM trust funds will provide for each agency.

The imputed costs categories for FY 2011 and FY 2010 are listed in the table below. These imputed costs are included on the Statements of Net Cost. The financing sources absorbed by the OPM are reflected on the Statements of Changes in Net Position and in Note 12, Reconciliation of Net Cost of Operations to Budget.

Imputed Costs Absorbed by the OPM (in Thousands)

Component	FY 2011		FY 2010	
Retirement	$	16,163	$	18,509
Federal Employees Health Benefits		17,545		14,346
Federal Employees' Group Life Insurance		39		35
Total imputed costs covered by the OPM	**$**	**33,747**	**$**	**32,890**

Note 12—Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget demonstrates the relationship between the OCC's proprietary accounting (net cost of operations) and budgetary accounting (net obligations) information. For FY 2011, the statement on the next page shows $25.1 million in excess resources available to finance activities, which is a net increase of $4.0 million over September 30, 2010. This net increase resulted from a $101.4 million increase in resources available (spending authority from offsetting collections) netted against the increase of $84.8 million in resources used (obligations incurred) and the $0.9 million increase in imputed financing, and $11.7 million of OTS resources transferred in. The increase in net resources available is primarily due to increased assessment revenue, while the increase in resources used results from various office space and information technology investments as well as salary and employee benefits, as shown on the next page.

Office of the Comptroller of the Currency
Reconciliation of Net Cost of Operations to Budget

For the Years Ended September 30, 2011 and 2010

(in Thousands)

	FY 2011	FY 2010
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 824,994	$ 740,220
Less: spending authority from offsetting collections	(895,505)	(794,109)
Net obligations	(70,511)	(53,889)
Other resources		
Transfer-in without reimbursement (Note 13)	11,675	0
Imputed financing sources (Note 11)	33,747	32,890
Total resources used to finance activities	**(25,089)**	**(20,999)**
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	10,903	(792)
Resources that finance the acquisition of assets	(25,821)	(9,359)
Adjustment to net obligated balance that does not affect net cost of operations	(11,675)	0
Total resources used to finance items not part of the net cost of operations	(26,593)	(10,151)
Total resources used to finance the net cost of operations	**$ (51,682)**	**$ (31,150)**
Components of the net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Change in deferred revenue	41,071	5,378
Increase in exchange revenue receivable from the public	9,478	1
Total components that will require or generate resources in future periods	50,549	5,379
Components not requiring or generating resources		
Depreciation and amortization	18,437	19,822
Net increase in bond premium	1,742	2,035
Other	(24,741)	5,668
Total components that will not require or generate resources	(4,562)	27,525
Total components of net cost of operations that will not require or generate resources in the current period	**45,987**	**32,904**
Net cost of operations	**$ (5,695)**	**$ 1,754**

Note 13—OTS Transfer

The OTS transfer of assets and liabilities to the OCC was completed on July 21, 2011, in accordance with the guidance outlined in SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting." As the receiving entity, the OCC recognized the value of the assets and liabilities transferred-in at the OTS's book value at the time of transfer. Audited amounts transferred in were total assets of $321.0 million, total liabilities of $50.1 million, and total net position of $270.9 million—the majority of which is reflected within the OCC's contingency reserve. The total net position amount represents $259.2 million in budgetary resources, including FBWT amounts transferred in, and $11.7 million in other financing sources, which include property and equipment transferred in.

Note 14—Commitments and Contingencies

The OCC recognizes and discloses contingencies in accordance with SFFAS No. 12, "Recognition of Contingent Liabilities Arising From Litigation." The OCC is party to various administrative proceedings, legal actions, and claims brought against it, including threatened or pending litigation involving federal employment claims, some of which may ultimately result in settlements or decisions against the federal government. As of September 30, 2011, there were four contingencies for litigations involving the OCC. For three of these, there was a reasonable possibility that the OCC could incur a loss of $1.5 million, which comprises $900,000 in back pay plus interest and $600,000 in compensatory damages. For the fourth contingency where the risk of loss was probable, the OCC recorded a liability for FY 2011 of $191,000, which covered an enforcement proceeding plus court costs. As of September 30, 2010, the OCC reported $1.0 million for contingencies where the loss was reasonably possible. There were no contingencies in FY 2010 where the risk of loss was probable. In addition, for FY 2011, the OCC is aware of one potential unasserted claim from a software vendor for approximately $1.1 million. In FY 2010, there were no unasserted claims.

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Independent Auditor's Report on Financial Statements

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the accompanying balance sheets of the Office of the Comptroller of the Currency (OCC) as of September 30, 2011 and 2010, and the related statements of net cost, changes in net position and budgetary resources (hereinafter referred to as "financial statements") for the years then ended. These financial statements are the responsibility of the management of OCC. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit "transfer-in without reimbursement" of $270.9 million included in the Statement of Changes in Net Position for the year ended September 30, 2011. This represents the net assets of the Office of Thrift Supervision's (OTS), as of July 20, 2011, that were transferred to OCC in accordance with the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The OTS' financial statements as of and for the period ended July 20, 2011 were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the amount transferred in from OTS, is based solely on the report of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provides a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the OCC as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Member of the American Institute of Certified Public Accountants

The information in Section Six, pages 43 through 51, and page 76 of OCC's fiscal year 2011 Annual Report is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in Sections One, Two, Three, Four and Five of OCC's fiscal year 2011 Annual Report is presented for purposes of additional analysis and is not a required part of the financial statements. We did not audit this information, and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 31, 2011, on our consideration of the OCC's internal control over financial reporting, and on our tests of its compliance with certain provisions of applicable laws, regulations, and contracts. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audits.

GKA, P.C.

October 31, 2011

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Independent Auditor's Report on Internal Control over Financial Reporting

Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheet and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the year ended September 30, 2011, and have issued our report thereon dated October 31, 2011. We did not audit "transfer-in without reimbursement" of $270.9 million included in the Statement of Changes in Net Position for the year ended September 30, 2011. This represents the net assets of the Office of Thrift Supervision's (OTS), as of July 20, 2011, that were transferred to OCC in accordance with the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The OTS' financial statements as of and for the period ended July 20, 2011 were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the amount transferred in from OTS, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered the OCC's internal control over financial reporting by obtaining an understanding of the design effectiveness of OCC's internal control, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide an opinion on the effectiveness of OCC's internal control over financial reporting. Consequently, we do not provide an opinion on the effectiveness of OCC's internal control over financial reporting.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 significant deficiency is a deficiency or 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.

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.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters involving internal control and its operation that we reported to Management of OCC in a separate letter dated October 31, 2011.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and the U.S. Congress, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2011

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Independent Auditor's Report on Compliance with Laws and Regulations

The Inspector General, Department of the Treasury, and
the Comptroller of the Currency:

We have audited the balance sheets and the related statements of net cost, changes in net position, and budgetary resources, hereinafter referred to as "financial statements" of the Office of the Comptroller of the Currency (OCC) as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated October 31, 2011. We did not audit "transfer-in without reimbursement" of $270.9 million included in the Statement of Changes in Net Position for the year ended September 30, 2011. This represents the net assets of the Office of Thrift Supervision's (OTS), as of July 20, 2011, that were transferred to OCC in accordance with the *Dodd-Frank Wall Street Reform and Consumer Protection Act*. The OTS' financial statements as of and for the period ended July 20, 2011 were audited by another auditor whose report has been furnished to us. Our opinion, insofar as it relates to the amount transferred in from OTS, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, the applicable provisions of Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of the OCC is responsible for complying with laws, regulations and contracts applicable to the OCC. As part of obtaining reasonable assurance about whether the OCC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including certain requirements referred to in Section 803(a) of the *Federal Financial Management Improvement Act (FFMIA) of 1996*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations and contracts applicable to the OCC. However, our objective was not to provide an opinion on overall compliance with laws, regulations and contracts. Accordingly, we do not express such an opinion.

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The results of our tests of compliance with laws, regulations and contracts described in the preceding paragraph, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04.

Under FFMIA, we are required to report whether the OCC's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the OCC's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended solely for the information and use of the Management of the OCC, the Department of the Treasury Office of Inspector General, the Government Accountability Office, OMB, and U.S. Congress and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

GKA, P.C.

October 31, 2011

Other Accompanying Information

Performance Measures and Results

The OCC's FY 2011 performance measures, workload indicators, customer service standards, and results are presented in figure 13.

Figure 13: Performance Measures, Workload Indicators, Customer Service Standards, and Results

Strategic goal	Performance measure workload indicator customer service standard	FY 2008	FY 2009	FY 2010	FY 2011 Target	FY 2011 Actual
I. A safe and sound system of national banks and federal savings associations						
	Percentage of national banks and federal savings associations with composite CAMELS rating of 1 or 2[1]	92%	82%	72%	90%	75%
	Rehabilitated problem national banks and federal savings associations as a percentage of the problem national banks one year ago (CAMELS 3, 4, or 5)[1]	47%	29%	22%	40%	22%
	Percentage of national banks and federal savings associations that are well capitalized[1]	99%	86%	91%	95%	93%
	Percentage of critically undercapitalized national banks and federal savings associations on which responsible action is taken within 90 calendar days after they become critically undercapitalized	100%	100%	100%	100%	100%
	Average survey response that the report of examination clearly communicated examination findings, significant issues, and the corrective actions management needed to take[2]	1.28	1.34	1.47	≤ 1.75	1.45
II. Fair access to financial services and fair treatment of national bank and federal savings association customers						
	Percentage of national banks and federal savings associations with consumer compliance rating of 1 or 2. For institutions with assets over $10 billion, these ratings will reflect only those laws and regulations for which the OCC has enforcement and supervisory authority.	97%	97%	96%	94%	94%
	Percentage of community banks that are within one year of their first Intermediate Small Bank or Large Bank Community Reinvestment Act examination for which the OCC offers to provide consultation on community development opportunities	100%	100%	100%	100%	100%
	Percentage of consumer complaints closed within 60 calendar days of receipt	12%	8%	3%	80%	30%
	Number of consumer complaints opened/closed during the fiscal year	41,656/ 30,986	58,810/ 32,533	80,336/ 79,660	72,000/ 70,000	84,557/ 84,773
III. A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints						
	Percentage of external legal opinions issued within established time frames	92%	88%	85%	86%	91%
	Number of external legal opinions issued during the fiscal year	73	53	64	60	77
	Percentage of licensing applications and notices filed electronically	46%	51%	44%	40%	53%
	Number of licensing applications and notices filed electronically during the fiscal year	1,525	1,681	1,440	1,200	1,610
	Percentage of licensing applications and notices completed within established time frames	95%	95%	96%	95%	97%
	Number of licensing applications and notices completed during the fiscal year[3]	1,843	1,471	1,344	1,200	1,382
	Average survey rating of the overall licensing services provided by the OCC[4]	1.22	1.25	1.15	≤ 1.5	1.31
IV. A competent, highly motivated, and diverse workforce that makes effective use of OCC resources						
	Total OCC costs relative to every $100,000 in assets regulated	$8.39	$8.81	$9.28	$9.22	$8.49

Source: OCC data for all fiscal years.

[1] These performance measures for fiscal year 2011 are below target primarily because of the difficult economic situation the entire financial industry is facing. The OCC continues to closely monitor the capital levels and performance of all its banks and, when necessary, initiates formal and informal agreements to enhance its level of supervision.

[2] The examination survey is based on a five-point scale, in which 1 indicates complete agreement and 5 indicates complete disagreement.

[3] The number of total licensing filings has declined from the previous fiscal year because the number is based on actual applications received, which also declined.

[4] The licensing survey is based on a five-point scale, in which 1 indicates outstanding and 5 indicates significantly deficient.

Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act of 2010, as implemented by the OMB, requires federal agencies to review all programs and activities annually and identify those that may be susceptible to significant erroneous payments. The OCC analyzed payments (excluding payroll) made during FY 2011 and identified 52 erroneous payments requiring adjustments totaling $17,060. Erroneous payments are identified and monitored daily to ensure prompt recovery. The underlying causes and contributing factors are identified quickly, and control measures are implemented to prevent additional erroneous payments.

The OCC corrected and recovered all erroneous payments made during the year. Figure 14 summarizes the OCC's erroneous payments for FY 2011 and FY 2010.

Figure 14: Erroneous Payments

	FY 2011	FY 2010
Number of payments	52	26
Dollar value of adjustments	$17,060	$29,163

Source: OCC data.

Assurance Statement

The Office of the Comptroller of the Currency (OCC) made a conscientious effort during fiscal year (FY) 2011 to meet the internal control requirements of the Federal Managers' Financial Integrity Act (FMFIA), the Federal Financial Management Improvement Act (FFMIA), and Office of Management and Budget (OMB) Circular A-123.

The OCC's systems of management control are designed to ensure that

a) programs achieve their intended results;
b) resources are used in accordance with the agency's mission;
c) programs and resources are protected from waste, fraud, and mismanagement;
d) laws and regulations are followed;
e) controls are sufficient to minimize improper or erroneous payments;
f) performance information is reliable;
g) system security is in substantial compliance with relevant requirements;
h) continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels; and
i) financial management systems are in compliance with federal financial systems standards, i.e., FMFIA Section 4 and the FFMIA.

I am providing unqualified assurance that the above listed management control objectives were achieved by the OCC without material weakness during FY 2011. Specifically, this assurance is provided relative to Sections 2 and 4 of the FMFIA.

I am also reporting substantial compliance with the requirements imposed by the FFMIA.

The OCC conducted its assessment of the effectiveness of internal control over financial reporting, which includes the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the OCC can provide unqualified assurance that its internal control over financial reporting was operating effectively as of June 30, 2011, and no material weaknesses were found in the design or operation of the internal control over financial reporting.

I also provide unqualified assurance that our supervision programs achieved intended results despite the extraordinary challenges that continued to confront the national banking system.

The nation has weathered the worst financial crisis since the Great Depression, but it may be years before all of its ill effects are behind us. The Dodd–Frank Wall Street Reform and Consumer Protection Act took important steps to strengthen the financial system and guard against future crises, and the OCC is implementing its responsibilities regarding those safeguards as quickly and effectively as possible.

The OCC is involved in 96 individual projects stemming from Dodd–Frank, including interagency rulemakings that will significantly impact our financial system.

Our biggest single task this fiscal year has been to integrate the staff and functions of the Office of Thrift Supervision (OTS) into the OCC.[46] The OCC welcomed 670 OTS employees into policy and field units in offices around the country, successfully moving to a single regulator for national banks and federal savings associations. We need former OTS staff's talent and experience to help fulfill our combined supervisory mission.

To share OCC supervisory expectations with federal savings associations, we corresponded with thrift industry executives through a series of information letters. We hosted 17 meetings for more than 1,000 thrift executives, who were pleased that the OCC will maintain the OTS exam cycle and use its historical supervisory information to reduce regulatory burden.

Pursuant to Dodd–Frank, the OCC established the Office of Minority and Women Inclusion (OMWI) to provide executive direction, set policies, and oversee OCC efforts encouraging diversity in management, employment, and business activities. OMWI workforce initiatives will play a significant role in continuing to keep the OCC atop the list of "Best Places to Work."

We are engaged in several rulemakings affecting federal savings associations, including

[46] On July 21, 2011, the OTS independently submitted its final FY 2011 Assurance Statement to the Secretary of the Treasury for the period of October 1, 2010, through July 20, 2011.

republishing as OCC rules those OTS regulations that the OCC has authority to administer and enforce going forward. We continue to review those regulations, as well as our own, for added improvements. We have published a final rule addressing areas important for continuity of supervision, including assessments of federal savings associations and completed rulemaking to revise rules on preemption and visitorial powers. Dodd–Frank calls for a number of other rulemakings, and we have proposed interagency rules to address credit-risk retention, incentive compensation, proprietary trading, and margin and capital requirements for covered swap entities.

In FY 2011, considerable effort was also devoted to the transfer of supervisory responsibilities to the new Consumer Financial Protection Bureau (CFPB) and to our participation in the work of the Financial Stability Oversight Council, which will be an important venue for averting and addressing future market disruptions.

The OCC provided considerable support for the CFPB standup and worked with the new agency to harmonize our complementary supervisory roles. As part of its support, the OCC assisted the CFPB in developing its procurement and personnel management processes.

To assist the CFPB's supervision requirements, we executed a memorandum of understanding to allow sharing of reports of examination, supervisory letters, information on enforcement actions, and other important confidential information. We also established an OCC steering committee to facilitate coordination and communication with the CFPB on consumer protection issues affecting national banks and federal savings associations. The OCC continues to provide transitional support for other CFPB functions, including consumer complaints. In fact, the OCC's Customer Assistance Group has been handling consumer complaints about the large banks now under CFPB supervision while the CFPB builds its own capacity.

Analytical Basis of Assurance Statement

The OCC evaluated its management controls in accordance with the FY 2011 Secretary's Assurance Statement Guidance of July 1, 2011, and considered the following guidance:

- OMB Circular A-127, Financial Management Systems;
- OMB Circular A-130 Revised, Management of Federal Information Resources; and
- Treasury Directive 40-04, Treasury Internal (Management) Control Program.

Information considered in our control assessment included the following:

- FMFIA certifications submitted by each Executive Committee member;
- FFMIA certification submitted by our Chief Financial Officer;
- The OCC's Strategic Risk Management Plan;
- Results of internal control testing under OMB Circular A-123, Appendix A;
- Executive Committee descriptions of business unit quality management programs;
- Results of control self-assessments completed by OCC managers in FY 2011;
- Audit reports and evaluations issued by the Government Accountability Office (GAO) and the Office of the Inspector General;
- Results of other external and internal reviews;
- Improper Payments Information Act risk assessment submitted to the U.S. Department of the Treasury in June 2011;
- GAO Core Financial System Requirements Checklist;
- FFMIA Risk Model and Financial Management System Self-Assessment Checklists submitted to the Treasury Department in July 2011;
- Unqualified and timely audit opinion on FY 2010 financial statements; and
- Certified public accountant Gardiner, Kamya and Associates' status report of October 14, 2011, on the FY 2011 financial statement audit.

John Walsh
Acting Comptroller
of the Currency
November 3, 2011