United States Government Notes to the Financial Statements for the Years Ended September 30, 2007, and September 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

B. Basis of Accounting and Revenue Recognition

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

- Expenses are generally recognized when incurred except that the costs of social insurance programs including Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment Insurance are recognized only for amounts currently due and payable.
- Nonexchange (unearned) revenues, including taxes, duties, fines, and penalties, are recognized when collected and adjusted to the change in net measurable and legally collectable amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against nonexchange revenue.
- Exchange (earned) revenues are recognized when the Government provides goods and services to the public for a price. Exchange revenues include user charges such as admission to Federal parks and premiums for certain Federal insurance.

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

Beginning in fiscal year 2006, the Federal Government has implemented the requirements of new standards related to earmarked funds, social insurance, heritage assets and stewardship land, and required Governmentwide reporting.

- Earmarked funds:

As required by SFFAS No. 27,[1] the Federal Government now separately identifies: (1) earmarked fund activities in the statement of operations and changes in net position: and (2) the portion of net position attributable to earmarked fund activities on the balance sheet.

- Social Insurance:

As required by SFFAS Nos. 17, 25, 26, and 28,[2] the Statements of Social Insurance and related note on significant underlying assumptions were reclassified from required supplemental stewardship information to basic information. For further information on social insurance, see Note 22—Social Insurance.

- Heritage Assets and Stewardship Land:

As required by SFFAS No. 29,[3] information related to heritage assets and stewardship land was reclassified from required supplemental stewardship information to basic information. For further information on stewardship land and heritage assets, see Note 23—Stewardship Land, and Note 24—Heritage Assets, respectively.

- Governmentwide Reporting:

SFFAS No. 32[4] amends standards issued prior to January 2003 to specify disclosure requirements appropriate for the *Financial Report* based on the guidance contained in Statements of Federal Financial Accounting Concepts No. 4 (SFFAC 4). Some disclosure requirements contained in previously issued standards were modified to allow aggregation and reduce detail for Governmentwide reporting while other disclosure requirements were eliminated because of excessive detailed information required that is inappropriate for a Governmentwide report consistent with the guidance contained in SFFAC 4.

C. Direct Loans and Loan Guarantees

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

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

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

Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cashflows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

D. Accounts and Taxes Receivable

Accounts receivable represents claims to cash or other assets from entities outside the Government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law.

The category taxes receivable consists primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed the amounts are owed or a court has determined the assessments are owed. The balance sheets

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[1] SFFAS No. 27, Identifying and Reporting Earmarked Funds.

[2] SFFAS No. 17, Accounting for Social Insurance, No. 25, Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment; SFFAS No. 26, Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25, and SFFAS No. 28, Deferral of the Effective Date of Reclassification of the Statement of Social Insurance: Amending SFFAS 25 and 26.

[3] SFFAS No. 29, Heritage Assets and Stewardship Land.

[4] SFFAS No. 32, Consolidated Financial Report of the United States Government Requirements: Implementing SFFAC 4 "Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government."

do not include unpaid assessments when neither taxpayers nor a court have agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible.

E. Inventories and Related Property

Inventories within the Government are valued using historical cost, net realizable value, and latest acquisition cost (see Note 5—Inventories and Related Property, Net). Historical cost methods include first-in-first-out, weighted average, and moving average. Estimated repair costs reduce the value of inventory held for repair. Excess, obsolete, and unserviceable inventories are valued at estimated net realizable value. When latest acquisition cost is used to value inventory held for sale, it is adjusted for holding gains and losses in order to approximate historical cost.

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

F. Property, Plant, and Equipment

Property, plant, and equipment used in Government operations are carried at acquisition cost, with the exception of Department of Defense (DOD) military equipment (e.g., ships, aircraft, combat vehicles, and weapons). DOD comprises approximately 69 percent of the Government's reported property, plant, and equipment as of September 30, 2007. DOD uses an estimation methodology for military equipment based on internal DOD records to calculate a value for military equipment. DOD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals to create a baseline. The equipment baseline is updated using expenditure information and information related to acquisition and logistics to identify acquisitions and disposals. All property, plant, and equipment is capitalized if the acquisition costs (or estimated acquisition cost for DOD) are in excess of capitalization thresholds that vary considerably between the federal entities. Depreciation and amortization expense applies to property, plant, and equipment reported on the balance sheets except for land, unlimited duration land rights and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. All property, plant, and equipment are assigned useful lives depending on their category and vary considerably between the Federal entities. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and is depreciated. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Internal User (internal use) software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by agency employees.

In fiscal year 2007, NASA made a change in its accounting policy for property, plant, and equipment to reclassify costs previously categorized as general property, plant, and equipment to Research and Development (R&D) expenses. Accordingly, NASA applied the provisions of Statement of Financial Accounting Standards (SFAS) No. 2, Accounting for R&D Costs to account for its R&D projects. The cumulative effect of this change in accounting principle is a decrease in the property, plant, and equipment balance by $12.7 billion for those costs not meeting the criteria of general property, plant, and equipment and a corresponding decrease to the Net Position.

Please refer to the individual financial statements of the National Aeronautics and Space Administration (NASA) for a discussion relating to an accounting principle change related to property, plant and equipment.

Please refer to the individual financial statements of DOD, the Department of Energy (DOE), the Tennessee Valley Authority (TVA), the United States Postal Service (USPS), NASA, and the General Services Administration (GSA) for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 85 percent of the Government's total reported net property, plant, and equipment of $691.1 billion as of September 30.

G. Federal Employee and Veteran Benefits Payable

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

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

H. Environmental and Disposal Liabilities

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

I. Deferred Maintenance

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

J. Contingent Liabilities

Liabilities for contingencies are recognized on the balance sheets when both:

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

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

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed in Note 18—Contingencies.

K. Commitments

In the normal course of business, the Government has a number of unfulfilled commitments that may require the use of its financial resources. Note 19—Commitments describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

Discussion of treaties and other international agreements entered into by the United States Government are included in the Commitments section.

L. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Supplemental Information—Social Insurance section, and Note 20—Earmarked Funds.

M. Related Party Transactions

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depositary and fiscal agents. They process Federal payments and deposits to Treasury's account and service Treasury securities. FRBs owned $774.5 billion and $764.6 billion of Treasury securities held by the public as of September 30, 2007, and 2006, respectively. FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled $32.0 billion and $29.9 billion for the years ended September 30, 2007, and 2006, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, as described in Note 15—Other Liabilities, the FRB holds certificates and special drawing rights certificates.

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

The Government does not guarantee payment of the liabilities of Government-sponsored enterprises such as the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, which are privately owned. These enterprises also are excluded from the reporting entity.

N. Unmatched Transactions and Balances

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

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

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

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

O. Reclassifications

Certain fiscal year 2006 amounts have been reclassified to conform to the fiscal year 2007 presentation.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30

(In billions of dollars)	2007	2006
Unrestricted Cash:		
Cash held by Treasury for Governmentwide operations	69.7	43.6
Other	18.9	13.2
Restricted Cash	1.0	2.9
Total cash	89.6	59.7
International monetary assets	13.9	15.3
Gold	11.0	11.0
Foreign Currency	13.5	11.9
Total cash and other monetary assets	128.0	97.9

Cash

Total cash consists of:

- Unrestricted cash, includes cash held by the Department of the Treasury for Governmentwide operations (Operating Cash) and all other unrestricted cash held by the Federal agencies. Operating cash 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. Operating Cash includes balances invested with commercial depositaries in Treasury Tax and Loan Accounts (including funds invested through the Term Investment Option program and the Repo Pilot program). Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held in agencies' books, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, imprest funds, and amounts representing the balances of petty cash.
- Restricted cash is restricted due to the imposition on cash deposits by law, regulation, or agreement. All cash held by depositary institutions is either insured (for balances up to $100,000) by the Federal Deposit Insurance Corporation or collateralized by securities pledged by the depositary institution or through securities held under reverse repurchase agreements.

International Monetary Assets

International monetary assets include the U.S. reserve position in the International Monetary Fund (IMF) and U.S. holdings of Special Drawing Rights (SDRs)

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

Only a portion of the U.S. financial subscriptions to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit from the United States to the IMF.

The balance available under the letter of credit totaled $53.2 billion and $48.1 billion for the years ended September 30, 2007, and 2006, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $4.5 billion and $6.6 billion for the years ended September 30, 2007, and 2006, respectively.

SDRs are international monetary reserves issued by the IMF. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling $9.4 billion and $8.7 billion equivalent for the years ended September 30, 2007, and 2006, respectively.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. The SDR Act of 1968 authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled $2.2 billion for the years ended September 30, 2007, and 2006, respectively, and are included in Note 15—Other Liabilities.

As of September 30, 2007, and 2006, other liabilities included $7.6 billion and $7.2 billion, respectively, of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations that occurred in 1970, 1971, 1972, 1979, 1980, and 1981.

Foreign Currency

Foreign currency is translated into U.S. dollars at the exchange rate at fiscal yearend. The foreign currency is maintained by various U.S. Federal agencies and foreign banks. Foreign Currency was previously included in the International Monetary assets line in the prior years published *Financial Reports*. The data for fiscal year 2006 has been moved to the Foreign Currency line for comparison.

Gold

Gold is valued at the statutory price of $42.2222 per fine troy ounce. The number of fine troy ounces was 261,498,900 as of September 30, 2007, and 2006, respectively. The market value of gold on the London Fixing as of the reporting date was $743 and $599 per fine troy ounce for the years ended September 30, 2007, and 2006, respectively. Gold totaling $11.0 billion for the years ending September 30, 2007, and 2006, respectively, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time. See Note 15—Other Liabilities.

Note 3. Accounts and Taxes Receivable, Net

Accounts receivable includes related interest receivable of $6.3 billion and $5.4 billion for the years ended September 30, 2007, and 2006, respectively, and represents claims to cash or other assets from entities outside the Government. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience and are re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection. Accounts receivable are net of an allowance for uncollectible accounts. The allowance amounts are $14.3 billion and $12.5 billion for the years ended September 30, 2007 and 2006, respectively.

Accounts receivable for HHS increased by $8.4 billion due to the first time recording of a receivable for Medicare Part D overpayments to plans in 2006 and an estimate for the first nine months of the calendar year 2007.

Taxes receivable are the gross tax receivables net of allowance for doubtful accounts. Gross taxes receivable consist primarily of assessments, penalties, and related interest that were not paid or abated and which the taxpayers have agreed the amounts are owed or a court has determined the assessments are owed. The allowance for doubtful accounts is based on projections of collectibility from a statistical sample of unpaid tax assessments.

Accounts and Taxes Receivable as of September 30

(In billions of dollars)	2007	2006
Department of Health and Human Services	13.0	3.2
Department of Agriculture	8.9	8.6
Social Security Administration	8.0	7.6
Department of Defense	7.5	7.9
Pension Benefit Guaranty Corporation	5.8	2.0
Department of Energy	3.9	4.0
Department of Interior	1.9	2.5
Tennessee Valley Authority	1.7	1.4
Department of Treasury	1.7	1.0
Department of Veterans Affairs	1.3	1.2
Department of Labor	1.1	1.1
All other departments	5.1	5.6
Accounts receivable, net	59.9	46.1
Gross taxes receivable	101.5	94.3
Allowance for doubtful accounts	(73.6)	(71.6)
Taxes receivable, net	27.9	22.7
Total accounts and taxes receivable, net	87.8	68.8

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

The Government uses two methods, direct loans and loan guarantee programs, to accomplish the same goals. These goals are to promote the Nation's welfare by making direct Federal loans and guaranteeing non-federal loans to segments of the population not served adequately by non-federal institutions. For those unable to afford credit at the market rate, Federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, Federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults.

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

Direct Loans and Loan Guarantees as of September 30

(In billions of dollars)	Face Value of Loans Outstanding 2007	Face Value of Loans Outstanding 2006	Long-term Cost of Loans and Guarantees Outstanding 2007	Long-term Cost of Loans and Guarantees Outstanding 2006	Net Loans Receivable 2007	Net Loans Receivable 2006	Amount Guaranteed by the Government 2007	Amount Guaranteed by the Government 2006	Subsidy Expense for the Fiscal Year Ended September 30 2007	Subsidy Expense for the Fiscal Year Ended September 30 2006
Direct Loan Programs:										
Federal Direct Student Loans - Education	108.0	101.6	8.8	8.3	99.2	93.3			(0.5)	6.6
Electric Loans - USDA	36.0	34.2	1.1	1.6	34.9	32.6			-	(0.3)
Rural Housing Services - USDA	27.1	26.8	6.9	7.0	20.2	19.8			0.1	1.0
Federal Family Education Loans - Education	23.7	21.2	7.1	7.6	16.6	13.6			-	-
Water and Environmental Loans - USDA	9.3	8.7	0.8	0.8	8.5	7.9			-	-
Farm Loans - USDA	6.6	6.7	0.3	0.5	6.3	6.2			-	0.1
Housing and Urban Development	3.9	3.9	(0.9)	(0.4)	4.8	4.3			(0.1)	(0.2)
Housing for the Elderly and Disabled - HUD	4.6	5.5	-	(0.1)	4.6	5.6			-	-
Export-Import Bank Loans	7.3	8.4	2.9	2.9	4.4	5.5			-	-
U.S. Agency for International Development	6.7	7.2	2.3	2.4	4.4	4.8			5.8	-
Telecommunications Loans - USDA	4.0	4.0	(0.3)	-	4.3	4.0			(0.1)	-
Foreign Military Financing Program	3.2	3.7	0.2	-	3.0	3.7			-	-
All Other Direct Loan Programs	29.4	29.3	8.7	9.8	20.7	19.5			0.3	1.2
Total	269.8	261.2	37.9	40.4	231.9	220.8			5.5	8.4
Guaranteed Loan Programs:										
Federal Housing Administration Loans - HUD	438.8	434.2	7.4	3.5			400.0	395.8	(1.0)	(1.4)
Federal Family Education Loans - Education	363.3	324.6	50.8	52.6			359.2	321.0	4.9	28.0
Small Business Loans - SBA	71.5	67.2	1.7	1.6			58.4	54.6	-	-
Export-Import Bank Guarantees	50.2	49.4	1.3	1.3			50.2	49.4	0.1	0.2
Veterans Housing Benefit Programs - VA	207.6	203.2	3.8	3.3			24.9	61.3	0.1	(0.8)
Rural Housing Services - USDA	17.9	15.9	0.7	0.6			16.1	14.3	-	0.1
Israeli Loan Guarantee Program - AID	12.7	12.9	1.4	1.2			12.7	12.9	-	-
Overseas Private Investment Corporation Credit Program	4.1	4.1	0.5	0.6			4.1	4.1	-	-
Federal Ship Financing Fund (Title XI) - DOT	2.7	2.9	0.3	0.3			2.9	2.9	-	-
Business and Industry Loans - USDA	3.7	3.9	0.3	0.3			2.7	2.9	0.1	-
Export Credit Guaranteed Programs - USDA	2.4	3.0	0.2	0.2			2.3	2.9	(0.3)	(0.3)
All Other Guaranteed Loan Programs	18.5	18.2	0.7	0.9			16.6	16.6	(0.1)	0.1
Total Guaranteed Loan Programs	1,193.4	1,139.5	69.1	66.4			950.1	938.7	3.8	25.9

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

The total subsidy expense is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for reestimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense is included in the Statements of Net Cost.

Major Loan Programs

The Department of Education (Education) has two major education loan programs. The first major education loan program, the Federal Direct Student Loan Program, established in fiscal year 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three types of loans are available to borrowers at all income levels. These loans usually mature 9 to 13 years after the student is no longer enrolled. They are unsecured. The second major education loan program, the Federal Family Education Loan Program established in fiscal year 1965, is a guaranteed loan program. Like the Federal Direct Student Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans.

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

The FFAS delivers commodity, credit, conservation, disaster and emergency assistance programs that help strengthen and stabilize the agricultural economy.

The FSA offers direct and guaranteed loans to farmers who are unable to obtain private commercial credit and through this supervised credit to graduate its borrowers to commercial credit. The CCC offers both guarantee credit and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

The RD provides affordable housing and essential community facilities to rural communities through its housing loan and grant programs. These programs include:

- Very low- and low-to-moderate-income home ownership loans and guarantees.
- Very low-income housing repair loans.
- Multifamily housing loans and guarantees.
- Domestic farm labor housing loans.
- Housing site loans.
- Credit sales of acquired property.

The Rural Utilities Program administers a variety of loan programs for electric energy, telecommunications, and water and environmental projects in rural America.

The Department of Housing and Urban Development, Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA predominately serves borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income families, and residents of under-served areas.

The VA’s Veterans Housing Benefit Program provides partial guarantee of residential mortgage loans issued to eligible veterans, reservists, and service members by private lenders. This guarantee allows veterans, reservists, and service members to purchase a home without a substantial down payment.

The Export-Import Bank (EXIM) aids in financing and promoting U.S. exports. To accomplish its objectives, the bank’s authority and resources are used to:

- Assume commercial and political risk that exporters or private institutions are unwilling or are unable to undertake.
- Overcome maturity and other limitations in private sector financing.
- Assist U.S. exports to meet foreign officially-sponsored export credit competition.
- Provide leadership and guidance in export financing to the U.S. exporting and banking communities and to foreign borrowers.

The average repayment terms for these loans are approximately 7 years.

The Department of Defense (DOD), on behalf of the Executive Office of the President, provided military assistance to certain countries under the authorities of the Foreign Assistance Act of 1961, as amended, and the Arms Export Control Act of 1976, as amended.

The U.S. Agency for International Development (USAID) provides economic assistance to selected countries in support of U.S. efforts to promote stability and security interests in strategic regions of the world.

Other loan programs include the Small Business Administration general business loan guarantees and disaster loans, and the Farm Service Agency's farm ownership, emergency, and disaster loans and loans and guarantees made by the DOD under its Military Housing Privatization, and Armament Retooling and Manufacturing Support Initiatives.

Government-sponsored enterprises have the authority to request borrowings totaling $10 billion, subject to the approval of the Secretary of the Treasury.

Certain amounts, as of September 30, 2006, for the face value of loans outstanding, the long term cost of direct loans outstanding and net loan receivable amounts included in All Other Direct Loans were reclassified into the Federal Direct Student Loans-Education and Export-Import Bank Loans programs to reflect the amounts that were misclassified in the prior year. The reclassifications are summarized in the table below:

Direct Loan Programs as of September 30, 2006

(In billions of dollars)	Face Value of Loans Outstanding	Long-Term Cost of Loans Outstanding	Net Loans Receivable
Federal Direct Student Loans- Education	0.6	-	0.6
Export-Import Bank Loans	2.4	1.4	1.0
All Other Direct Loan Programs	(3.0)	(1.4)	(1.6)
Total	-	-	-

The reclassifications did not affect the total amounts for the face value of loans outstanding, the long term cost of direct loans outstanding, and the net loan receivable amounts as of September 30, 2006.

Please refer to the individual financial statements of the agencies specified above for significant detailed information regarding direct and guaranteed loans.

Note 5. Inventories and Related Property, Net

Inventories and Related Property as of September 30

(In billions of dollars)	Defense 2007	All Others 2007	Total 2007	Defense 2006	All Others 2006	Total 2006
Inventory purchased for resale	86.5	0.7	87.2	86.5	0.7	87.2
Inventory and operating material and supplies held for repair	48.5	0.6	49.1	48.1	0.5	48.6
Inventory—excess, obsolete, and unserviceable	7.3	-	7.3	9.8	0.1	9.9
Operating materials and supplies held for use	124.0	5.8	129.8	130.5	4.6	135.1
Operating materials and supplies held in reserve for future use	-	0.2	0.2	-	0.2	0.2
Operating materials and supplies—excess, obsolete, and unserviceable	2.4	0.2	2.6	2.1	(0.2)	1.9
Stockpile materials	-	43.9	43.9	0.1	42.9	43.0
Stockpile materials held for sale	0.9	0.3	1.2	1.0	0.3	1.3
Forfeited property	-	0.2	0.2	-	0.2	0.2
Other related property	0.6	0.8	1.4	0.8	0.8	1.6
Total allowance for inventories and related property	(45.3)	(0.5)	(45.8)	(47.2)	(0.5)	(47.7)
Total inventories and related property, net	224.9	52.2	277.1	231.7	49.6	281.3

Inventory is tangible personal property that is (1) held for sale, principally to Federal agencies, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. DOD values approximately 63 percent of its resale inventory using the moving average cost (MAC) method. An additional 9 percent (fuel inventory) is reported using the first-in-first-out method. DOD reports the remaining 28 percent of resale inventories at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses.

Inventory held in reserve for future sale is inventory not readily available, or inventory that will be needed in the future. Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economic to repair than to dispose of (operating materials and supplies).

Inventory—excess, obsolete, and unserviceable consists of:

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

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

Please refer to the individual financial statements of DOD and GSA for significant detailed information regarding inventory held for future sale.

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

Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance that they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses LAC, MAC and Standard Price under the purchase and consumption methods of accounting and does not adjust for holding gains and losses. The DOD valuation methods do not approximate historical cost.

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

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

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

Please refer to the individual financial statements of DOD and NASA for significant detailed information regarding operating materials and supplies.

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

Other related property consists of:

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

Note 6. Property, Plant, and Equipment, Net

The category of property, plant, and equipment consists of tangible assets including land, buildings, structures, Internal Use software, and other assets used to provide goods and services. Depreciation and amortization is recognized using the straight-line method over the estimated useful lives of the assets.

Property, Plant, and Equipment as of September 30, 2007

(In billions of dollars)	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	173.3	189.3	101.5	96.9	71.8	92.4
Furniture, fixtures, and equipment	728.1	151.0	359.7	84.5	368.4	66.5
Construction in progress	19.5	34.5	N/A	N/A	19.5	34.5
Land	10.5	11.3	N/A	N/A	10.5	11.3
Internal Use software	9.3	10.6	5.8	4.9	3.5	5.7
Assets under capital lease	1.0	1.7	0.5	0.7	0.5	1.0
Leasehold improvements	0.6	4.4	0.3	2.4	0.3	2.0
Other property, plant, and equipment	0.1	8.6	-	5.5	0.1	3.1
Subtotal	942.4	411.4	467.8	194.9	474.6	216.5
Total property, plant, and equipment, net		1,353.8		662.7		691.1

Property, Plant, and Equipment as of September 30, 2006

(In billions of dollars)	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	167.9	180.2	98.4	91.9	69.5	88.3
Furniture, fixtures, and equipment	700.4	127.7	338.6	76.6	361.8	51.1
Construction in progress	20.0	47.2	N/A	N/A	20.0	47.2
Land	10.5	11.0	N/A	N/A	10.5	11.0
Internal User software	8.7	8.9	5.3	3.8	3.4	5.1
Assets under capital lease	0.6	1.6	0.5	0.6	0.1	1.0
Leasehold improvements	0.3	4.4	0.2	2.5	0.1	1.9
Other property, plant, and equipment	0.1	50.8	-	33.4	0.1	17.4
Subtotal	908.5	431.8	443.0	208.8	465.5	223.0
Total property, plant, and equipment, net		1,340.3		651.8		688.5

For physical quantity information related to multi-use heritage assets, refer to Note 24—Heritage Assets.

Please refer to the individual financial statements of DOD, DOE, USPS, NASA, GSA and TVA for significant detailed information for property, plant and equipment. These agencies comprise 85 percent of the Government's total reported net property, plant, and equipment of $691.1 billion as of September 30, 2007.

Note 7. Securities and Investments

Securities and Investments as of September 30

(In billions of dollars)	2007	2006
Securities and investments:		
Pension Benefit Guaranty Corporation	45.9	35.5
Railroad Retirement Board *	32.0	28.6
Exchange Stabilization Fund	10.0	9.3
Tennessee Valley Authority	9.6	8.5
All other	2.3	1.9
Total Securities and Investments	99.8	83.8

* For more information, see the Social Insurance, Railroad Retirement, segment in the Supplemental Information section.

These securities and investments do not include nonmarketable Treasury securities, which have been eliminated in consolidation. They are presented at cost, net of unamortized premiums and discounts. The Pension Benefit Guaranty Corporation (PBGC) invests primarily in fixed maturity and equity securities. As discussed in the Railroad Retirement section of Supplemental Information—Social Insurance, the National Railroad Retirement Investment Trust manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program, a social insurance program. Treasury's Exchange Stabilization Fund invests primarily in foreign currency, bonds, and bills. TVA balance includes $8.4 billion and $7.5 billion for years ending September 30, 2007, and 2006, respectively, relates to the Tennessee Valley Authority Retirement System.

Note 8. Other Assets

Other Assets as of September 30

(In billions of dollars)	2007	2006
Advances and prepayments	30.5	29.9
Other	34.9	25.5
Total other assets	65.4	55.4

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

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

Note 9. Accounts Payable

Accounts Payable as of September 30

(In billions of dollars)	2007	2006
Department of Defense	29.7	27.4
Department of Agriculture	4.4	4.2
Department of Veterans Affairs	3.9	0.8
Department of Homeland Security	3.0	2.8
Department of Justice	2.8	2.3
Tennessee Valley Authority	2.7	1.1
Department of the Treasury	2.5	0.7
Agency for International Development	2.4	2.3
U.S. Postal Service	2.0	2.0
Department of State	2.0	1.3
General Services Administration	1.8	2.0
Department of Energy	1.4	1.3
Department of Interior	1.1	1.1
Department of Labor	1.1	0.9
National Aeronautics and Space Administration	1.0	1.7
All other departments	4.4	6.5
Total accounts payable	66.2	58.4

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

Note 10. Federal Debt Securities Held by the Public and Accrued Interest

Definitions of Debt

Debt Held by the Public—Federal debt held outside the Government by individuals, corporations, State or local governments, Federal Reserve banks, foreign governments, and central banks.

Intragovernmental Debt Holdings—Federal debt held by Government trust funds, revolving funds, and special funds.

Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2006	Net Change During Fiscal Year 2007	Balance September 30, 2007	Average Interest Rate 2007	Average Interest Rate 2006
Treasury Securities (Public):					
Marketable securities:					
Treasury bills	908.5	46.1	954.6	4.6%	5.0%
Treasury notes	2,445.3	10.8	2,456.1	4.4%	4.2%
Treasury bonds	534.5	26.4	560.9	7.4%	7.6%
Treasury inflation-protected securities (TIPS)	395.5	61.3	456.8	2.3%	2.3%
Total marketable Treasury securities	4,283.8	144.6	4,428.4		
Nonmarketable securities	559.3	61.6	620.9	4.9%	5.0%
Net unamortized premium/ (discounts)	(40.2)	0.8	(39.4)		
Total Treasury securities, net (public)	4,802.9	207.0	5,009.9		
Agency Securities:					
Tennessee Valley Authority	22.9	(0.3)	22.6		
All other agencies	0.2	0.2	0.4		
Total agency securities, net of unamortized premiums and discounts	23.1	(0.1)	23.0		
Accrued interest payable	41.5	3.3	44.8		
Total Federal debt securities held by the public and accrued interest	4,867.5	210.2	5,077.7		

Types of marketable securities:
Bills – Short-term obligations issued with a term of 1 year or less.
Notes – Medium-term obligations issued with a term of at least 1 year, but not more than 10 years.
Bonds – Long-term obligations of more than 10 years.
TIPS – Term of more than 5 years.

This table details Government borrowing to finance operations and shows marketable and nonmarketable securities at face value less net unamortized discounts including accrued interest.

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

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

Section 3111 of Title 31, United States Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government. There were no buyback operations in fiscal years 2007 and 2006.

As of September 30, 2007, and 2006, respectively, $8,921.3 billion and $8,420.3 billion of debt were subject to a statutory limit (31 U.S.C. § 3101). That limit was $9,815.0 billion as of September 30, 2007, and $8,965.0 billion as of September 30, 2006. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of Federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the table below).

Intragovernmental debt holdings represent the portion of the gross Federal debt held as investments by Government entities. This includes trust funds that are earmarked funds. For more information on earmarked funds, see Note 20—Earmarked Funds. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

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

(In billions of dollars)	Balance 2006	Net Change During Fiscal Year 2007	Balance 2007
Social Security Administration, Federal Old-Age and Survivors Insurance	1,793.1	175.2	1,968.3
Office of Personnel Management, Civil Service Retirement and Disability	689.9	11.8	701.7
Department of Health and Human Services, Federal Hospital Insurance	302.2	17.2	319.4
Social Security Administration, Federal Disability Insurance	202.2	11.6	213.8
Department of Defense, Military Retirement Fund	181.8	8.4	190.2
Department of Defense, Medicare-Eligible Retiree Health Care Fund	72.7	19.5	92.2
Department of Labor, Unemployment	66.2	8.7	74.9
Federal Deposit Insurance Corporation Funds	49.3	1.4	50.7
Department of Energy, Nuclear Waste Disposal	36.5	2.9	39.4
Department of Health and Human Services, Federal Supplementary Medical Insurance	32.3	6.9	39.2
Pension Benefit Guaranty Corporation Fund	36.6	(0.8)	35.8
Office of Personnel Management, Employees' Life Insurance	31.3	1.7	33.0
Office of Personnel Management, Postal Service Retiree Health Benefits Fund	-	25.5	25.5
Housing and Urban Development, Federal Housing	22.0	0.4	22.4
Department of Treasury, Exchange Stabilization Fund	15.7	0.7	16.4
Office of Personnel Management, Employees' Health Benefits	14.8	1.1	15.9
Department of State, Foreign Services Retirement and Disability Fund	13.9	0.5	14.4
Department of Transportation, Highway Trust Fund	11.0	1.2	12.2
Department of Veterans Affairs, National Service Life Insurance Fund	10.2	(0.4)	9.8
All other programs and funds	82.2	1.0	83.2
Subtotal	3,663.9	294.5	3,958.4
Unamortized net (discounts)/premiums	(1.2)	4.9	3.7
Total intragovernmental debt holdings, net	3,662.7	299.4	3,962.1

Note 11. Federal Employee and Veteran Benefits Payable

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

The Federal Government administers more than 40 pension plans. OPM administers the largest civilian plan. DOD, meanwhile, administers the largest military plan. Other significant pension plans with more than $10 billion in accrued benefits payable include those of the Coast Guard and the Foreign Service. The changes in the accrued post-retirement pension and health benefit liability and components of related expense for the years ended September 30, 2007, and 2006, respectively, are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

	Civilian		Military		Total	
(In billions of dollars)	2007	2006	2007	2006	2007	2006
Pension and accrued benefits	1,386.3	1,349.0	1,028.8	967.1	2,415.1	2,316.1
Post-retirement health and accrued benefits	311.6	295.2	833.8	837.2	1,145.4	1,132.4
Veterans compensation and burial benefits	N/A	N/A	1,127.7	1,153.8	1,127.7	1,153.8
Life insurance and accrued benefits	35.9	34.2	13.1	13.5	49.0	47.7
FECA benefits	15.9	14.4	8.7	8.7	24.6	23.1
Liability for other benefits	0.5	1.5	6.8	4.4	7.3	5.9
Total Federal employee and veteran benefits payable	1,750.2	1,694.3	3,018.9	2,984.7	4,769.1	4,679.0

Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued pension liability as of September 30, 2006	1,349.0	967.1	2,316.1
Pension Expense:			
Prior (and past) service costs from plan amendments	0.4	1.6	2.0
Assumption change	1.2	26.5	27.7
Normal costs	27.3	17.8	45.1
Interest on pension liability during the period	82.5	57.1	139.6
Actuarial (gains)/losses	(10.6)	2.2	(8.4)
Total pension expense	100.8	105.2	206.0
Less benefits paid	63.5	43.5	107.0
Actuarial accrued pension liability as of September 30, 2007	1,386.3	1,028.8	2,415.1

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

(In percentages)	Civilian 2007	Civilian 2006	Military 2007	Military 2006
Rate of interest	6.25%	6.25%	6.00%	6.00%
Rate of inflation	3.50%	3.50%	3.00%	3.00%
Projected salary increases	4.25%	4.25%	3.75%	3.75%

Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 2006	295.2	837.2	1,132.4
Prior period adjustments	0.4	-	0.4
Corrected beginning post-retirement health benefits liability	295.6	837.2	1,132.8
Post-Retirement Health Benefits Expense:			
Normal costs	11.3	20.3	31.6
Interest on liability	18.2	53.0	71.2
Change in medical inflation rate assumption (gains)/losses	-	(41.2)	(41.2)
Other actuarial (gains)/losses	(1.7)	(16.7)	(18.4)
Total post-retirement health benefits expense	27.8	15.4	43.2
Less claims paid	11.8	18.8	30.6
Actuarial accrued post-retirement health benefits liability, as of September 30, 2007	311.6	833.8	1,145.4

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

(In percentages)	Civilian 2007	Civilian 2006	Military 2007	Military 2006
Rate of interest	6.25%	6.25%	6.00%	6.25%
Rate of health care cost inflation	7.00%	7.00%	6.25%	6.25%

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

The long-term ultimate rate for fiscal year 2007 of 6.25 percent is shown in the tables above. For disclosure and comparison purposes, DOD's estimate of a single equivalent fixed rate of health care cost inflation for fiscal year 2007 is 6.9 percent, which is an approximation of the single equivalent rate that would produce that same actuarial liability as the actual rates used.

Civilian Employees

Pensions

OPM administers the largest civilian pension plan, which covers approximately 90 percent of all Federal civilian employees. This plan includes two components of defined benefits. These are the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF).

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the General Fund, and interest on investments in Treasury securities. See Note 20—Earmarked Funds.

The Federal Retirement Thrift Investment Board, an independent Government agency, administers the Thrift Savings Plan (TSP) Fund. The TSP Fund includes the C-Fund, S-Fund, F-Fund, I-Fund, and G-Fund, and the newly established L-Funds. These financial statements exclude the TSP because the CSRS and FERS employees own its assets.

Treasury securities held in the G-Fund are included and classified as Treasury securities held by the public. There are no limits on the percentage of contribution to the plan for CSRS and FERS employees, as long as they do not exceed the Internal Revenue Service elective deferral limit, which is $15,500 for 2007. FERS participants received the following: Agency Automatic (1 percent) Contributions; Agency Matching Contributions; and vesting is immediate for agency automatic contributions and attributable earnings. Vesting is generally 3 years for agency matching contributions and attributable earnings. To receive the maximum agency Matching Contribution, FERS employees must contribute at least five percent of the basic pay each pay period during the year. (The first five percent of the basic pay each pay period is matched dollar-for-dollar on the first percent, and 50 cents on the dollar for the next two percent.) CSRS employees do not receive any agency contributions.

The G-Fund held $81.4 billion and $72.2 billion in nonmarketable Treasury securities as of September 30, 2007, and 2006, respectively. The Federal Government's related liability is included in total Federal debt securities held by the public and accrued interest in the balance sheets.

The L-Funds, established August 1, 2005, diversifies participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons.

Health Benefits

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

Life Insurance Benefits

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

Workers' Compensation Benefits

The Department of Labor (DOL) determines both civilian and military agencies' liabilities for future workers' compensation benefits for civilian Federal employees, as mandated by the Federal Employees Compensation Act (FECA) for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred but not reported claims. The FECA liability is determined annually using historical benefit payment patterns related to a specific incurred period to predict the final payment related to the period. These estimated payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. For 2007, a 4.93 percent interest rate was assumed and 5.08 percent was assumed for year two and thereafter.

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

Fiscal Year	COLA	CPIM
2007	N/A	N/A
2008	2.63%	3.74%
2009	2.90%	4.04%
2010	2.47%	4.00%
2011	2.37%	3.94%
2012+	2.30%	3.94%

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The increase in Military Retirement Pension is primarily due to interest on the pension liability. The increase is due largely to the unfunded liability amortization schedule adopted by the Board of Actuaries. The prior plan funded the original unfunded liability over a 50-year period with increasing payments, which did not cover the interest on the unfunded liability, and therefore caused an increase in the total liability. The revised plan, effective in fiscal year 2008, will fund the original unfunded liability over a 42-year period with higher payments. Under the revised plan, the expectation is that the unfunded liability will begin decreasing in fiscal year 2008. Actual results depend on future benefit changes, assumption changes, and actuarial experience.

Projected revenues into the MRF come from three sources: interest earnings on MRF assets, monthly DOD contributions, and annual contributions from the Treasury Department. Beginning with fiscal year 2005, the contributions made by Treasury were increased by an amount equal to the annual expense for the new concurrent receipt provision of the fiscal year 2004 National Defense Authorization Act.

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to the Departments of the Army, Navy, Air Force, and Marine Corps. This system includes nondisability retirement pay, disability retirement pay, and retirement pay for reserve service and survivor annuity programs. Military personnel (Army, Navy, Marine Corps, and Air Force) who remain on active duty for 20 years or longer are eligible for retirement. There are three different retirement systems that are currently being used by the military: Final Pay, High-3 Year Average, and the Military Retirement Reform Act of 1986 (REDUX). The date each individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system.

Final Pay Retirement System: Final Pay applies to individuals who entered the Service before September 8, 1980. Each year of service is worth 2.5 percent towards the retirement multiplier. The longer an individual stays on active duty, the higher the multiplier and the higher the retirement income, up to the maximum of 75 percent of pre-2007 retirements. Starting with 2007 retirements, the retirement multiplier is not limited for individuals with more than 30 years of service. This multiplier is applied against the final basic pay of the individual's career. A cost of living adjustment (COLA) is given annually based on the increase in the CPI.

High-Year Average Retirement System: High-3 Year Average applies to members who first entered the Service after September 8, 1980, but before August 1, 1986. It also applies to individuals who entered on or after August 1, 1986, who do not elect the REDUX retirement system with the $30,000 career status bonus (CSB) at their 15th year of service. The High-3 Year Average calculation is similar to the Final Pay except the High-3 Year Average uses the multiplier against basic pay for the highest 36 months of the individual's career. A COLA is given annually based on the increase in the CPI.

CSB/REDUX Retirement System: The REDUX applies to those who entered the Service on or after September 8, 1980, and who elected to receive the $30,000 CSB at their 15th year of service. Under the CSB/REDUX retirement system, each of the first 20 years of service is worth 2 percent towards the retirement multiplier and each year after 20 years of service is worth 3.5 percent. The retirement multiplier under this retirement system is applied against the average basic pay for the highest 36 months of the individual's basic pay. A COLA is given annually based on the increase in the CPI minus 1 percent. Members retiring under CSB/REDUX receive a one-time catchup at age 62 that restores the retired pay to what it would have been at that point had the member retired under High-3 Year Average. Thereafter, CSB/REDUX members receive reduced (i.e., based on the increase in the CPI minus 1 percent) COLAs for life.

On October 30, 2000, the Floyd D. Spence National Defense Authorization Act (NDAA) for fiscal year 2001 (Public Law No. 106-398) was signed into law. This law amended the effective date of NDAA for fiscal year 2000 (Public Law No. 106-65), which extended participation in the TSP to members of the uniformed services. Members may contribute from their pay, and their contributions and earnings attributable to their TSP belong to them even if they do not serve the 20 or more years ordinarily required to receive retirement pay.

Health Benefits

Military benefits entitle retirees and their dependents to health care in military medical facilities if a facility can provide the needed care. Until they reach age 65, military retirees and their dependents also are entitled to be reimbursed for the cost of health care from civilian providers. A premium is charged to enroll in DOD's civilian care program. In addition, there are deductible and copayment requirements for civilian care. Medicare, and since fiscal year 2002, Tricare as secondary payer, covers military retirees after they reach 65 years of age.

Military retiree health care figures include the cost of education and training, staffing, buildings and equipment, as well as the operation and maintenance of medical facilities. They also include claims paid to civilian providers and the cost of administering the program.

Chapter 56 of Title 10, U.S.C. created the DOD Medicare-Eligible Retiree Health Care Fund effective October 1, 2002. The purpose of this fund is to account for the health benefits of Medicare-eligible members and former members of the DOD Uniformed Services who are entitled to retirement or retainer pay, and their eligible dependents who are Medicare eligible.

In addition to the health care benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. VA recognizes the medical care expenses in the period the medical care services are provided. For the time period 2003 through 2007, the average medical cost per year was $27.1 billion.

Veterans Compensation and Burial Benefits

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

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

The liability for veteran's compensation and burial benefits payable decreased by $26.1 billion in fiscal year 2007 and increased by $31.2 billion in fiscal year 2006. The primary factors contributing to these fluctuations were changes in interest rates and other actuarial assumptions; various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments; and life expectancy.

Veterans Compensation and Burial Benefits as of September 30

(In billions of dollars)	2007	2006
Veterans	944.0	970.8
Survivors	179.9	179.1
Burial benefits	3.8	3.9
Total compensation and burial benefits payable	1,127.7	1,153.8

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

(In percentages)	2007	2006
Rate of interest	4.48%	4.76%
Rate of inflation	2.90%	4.10%

Life Insurance Benefits

The largest veterans life insurance programs consist of the following:

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

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

Veteran Life Insurance Liability as of September 30

(In billions of dollars)	2007	2006
Insurance Death Benefits:		
NSLI	8.2	8.6
VSLI	1.6	1.6
VRI	0.3	0.3
Other	0.5	0.4
	10.6	10.9
Death benefit annuities	0.1	0.2
Disability income & waiver	0.5	0.5
Insurance dividends payable	1.9	1.9
Total veterans life insurance liability	13.1	13.5

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

The VA supervises Service members' Group Life Insurance and Veterans' Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services and veterans who served during the Vietnam era or thereafter. The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amounts of future payments for pension benefits as of September 30, 2007, and 2006 were $81.4 billion and $97.0 billion, respectively.

As of September 30, 2006, $13.5 billion of Military FECA Benefits were reclassified to Military Life Insurance to correct their classification in the prior year. The reclassification did not affect total Military Employee and Veteran Benefits Payable as of September 30, 2006.

Note 12. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2007	2006
Department of Energy:		
Environmental Management Program	188.6	159.1
Legacy Environmental Liabilities - other	29.4	28.1
Active and Surplus Facilities	29.2	27.6
High-level Waste and Spent Nuclear Fuel	16.4	15.5
Total Department of Energy	263.6	230.3
Department of Defense:		
Environmental Restoration	33.1	33.5
Disposal of Weapon Systems Program	31.4	30.2
Base Realignment and Closure	5.1	4.1
Environmental Corrective Other	2.9	2.2
Total Department of Defense	72.5	70.0
All other agencies	5.9	4.9
Total environmental and disposal liabilities	342.0	305.2

During World War II and the Cold War, DOE (or predecessor agencies) developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities.

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

Of those environmental liabilities, this report presents only cleanup costs from Federal operations known to result in hazardous and radioactive waste that the Government is required to clean up by Federal, State, or local statutes and/or regulations. Some of these statutes are the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); the Resource Conservation and Recovery Act; the Nuclear Waste Policy Act of 1982, which provides for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel; and Public Law No. 105-204, which requires a plan for the conversion of depleted uranium hexafluoride.

DOE is responsible for managing the legacy of contamination from the nuclear weapons complex. The environmental management baseline estimate includes projections of the technical scope, schedule, and costs for environmental restoration; managing nuclear materials waste treatment, storage and disposal activities; and post-cleanup monitoring and stewardship at each installation. The baseline estimate includes costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by Native American tribes, regulatory agencies, and other stakeholders. Active and surplus facilities represent anticipated remediation costs for those facilities that are conducting ongoing operations but ultimately will require stabilization, deactivation, and decommissioning.

Estimated cleanup costs at sites for which there are no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. Significant projects not included are the nuclear explosion test areas (e.g., Nevada test site).

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

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

DOE is also required to recognize closure and post-closure costs for its active and surplus facilities and environmental corrective action costs for current operations. The cleanup cost associated with active and surplus facilities that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. The DOE unrecognized portion of the cleanup cost associated with active and surplus facilities is $760.0 million and $505.0 million for fiscal years 2007 and 2006, respectively. The unrecognized portion of the cleanup cost is recognized over a predetermined period of time.

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

DOD is required by law to adhere to CERCLA and the Superfund Amendment and Reauthorization Act to clean up contamination resulting from waste disposal practices, leaks, spills, and other activities that have created a public health or environmental risk. CERCLA requires DOD to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners.

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

DOD is currently using two independently validated estimating models, in addition to engineering estimates, to report its environmental liabilities. The models are the Remedial Action Cost Engineering Requirements (RACER) and the Department of Navy Normalization of Data System (NORM). DOD uses the models to estimate cost during the preliminary assessment and initial site investigation phases of restoration projects. Engineering estimates are generally used to estimate cost from the remedial investigation/feasibility phase of the project forward. DOD is also required to recognize closure and post-closure costs for its general property, plant, and equipment and environmental corrective action costs for current operations. The cleanup cost associated with general property, plant, and equipment that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. The DOD unrecognized portion of the cleanup cost associated with general property, plant, and equipment is $1,589.1 million and $1,527.4 million for fiscal years 2007 and 2006, respectively. The unrecognized portion of the cleanup costs is recognized over a predetermined period of time.

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

Note 13. Benefits Due and Payable

These amounts are the benefits owed to program recipients or medical service providers as of the fiscal yearend that have not been paid. For a description of the programs, see the Supplemental Information—Social Insurance section.

Benefits Due and Payable as of September 30

(In billions of dollars)	2007	2006
Federal Old-Age and Survivors Insurance	44.1	41.6
Federal Supplementary Medical Insurance (Medicare Part B)	22.2	21.1
Federal Disability Insurance	21.7	20.9
Federal Hospital Insurance (Medicare Part A)	19.4	19.8
Grants to States for Medicaid	19.4	19.2
Supplemental Security Income	4.2	3.5
Unemployment Insurance	1.3	1.1
All Other Benefit Programs	1.4	2.1
Total benefits due and payable	133.7	129.3

Note 14. Insurance Program Liabilities

Insurance Program Liabilities as of September 30

(In billions of dollars)	2007	2006
Insurance Program Liabilities:		
Pension Benefit Guaranty Corporation - Benefit Pension Plans	69.3	69.1
Department of Homeland Security - National Flood Insurance Program	1.5	3.6
All Other Insurance Programs	0.1	0.1
Total Insurance Programs	70.9	72.8

Insurance programs are Federal programs that provide protection to individuals or entities against specified risks except for those Federal employees or veterans discussed in Note 11—Federal Employee and Veteran Benefits Payable. These funds are commonly held in revolving funds with the Federal Government, and losses sustained by participants are paid from these funds. Many of these programs receive appropriations to pay excess claims and/or have authority to borrow from the Treasury. Insurance programs do not include social insurance, loan guarantee programs, and programs designed to benefit only current, former, and dependents of Federal employees.

PBGC insures pension benefits of participants in covered defined benefit pension plans. As a wholly owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general. As of September 30, 2007, PBGC had total liabilities of $82.5 billion, and its total liabilities exceeded its total assets by $14.1 billion. In addition, as discussed in Note 18—Contingencies, PBGC reported reasonably possible contingent losses of about $65.7 billion.

The Federal Emergency Management Agency (FEMA) of DHS administers the National Flood Insurance Program (NFIP). The NFIP is administered through sale or continuation-in-force of insurance in communities that enact and enforce appropriate flood plain management measures. This liability represents an estimate of NFIP losses that are unpaid at the balance sheet date and is based on the loss and loss adjustment expense factors, including interest payments, inherent in the NFIP insurance underwriting operations experience and expectations.

Note 15. Other Liabilities

The other liabilities line item is comprised of liabilities that are not separately identified on the balance sheet. The table below presents other liabilities on a comparative basis by major category. Those that do not fit into these major categories are reported in the miscellaneous liabilities category.

Other Liabilities (In billions of dollars)	**2007**	**2006**
Employee-related liabilities		
Accrued Federal employees wages and benefits	31.2	30.0
Selected DOE contractors' and D.C. employees' pension benefits	28.8	28.4
Subtotal	60.0	58.4
Unearned revenue and assets held for others		
DOE's unearned fees for nuclear waste disposal and other unearned revenue	33.6	35.4
Assets held on behalf of others	38.7	23.2
Subtotal	72.3	58.6
Subsidies and grants		
Farm and other subsidies	17.9	20.0
Grant payments due to State and local governments and others	13.1	13.0
Subtotal	31.0	33.0
International monetary liabilities and gold certificates (see Note 2)	20.8	20.4
Miscellaneous liabilities		
Legal and other contingencies	24.7	17.9
Bonneville Power Administration Non-Federal Power Projects and Capital lease liabilities, and disposal liabilities	12.5	13.2
Other miscellaneous	36.9	32.8
Subtotal	74.1	63.9
Total Other Liabilities	258.2	234.3

Employee-Related Liabilities

This category includes amounts owed to employees at yearend and actuarial liabilities for certain non-Federal employees. Actuarial liabilities for Federal employees and veteran benefits are included in Note 11 and are reported on a separate line on the balance sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to Federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors such as the University of California, which operates the Lawrence Livermore National Laboratory, for contractor employee pension and postretirement benefits, which is about $12.3 billion and $12.0 billion as of September 30, 2007, and 2006, respectively. Also, the Federal Government owed about $9.0 billion and $9.1 billion as of September 30, 2007, and 2006 respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

Unearned Revenue and Funds Held for Others

The Federal Government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The Federal Government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste is about $24.8 billion and $23.3 billion as of September 30, 2007, and 2006, respectively. Other unearned revenue includes U.S. Postal Service income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance and undelivered defense articles and services for future delivery to foreign governments.

Subsidies and Grants

The Federal Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. Department of Agriculture programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about $11.5 billion, and $13.5 billion as of September 30, 2007, and 2006 respectively.

The Federal Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as the Department of Health and Human Services' grants to fund projects to "enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2007, and September 30, 2006, the Departments of Transportation, Education, and Health and Human Services collectively owed their grantees about $11.6 billion and $10.9 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for: (1) legal and other contingencies (see Note 18— Contingencies) (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) capital leases and disposal liabilities. In addition, many Federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise described.

Note 16. Collections and Refunds of Federal Revenue

Collections of Federal Revenue for the Year Ended September 30, 2007

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate 2007	2006	2005	Prior Years
Individual income and tax withholdings	2,201.5	1,408.6	750.6	23.9	18.4
Corporation income taxes	395.3	253.4	116.3	2.9	22.7
Unemployment taxes	39.4	21.9	9.8	7.6	0.1
Excise taxes	69.9	51.8	17.8	0.1	0.2
Estate and gift taxes	27.0	-	16.2	1.6	9.2
Railroad retirement taxes	4.7	3.6	1.1	-	-
Federal Reserve earnings	32.0	26.2	5.8	-	-
Fines, penalties, interest, and other revenue	9.5	9.1	0.4	-	-
Custom duties	26.3	26.3	-	-	-
Subtotal	2,805.6	1,800.9	918.0	36.1	50.6
Less: amounts collected for non-federal entities	(0.5)				
Total	2,805.1				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income tax and tax withholdings consist of Federal Insurance Contributions Act/Self-Employment Contributions Act and other taxes including payroll taxes collected from other agencies.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2007

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2007	2006	2005	Prior Years
Individual income and tax withholdings	261.1	1.8	235.2	17.8	6.3
Corporation income taxes	28.2	1.2	8.2	4.3	14.5
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	2.4	0.4	0.6	0.3	1.1
Estate and gift taxes	1.0	-	0.3	0.5	0.2
Custom duties	6.9	5.6	0.2	0.3	0.8
Total	299.7	9.0	244.6	23.2	22.9

Reconciliation of Collections to Revenue

(In billions of dollars)	2007	2006
Total revenue per the Statements of Operations and Changes in Net Position	2,627.3	2,440.8
Tax refunds	299.7	278.9
Earned Income Tax Credit and Child Tax Credit Imputed Revenue	(58.4)	(57.0)
Nontax related fines and penalties reported by agencies	(33.8)	(23.4)
Nontax related earned revenue	(29.7)	(17.1)
Collections of Federal revenue	2,805.1	2,622.2

Total revenue in the Statements of Operations and Changes in Net Position is presented on a modified cash basis, is net of tax refunds, and includes Earned Income Tax Credit (EITC) payments and other nontax related revenue. EITC and Child Tax Credit amounts (unaudited) are included in gross cost in the Statements of Net Cost as a component of Treasury.

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

Collections of Federal Revenue for the Year Ended September 30, 2006

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate 2006	2005	2004	Prior Years
Individual income and tax withholdings	2,034.2	1,309.4	690.8	17.3	16.7
Corporation income taxes	380.4	259.1	103.8	1.7	15.8
Unemployment taxes	41.6	22.8	10.1	8.6	0.1
Excise taxes	74.8	55.5	19.0	0.1	0.2
Estate and gift taxes	28.7	0.1	18.8	1.2	8.6
Railroad retirement taxes	4.7	3.6	1.1	-	-
Federal Reserve earnings	29.9	24.1	5.8	-	-
Fines, penalties, interest, and other revenue	2.4	2.0	0.4	-	-
Custom duties	25.9	25.9	-	-	-
Subtotal	2,622.6	1,702.5	849.8	28.9	41.4
Less: Amounts collected for non-federal entities	(0.4)				
Total	2,622.2				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2006

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2006	2005	2004	Prior Years
Individual income and tax withholdings	245.2	0.6	225.5	13.5	5.6
Corporation income taxes	30.5	1.2	8.8	3.9	16.6
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	0.7	-	0.5	-	0.2
Estate and gift taxes	1.3	0.5	0.2	0.3	0.3
Custom duties	1.1	1.1	-	-	-
Total	278.9	3.4	235.1	17.7	22.7

Note 17. Prior Period Adjustments

Prior Period Adjustments to Fiscal Years 2007 and 2006

(In billions of dollars)	Decreases to Net Position 2007	2006
Prior Period Adjustments		
National Aeronautics and Space Administration..............	(12.7)	-
Agency for International Development............................	(1.9)	-
Other prior period adjustments	0.7	-
Total prior period adjustments......................................	(13.9)	-

For fiscal year 2007, NASA recorded prior period adjustments for $12.7 billion (net decrease), primarily to reflect a change in accounting principle for property, plant and equipment to reclassify costs previously categorized as general property, plant, and equipment to Research and Development (R&D) expenses. After a detailed review of all items previously categorized as property, plant, and equipment, NASA concluded certain projects are more properly classified as R&D, and should not be classified, in their entirety, as capital assets under the classification of property, plant, and equipment. Accordingly, NASA applied the provisions of Statement of Federal Financial Accounting Standards (No. 2), Accounting for R&D Costs to account for its R&D projects. NASA believes the recognition and measurement requirements of SFFAS No. 2 result in reporting financial information that is more relevant and accurate. In fiscal year 2007, AID changed its accounting principles as it relates to parent/child reporting. As a result, the fiscal year 2007 beginning balance for total assets, total liabilities, and net position has changed as follows: Total assets decreased by $2.35 billion. This decrease is primarily attributable to a $2.3 billion decrease in the Fund Balance with Treasury. Total liabilities decreased by $427.6 million. This decrease is mostly due to a decrease of $426 million in accounts payable. Net position decreased by $1.9 billion.

Note 18. Contingencies

Financial Treatment of Loss Contingencies

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

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

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

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

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

Insurance Contingencies

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. For example, the estimated aggregate unfunded vested benefits exposure to Pension Benefit Guaranty Corporation (PBGC) for private-sector single-employer and multiemployer defined pension plans that is classified as reasonably possible, is $65.7 billion and $73.4 billion for 2007 and 2006, respectively.

Insurance in Force

Insurance in Force is the accumulation of policy limits for all policies issued and outstanding at a point in time. The Federal Government has Insurance in Force in the amount of $1,157.3 billion for 2007, and $1,048.6 billion for 2006. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major types are identified below:

- Department of Homeland Security (DHS) reported $1,100.0 billion and $994.1 billion for 2007 and 2006, respectively for the National Flood Insurance Program (NFIP).
- Export-Import Bank of the United States (EXIM) reported $39.1 billion and $36.4 billion for 2007 and 2006, respectively for Export Credit Insurance (ECI).

Deposit Insurance

Deposit Insurance covers all types of deposits accounts such as checking, NOW and savings accounts, money market deposit accounts, and certificates of deposits (CDs) received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial intuition's closing. As a result, the Federal Government has aggregated insured deposit exposure estimated at approximately $4,800.2 billion for 2007, and $4,627.1 billion for 2006. However, these amounts represent maximum possible losses assuming all the FDIC and NCUA member depository institutions were to fail and the acquired assets provided no recovery of funds. Actual losses have generally been a very small fraction of the aggregate estimated insured deposits. The breakdown by agency is identified below:

- Federal Deposit Insurance Corporation (FDIC) has estimated insured deposits of $4,239.0 billion for 2007, and $4,094.7 billion for 2006, respectively for the Deposit Insurance Fund (DIF).
- National Credit Union Administration (NCUA) has estimated insured deposits of $561.2 billion for 2007, and $532.4 billion for 2006, respectively for the National Credit Union Share Insurance Fund (NCUSIF).

Legal Contingencies

The Legal Contingencies as of September 30, 2007, and 2006, are summarized in the table below:

(In billions of dollars)	2007 Accrued Liabilities [1]	2007 Estimated Range of Loss for Certain Cases [2]		2006 Accrued Liabilities [1]	2006 Estimated Range of Loss for Certain Cases [2]	
		Lower End	Upper End		Lower End	Upper End
Legal contingencies						
Probable............	6.4	6.4	8.0	3.7	2.8	4.3
Reasonably possible		3.6	6.6		7.6	9.5

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

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

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Federal Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $6.4 billion and $3.7 billion for 2007 and 2006, respectively, and are recorded in the balance sheet line items "Insurance Liabilities," or "Other Liabilities." A few of the major cases are summarized below:

- Department of Health and Human Services (HHS) has accrued $4.1 billion for contingent liabilities related to administrative proceedings, legal actions, and tort claims as of September 30, 2007. For example, HHS Centers for Medicare and Medicaid Services has accrued $2.0 billion for contingent liability to providers for previous years' disputed cost report adjustments for disproportionate share hospitals.
- The United States Postal Service (USPS) has accrued $0.7 billion as of September 30, 2007, including contingencies arising from labor cases, equal employment opportunity cases, environmental issues, and property damage claims.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of possible liability or a range of possible liability. The estimated potential losses for such claims and actions range from $3.6 billion to $6.6 billion for 2007, and from $7.6 billion to $9.5 billion for 2006. Two of the major cases are summarized below:

- Department of Agriculture (USDA) reported pending class action discrimination suit in the range of $2.9 billion to $3.0 billion as of September 30, 2007.
- Department of the Interior (DOI) has allegations and claims in the range of $0.3 billion to $2.7 billion related to tribes and individual Indians, the trust territory in the Pacific Islands, the operation of wildlife refuges, and reclamation projects, the general management and law enforcement of Interior-managed land, and the use of natural resources as of September 30, 2007.

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

- Native Americans allege that DOI and Department of the Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed tens of billions of dollars.

- Numerous complaints have arisen as a result of Hurricane Katrina. These New Orleans Federal Tort Claims Act (FTCA) cases allege personal injury, wrongful death, and property damages as a result of massive flooding caused by the hurricane. There are over 475,000 administrative claims filed in relation to Hurricane Katrina and 300 related suits in Federal district courts. Additional suits are expected. The range of potential loss is $10 billion to an amount perhaps several times larger.

Environmental and Disposal Contingencies

The Environmental and Disposal Contingencies as of September 30, 2007, and 2006, are summarized in the table below:

		2007 Estimated Range of Loss for Certain Cases [2]			2006 Estimated Range of Loss for Certain Cases [2]	
(In billions of dollars)	Accrued Liabilities [1]	Lower End	Upper End	Accrued Liabilities [1]	Lower End	Upper End
Environmental and Disposal Contingencies						
Probable	11.2	11.2	11.3	7.0	7.0	7.4
Reasonably possible		0.3	0.8		0.5	0.5

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

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

Management and legal counsel have determined that it is “probable” that some of these actions will result in a loss to the Federal Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $11.2 billion and $7.0 billion for 2007 and 2006, respectively, and are recorded in the balance sheet line item “Other Liabilities.” Department of Energy (DOE) is subject to Spent Nuclear Fuel litigation for damages suffered by all utilities as a result of the delay in beginning disposal of spent nuclear fuel. Significant claims for partial breach of contract have been filed with estimated liability amounts of $11.1 billion and $6.8 billion for 2007 and 2006, respectively.

Other Contingencies

Example of other contingencies include those reported by Department of Transportation (DOT). The major contingencies are summarized below:

- DOT’s Federal Highway Administration (FHWA) reported $46.2 billion and $45.0 billion respectively, for 2007 and 2006 for Advance Construction Projects.
- DOT’s Federal Transit Administration (FTA) reported $3.9 billion and $1.4 billion for 2007 and 2006 respectively, for Full Funding Agreements.

Note 19. Commitments

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

The Government has other contractual commitments that may require future use of financial resources. For example, the Government has callable subscriptions in the Multilateral Development Banks (MDB), which are autonomous international financial entities that finance economic and social development projects in developing countries. Callable capital resembles promissory notes to honor MDB debts if the MDB cannot otherwise meet its obligations through its other available resources. MDBs are able to use callable capital as backing to obtain very favorable financing terms when borrowing from world capital markets. Treasury officials do not anticipate any calls on MDB subscriptions. To date, there has never been a call on this capital for any of the major MDBs.

Commitments as of September 30

(In billions of dollars)	Operating Leases 2007	Operating Leases 2006
General Services Administration	23.1	22.9
U.S. Postal Service	8.4	8.4
Department of Justice	3.1	0.9
Department of State	1.8	-
Department of Health and Human Services	1.6	1.1
Department of Defense	1.1	0.4
Department of Homeland Security	0.9	1.8
Other Operating Leases	4.5	4.3
Total long-term operating leases	44.5	39.8

Commitments as of September 30

(In billions of dollars)	Undelivered Orders 2007	Undelivered Orders 2006
Department of Defense	309.8	173.6
Department of Transportation	72.2	67.6
Department of Health and Human Services	72.1	68.6
Department of Housing and Urban Development	65.2	72.0
Department of the Treasury	55.8	51.1
Department of Education	48.2	47.6
Department of Agriculture	34.9	36.0
Department of Homeland Security	29.9	28.2
Department of Energy	12.2	11.1
Agency of International Development	12.0	11.6
Department of State	11.3	8.9
Department of Justice	9.0	8.6
Environmental Protection Agency	8.0	9.2
National Science Foundation	7.7	7.3
Department of the Interior	6.9	6.6
All other agencies	24.2	37.0
Total undelivered orders	779.4	645.0

	Other Commitments 2007	Other Commitments 2006
Callable capital subscriptions for multilateral development banks	62.2	62.1
Sales of Surplus Power	21.2	23.4
Long-term Satellite and Systems	7.7	6.4
Power Purchase Obligations	4.8	4.3
Grant Programs - Airport Improvement Program	4.8	3.8
Fuel Purchase Obligations	3.1	3.0
Agriculture Direct Loans and Guarantees	2.7	2.3
Conservation Reserve Program	1.9	2.0
All other commitments	1.4	2.7
Total other commitments	109.8	110.0

As of September 30, 2006, $20 billion of the Other Commitments amount for the Department of Agriculture's Direct Loans and Guarantees were reclassified to USDA's undelivered orders to correct their classification in the prior year. The reclassification did not affect total Commitments amounts as of September 30, 2006.

Other Commitments and Risks

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

In addition, the United States Government has entered into other agreements that could potentially require claims on Government resources in the future. Examples include war risk and terrorism risk insurance.

Note 20. 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. Earmarked funds generally include trust funds, public enterprise revolving funds (not including credit reform financing funds) and special funds.

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

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

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

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

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

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

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

Most of the earmarked fund assets are invested in intragovernmental debt holdings. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to Federal agencies as evidence of its receipts. Treasury securities are an asset to the Federal agencies and a liability to the U.S. Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report of the U.S. Government*. These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 10—Federal Debt Securities Held by the Public and Accrued Interest for further information related to the investments in Federal debt securities.

Earmarked Funds as of September 30, 2007[1,2]

(In billions of dollars)	Federal Old-Age & Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement & Disability Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Employees Health Benefits Program Fund
Assets:						
Cash and other monetary assets	-	-	-	-	-	-
Fund balance with Treasury	(0.9)	-	-	-	-	0.9
Investments in U.S. Treasury Securities	1,968.3	215.4	701.7	108.4	319.4	41.3
Other Federal assets	25.0	2.8	9.8	1.1	25.4	0.9
Non-federal assets	2.3	-	0.3	-	1.0	0.7
Total assets	1,994.7	218.2	711.8	109.5	345.8	43.8
Liabilities:						
Liabilities due and payable to beneficiaries	44.1	3.5	4.8	0.6	19.4	3.8
Other Federal liabilities	3.9	-	0.1	0.1	29.5	0.3
Other non-federal liabilities	-	1,025.3	1,320.5	516.7	1.9	302.5
Total liabilities	48.0	1,028.8	1,325.4	517.4	50.8	306.6
Total net position	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)
Total liabilities and net position	1,994.7	218.2	711.8	109.5	345.8	43.8
Change in Net Position:						
Beginning net position	1,771.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)
Prior period adjustment	(5.0)	-	-	-	-	-
Beginning net position, adjusted	1,766.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)
Investment revenue	97.4	10.3	37.2	4.4	16.3	1.0
Revenue from the public	553.4	-	-	-	199.7	-
Other changes in fund balance (e.g., transfers)	10.6	43.1	31.2	27.3	(0.3)	49.9
Non-program expenses	-	-	-	-	-	-
Program expenses	481.6	105.3	90.4	(13.9)	208.6	40.2
Ending net position	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)

[1] The presentation of earmarked funds was changed in fiscal year 2007 to present only the significant earmarked funds and to show intra-earmarked fund eliminations. The disclosure for fiscal year 2006 earmarked funds was also changed for consistency with the fiscal year 2007 presentation.
[2] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Earmarked Funds as of September 30, 2007[1,2]

(In billions of dollars)	Federal Disability Insurance Trust Fund	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Earmarked Funds	Intra-Earmarked Fund Eliminations	Total Earmarked Funds
Assets:						
Cash and other monetary assets	-	-	0.1	21.8	-	21.9
Fund balance with Treasury	(0.4)	0.1	8.8	64.8	-	73.3
Investments in U.S. Treasury securities	213.8	74.9	39.2	169.4	-	3,851.8
Other Federal assets	2.7	1.2	32.9	17.4	(53.9)	65.3
Non-federal assets	2.8	1.5	10.8	93.3	-	112.7
Total assets	218.9	77.7	91.8	366.7	(53.9)	4,125.0
Liabilities:						
Liabilities due and payable to beneficiaries	21.7	1.3	22.2	2.0	-	123.4
Other Federal liabilities	1.0	1.4	24.8	62.0	(53.9)	69.2
Other non-federal liabilities	2.3	-	0.9	148.2	-	3,318.3
Total liabilities	25.0	2.7	47.9	212.2	(53.9)	3,510.9
Total net position	193.9	75.0	43.9	154.5	-	614.1
Total liabilities and net position	218.9	77.7	91.8	366.7	(53.9)	4,125.0
Change in Net Position:						
Beginning net position	183.0	66.4	41.6	145.7	-	419.2
Prior period adjustment	5.0	-	0.1	1.0	-	1.1
Beginning net position, adjusted	188.0	66.4	41.7	146.7	-	420.3
Investment revenue	11.0	3.3	2.1	9.6	-	192.7
Revenue from the public	94.1	40.9	-	72.3	-	960.4
Other changes in fund balance (e.g., transfers)	(1.6)	(3.5)	159.0	12.4	(0.5)	327.6
Non-program expenses	-	-	-	(2.2)	-	(2.2)
Program net cost	97.6	32.1	158.9	88.7	(0.5)	1,289.1
Ending net position	193.9	75.0	43.9	154.5	-	614.1

[1] The presentation of earmarked funds was changed in fiscal year 2007 to present only the significant earmarked funds and to show intra-earmarked fund eliminations. The disclosure for fiscal year 2006 earmarked funds was also changed for consistency with the fiscal year 2007 presentation.
[2] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Earmarked Funds as of September 30, 2006[1,2]

(In billions of dollars)	Federal Old-Age & Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement & Disability Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Employees Health Benefits Program Fund
Assets:						
Cash and other monetary assets	-	-	-	-	-	-
Fund balance with Treasury	(0.8)	-	-	-	1.0	0.9
Investments in U.S. Treasury securities	1,793.1	208.4	689.9	85.4	302.2	14.8
Other Federal assets	23.1	-	9.9	-	24.7	0.8
Non-federal assets	2.1	-	0.3	-	0.9	0.4
Total assets	1,817.5	208.4	700.1	85.4	328.8	16.9
Liabilities:						
Liabilities due and payable to beneficiaries	41.7	3.4	4.5	-	19.8	3.5
Other Federal liabilities	3.9	-	-	-	20.5	0.3
Other non-federal liabilities	-	963.7	1,287.2	538.9	0.6	286.6
Total liabilities	45.6	967.1	1,291.7	538.9	40.9	290.4
Total net position	1,771.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)
Total liabilities and net position	1,817.5	208.4	700.1	85.4	328.8	16.9
Change in Net Position:						
Beginning net position	1,595.5	(697.6)	(549.0)	(477.7)	266.8	(271.2)
Investment revenue	89.4	12.3	36.6	4.1	15.5	0.6
Revenue from the public	530.0	-	-	-	180.4	7.4
Other changes in fund balance (e.g., transfers)	9.1	39.4	46.4	27.7	11.0	24.4
Non-program expenses	-	-	-	-	2.9	17.1
Program net cost	452.1	112.8	125.6	7.6	182.9	17.6
Ending net position	1,771.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)

[1] The presentation of earmarked funds was changed in fiscal year 2007 to present only the significant earmarked funds and to show intra-earmarked fund eliminations. The disclosure for fiscal year 2006 earmarked funds was also changed for consistency with the fiscal year 2007 presentation.
[2] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Earmarked Funds as of September 30, 2006[1,2]

(In billions of dollars)	Federal Disability Insurance Trust Fund	Unemploy-ment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Earmarked Funds	Intra-Earmarked Fund Eliminations	Total Earmarked Funds
Assets:						
Cash and other monetary assets	-	-	0.1	19.5	-	19.6
Fund balance with Treasury	(0.3)	0.1	27.8	62.4	-	91.1
Investments in U.S. Treasury securities	202.2	66.2	33.1	159.5	-	3,554.8
Other Federal assets	2.6	1.1	22.6	18.1	(43.4)	59.5
Non-federal assets	2.8	1.4	2.4	86.0	-	96.3
Total assets	207.3	68.8	86.0	345.5	(43.4)	3,821.3
Liabilities:						
Liabilities due and payable to beneficiaries	20.9	1.1	21.1	1.7	-	117.7
Other Federal liabilities	0.7	1.3	23.0	45.9	(43.4)	52.2
Other non-federal liabilities	2.7	-	0.3	152.2	-	3,232.2
Total liabilities	24.3	2.4	44.4	199.8	(43.4)	3,402.1
Total net position	183.0	66.4	41.6	145.7	-	419.2
Total liabilities and net position	207.3	68.8	86.0	345.5	(43.4)	3,821.3
Change in Net Position:						
Beginning net position	175.1	54.5	9.3	141.5	-	247.2
Investment revenue	10.5	2.8	1.6	11.9	-	185.3
Revenue from the public	90.0	41.4	-	59.4	-	908.6
Other changes in fund balance (e.g., transfers)	(1.5)	(1.8)	182.0	7.6	(0.5)	343.8
Non-program expenses	-	-	2.1	10.3	-	32.4
Program net cost	91.1	30.5	149.2	64.4	(0.5)	1,233.3
Ending net position	183.0	66.4	41.6	145.7	-	419.2

[1] The presentation of earmarked funds was changed in fiscal year 2007 to present only the significant earmarked funds and to show intra-earmarked fund eliminations. The disclosure for fiscal year 2006 earmarked funds was also changed for consistency with the fiscal year 2007 presentation.
[2] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Depicted below is a description of the major earmarked funds shown in the above tables, which also includes the names of the Government agencies that administer each particular fund. For detailed information regarding these earmarked funds, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain earmarked funds see Note 13—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

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

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

Military Retirement Fund

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

Civil Service Retirement and Disability Fund

The CSRDF covers two Federal civilian retirement systems: CSRS—for employees hired before 1984, and FERS—for employees hired after 1983. OPM administers the CSRS and the FERS systems. The laws establishing the CSRDF and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8334-8348. Funding sources include:

- Federal civilian employees' contributions.
- Agencies' contributions on behalf of employees.
- Appropriations.
- Interest earned on investments in Treasury securities.

Medicare-Eligible Retiree Health Care Fund

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

Federal Hospital Insurance Trust Fund (Medicare Part A)

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

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

Federal Employees Health Benefits Program Fund

The Federal Employees Health Benefits Program (HEPB) provides health benefits to Federal employees and dependents as well as to Federal retirees and survivor annuitants. FEHB administers a wide variety of health and wellness plans including Fee-For-Service and Health Maintenance Organization plans. Retired employees can choose to continue coverage upon separation from the Federal Government. OPM administers the HEBP. The law establishing the FEHB Program Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8909. The FEHB is funded on a “pay-as-you-go” basis and funding sources include:

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

Federal Disability Insurance Trust Fund

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

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

Unemployment Trust Fund

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

Taxes on employers provide the primary funding source for the UTF and constitute all the earmarked unemployment tax revenues as shown on the consolidated Statement of Operations and Changes in Net Position. For the years ending September 30, 2007, and 2006, UTF unemployment tax revenues were $39.2 billion and $41.4 billion, respectively. However, interest earned on investments in Treasury securities also provides income to the fund. Appropriations have supplemented the fund’s income during periods of high and extended unemployment. The law establishing the UTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1104.

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

The Federal Supplementary Medical Insurance Trust Fund finances the Supplementary Medical Insurance Program (Medicare Part B) and the Medicare Prescription Drug Benefit Program (Medicare Part D) that provides supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. HHS administers the programs.

Medicare Part B financing is not based on payroll taxes; it is based on monthly premiums and income from the General Fund of the Treasury. The law establishing the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395t.

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

All Other Earmarked Funds

The above funds represent the Government's major earmarked activity. All other earmarked activity is aggregated as "all other" in accordance with SFFAS No. 27. This "all other" aggregate includes earmarked funds that are designated as significant funds by the agencies in their respective financial statements. For the years ending September 30, 2007 and 2006, there were approximately 223 and 217 agency-designated significant earmarked funds, respectively. These funds address a variety of issues and are managed by a widespread number of agencies. Some of the funds that comprise the "all other" earmarked funds include the following:

- Department of the Treasury-Exchange Stabilization Fund
- Railroad Retirement Board-Railroad Retirement Trust Fund
- Federal Communications Commission-Universal Service Fund
- United States Department of Agriculture-Federal Crop Insurance Corporation Fund and Funds for Strengthening Markets, Income, and Supply
- Environmental Protection Agency-Superfund (Hazardous Substance) and Leaking Underground Storage Tanks
- Department of Commerce-U.S. Patent and Trademark Office
- Department of the Interior-Land and Water Conservation Fund, Historical Preservation Fund and Reclamation Fund
- Department of Veterans Affairs-Medical Care
- Department of Homeland Security-Customs User Fees, Immigration Examination Fees and the National Flood Insurance Program
- Department of Housing and Urban Development-Government National Mortgage Association.

In addition to the above "all other" earmarked funds, also depicted below are the descriptions of three non-major earmarked funds (included in the "all other" aggregate) that contribute all of the earmarked excise tax revenue as shown on the consolidated Statement of Operations and Changes in Net Position. The descriptions also include the names of the Government agencies that administer each of these funds. For detailed information regarding these three earmarked funds, please refer to the financial statements of the corresponding administering agencies.

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides Federal grants to States for highway construction, certain transit programs, and related transportation purposes. DOT administers programs financed by the Highway Trust Fund. The law establishing the Highway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9503. Funding sources include earmarked excise taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For the years ending September 30, 2007 and 2006, Highway Trust Fund excise tax revenues were $39.2 billion and $38.8 billion, respectively. As funds are needed for payments, the Highway Trust Fund Corpus investments are liquidated and funds are transferred to the

Federal Highway Administration, the Federal Transit Administration, or other DOT entity, for payment of obligations.

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

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

For the years ending September 30, 2007 and 2006, Airport and Airway Trust Fund excise tax revenues were $12.4 billion and $10.2 billion, respectively. The above tables do not reflect any transfers from the Highway Trust Fund to the Airport and Airway Trust Fund for fuel which was used in aviation, but which was taxed at highway rates under P.L. 109-59 (SAFETEA-LU).

The Black Lung Disability Trust Fund (BLDTF) provides disability benefits to coal miners who are totally disabled due to pneumoconiosis (black lung disease) and death benefits for the eligible survivors of those miners who die from the disease. Excise taxes on coal mine operators, based on the sale of coal, partially fund black lung disability payments as well as related administrative and interest costs. For the years ending September 30, 2007 and 2006, Black Lung Disability Trust Fund excise tax revenues were $0.6 billion and $0.6 billion, respectively. Intragovernmental advances to the BLDTF that must be repaid with interest, fund the shortfall. DOL administers the BLDTF. The law establishing the BLDTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9501.

Intra-Earmarked Fund Eliminations

The intra-earmarked fund eliminations represent the activity between earmarked funds that are administered by different Federal agencies and which are eliminated to produce consolidated earmarked revenues and net costs as shown on the Statement of Operations and Changes in Net Position. Significant examples of such intra-earmarked fund activity include the financial interchanges and transactions between the Railroad Retirement Trust Fund, the Social Security and Medicare Trust Funds, which are administered by the Railroad Retirement Board (RRB), SSA and HHS, respectively. The financial interchanges and transactions between RRB's Railroad Retirement Trust Fund, SSA's Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, and HHS' Federal Hospital Insurance Trust Fund are intended to put the latter three trust funds in the same position they would have been had railroad employment been covered under the Social Security Act. For further information, see the Railroad Retirement program description within Note 22—Social Insurance.

As of September 30, 2006, various reclassifications were made to certain line items to correct their presentation. The following reclassifications were made:

- A net $2.5 billion was reclassified from total Liabilities Due and Payable to total Other non-Federal Liabilities. This net amount is comprised of the following reclassifications:
  - $3.4 billion of Other non-Federal Liabilities were reclassified to Liabilities Due and Payable for the Military Retirement Fund;
  - $3.2 billion of Liabilities Due and Payable were reclassified to Other non-Federal Liabilities for All Other Earmarked Funds; and
  - $2.7 billion of Liabilities Due and Payable were reclassified to Other non-Federal Liabilities for the Federal Disability Trust Fund.
- $4 billion of Cash and Other Monetary Assets for All Other Earmarked Funds were reclassified to Fund Balance with Treasury for All Other Earmarked Funds.

These reclassifications did not affect total assets or liabilities for Earmarked Funds as of September 30, 2006.

Note 21. Indian Trust Funds

DOI has responsibility for the assets held in trust on behalf of American Indian tribes and individuals.

DOI, through the Office of the Special Trustee (OST), holds trust funds in accounts for Indian tribes. It maintains over 1,800 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund). The OST was established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) and was created to improve the accountability and management of Indian funds held in trust by the Federal Government.

The balances that have accumulated in the Tribal and Other Trust Funds have resulted from judgment awards, settlements of claims, land use agreements, royalties on natural resource depletion, and other proceeds derived directly from trust resources and investment income.

The trust fund balances included in the Trust Funds Held for Indian Tribes and Other Trust Funds contain two categories: trust funds held for Indian tribes (considered non-federal funds) and trust funds held by DOI for future transfer to a tribe upon satisfaction of certain conditions or where the corpus of the fund is non-expendable (considered Federal funds).

The following tables depict the U.S. Government as trustee for Indian Trust Funds Held for Indian Tribes and Other Trust Funds. The Other Trust Funds included in the following tables ($289.9 million and $284.2 million for fiscal years 2007 and 2006, respectively, identified in DOI's financial statements) and trust funds considered Federal funds are included in DOI's financial statements, and other DOI special reports.

U.S. Government as Trustee for Indian Trust Funds Held for Indian Tribes and Other Special Trust Funds
Statement of Assets and Trust Fund Balances as of September 30

(In millions of dollars)	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	602.5	503.4
Investments	2,278.2	2,417.8
Total assets	2,880.7	2,921.2
Trust fund balances, held for Indian Tribes and by DOI	2,880.7	2,921.2

Tribal and Other Trust Funds
Statement of Changes in Trust Fund Balances – Cash Basis
For the Fiscal Years Ended September 30, 2007, and 2006

(In millions of dollars)	2007	2006
Receipts	339.2	338.9
Interest received	139.3	121.6
Gain (loss) on disposition of investments, net	0.6	-
Disbursements	(519.6)	(421.1)
Increase (decrease) in trust fund balances, net	(40.5)	39.4
Trust fund balances, beginning of year	2,921.2	2,881.8
Trust fund balances, end of year	2,880.7	2,921.2

OST also maintains over 370,000 open Individual Indian Monies (IIM) accounts. The IIM fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. The IIM account-holders realize receipts primarily from royalties on natural resource depletion, land use agreements, and enterprises that have a direct relationship to trust fund resources and investment income. Funds related to the IIM Trust Fund are included in the following tables.

U.S. Government as Trustee for Indian Trust Funds Held for Individual Indian Monies Trust Funds
Statement of Assets and Trust Fund Balances as of September 30

(In millions of dollars)	2007	2006
Assets:		
Cash and cash equivalents	48.3	61.9
Investments	372.6	353.9
Accrued interest receivable	2.8	2.5
Total assets	423.7	418.3
Trust fund balances, held for individual Indians	423.7	418.3

Individual Indian Monies Trust Funds
Statement of Changes in Trust Fund Balances – Modified Cash Basis
For the Fiscal Years Ended September 30, 2007, and 2006

(In millions of dollars)	2007	2006
Receipts	303.7	355.1
Interest received	20.8	20.5
Gain (loss) on disposition of investments, net	0.4	(2.7)
Disbursements	(319.5)	(374.5)
Increase (decrease) in trust fund balances, net	5.4	(1.6)
Trust fund balances, beginning of year	418.3	419.9
Trust fund balances, end of year	423.7	418.3

The amounts presented in the four tables of this note were prepared using a cash basis of accounting, which is a comprehensive basis of accounting other than GAAP. Receivables and payables are not recorded, and investment premiums and discounts are not amortized in the Trust Funds Held for Indian Tribes and Other Trust Funds. Receipts are recorded when received and disbursements when paid, and investments are stated at historical cost. The only basis of accounting difference between the Trust Funds Held for Indian Tribes and Other Trust Funds and the IIM Trust Fund is that the latter records the receivables and payables related to accrued interest and dividends when earned, including amortization of investment discounts and premiums, and investments are stated at amortized cost.

Note 22. Social Insurance

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

Contributions and earmarked taxes consist of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income taxation of OASDI and railroad retirement benefits; excise tax on coal (Black Lung); and premiums from, and State transfers on behalf of, participants in Medicare. Income for all programs is presented from a consolidated perspective. Future interest payments and other future intragovernmental transfers have been excluded upon consolidation. Expenditures include scheduled benefit payments and administrative expenses. Scheduled benefits are projected based on the benefit formulas under current law. However, current Social Security and Medicare law does not provide for full benefit payments after the trust funds are exhausted.

Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of January 1 of the valuation year.

The present values of future expenditures less future revenue is the current amount of funds needed to cover projected shortfalls, excluding the starting trust fund balances, over the projection period. They are calculated by subtracting the actuarial present values of future scheduled contributions and dedicated tax income by and on behalf of current and future participants from the actuarial present value of the future scheduled benefit payments to them or on their behalf. For these calculations, the trust fund balances at the beginning of the valuation period are not included. The trust fund balances in billions of dollars, as of the valuation date, for the respective programs, including interest earned, are shown in the following table. Substantially all of the OASDI, HI, and SMI trust fund balances consist of investments in special non-marketable U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government.

Social Insurance Program		***************UNAUDITED****************			
	2007	**2006**	**2005**	**2004**	**2003**
Social Security........................	2,048	1,859	1,687	1,531	1,378
Medicare................................					
HI	300	285	268	256	235
SMI Part B	38	23	19	24	34
SMI Part D	1	-	-	-	-
Railroad Retirement	32	30	28	26	22
Black Lung.............................	(10)	(10)	(9)	(8)	(8)

The projection period for future participants covers the next 75 years for the Social Security, Medicare, and Railroad Retirement programs. The projection period for current participants in the Social Security and Medicare programs (i.e., those age 14 and over on January 1 of the valuation year, referred to as the "closed group") would theoretically cover all of their working and retirement years, a period that could be greater than 75 years in a relatively small number of instances.

Social Security – Program Description

The OASDI program, created in 1935, collectively referred to as "Social Security," provides cash benefits for eligible U.S. citizens and residents. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers' lifetime earnings histories.

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

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

Medicare – Program Description

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

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

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

SMI Part B Physician Update Factor

The projected Part B expenditure growth reflected in the accompanying 2007 Statement of Social Insurance is significantly reduced as a result of the structure of physician payment updates under current law. In the absence of legislation, this structure would result in multiple years of significant reductions in physician payments, totaling an estimated 41 percent over the next 9 years. Reductions of this magnitude are not feasible and are very unlikely to occur fully in practice. For example, Congress has overridden scheduled negative updates for each of the last 5 years in practice. However, since these reductions are required in the future under the current-law payment system, they are reflected in the accompanying 2007 Statement of Social Insurance as required under GAAP. Consequently, the projected actuarial present values of Part B expenditure shown in the accompanying 2007 Statement of Social Insurance, is likely understated.

The potential magnitude of the understatement of Part B expenditures due to the physician payment mechanism can be illustrated using two hypothetical examples of changes to current law. These examples were developed by management for illustrative purposes only; the calculations have not been audited, and the examples do not attempt to portray likely or recommended future outcomes. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation on physician payments under Medicare and of the broad range of uncertainty associated with such impacts. Under current law, the projected 75-year present value of future Part B expenditures is $18.2 trillion. An alternative scenario indicated that if Congress were to set future physician payment updates at zero percent per year, then absent other provisions to offset these costs, the projected present value would increase to $22.6 trillion. Similarly, if Congress were to set future physician payment updates equal to the Medicare Economic Index (projected to be 2 to 2.5 percent per year), the present value would be $25.4 trillion.

The extent to which actual future Part B costs could exceed the projected current-law amounts due to physician payments depends on both the level of physician payment updates that might be legislated and on whether Congress would pass further provisions to help offset such costs (as it did, for example, in the Deficit Reduction Act in 2006). As noted, these examples only reflect hypothetical changes to physician payments. It is likely that in the coming years Congress will consider and pass numerous other legislative proposals affecting Medicare. Many of these would likely be designed to reduce costs in an effort to make the program more affordable. In practice, it is not possible to anticipate what actions Congress might take, either in the near term or over longer periods.

Hospice Benefits Mis-Posting

Beginning in May 2005, expenditures for certain Part A hospice benefits were posted to the Part B account of the SMI trust fund, rather than from the HI trust fund. Correction of this mis-posting will increase Part A expenditures and reduce Part B expenditures in 2008 and later years, compared to the projections shown in the 2007 Medicare Trustees Report. It also resulted in adjustments to the HI and SMI trust funds to account for the misallocated hospice expenditures during fiscal years 2005 through 2007. The present values displayed in the Statement of Social Insurance have been revised to include the estimated impact of correcting this mis-posting. As a result, the summation of the present value of future expenditures in excess of future revenue amounts for Parts A, B, and D included in the 2007 consolidated Statement of Social Insurance is less than the summation of the related amounts included in the 2007 Medicare Trustees Report, by an amount that is insignificant relative to the Trustees Report.

Social Security and Medicare – Demographic and Economic Assumptions

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

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

Table 1A
Social Security – Demographic and Economic Assumptions

Demographic Assumptions

Year	Total Fertility Rate[1]	Age-Sex Adjusted Death Rate[2]	Net Immigration[3] (persons)	Period Life Expectancy at Birth[4] Male	Period Life Expectancy at Birth[4] Female
2007	2.04	839.8	1,075,000	75.1	79.7
2010	2.03	825.3	1,000,000	75.5	79.9
2020	2.02	764.5	950,000	76.7	80.7
2030	2.00	705.4	900,000	77.7	81.6
2040	2.00	652.8	900,000	78.6	82.4
2050	2.00	606.6	900,000	79.5	83.1
2060	2.00	565.7	900,000	80.3	83.8
2070	2.00	529.3	900,000	81.1	84.5
2080	2.00	496.8	900,000	81.9	85.1

Economic Assumptions

Year	Real Wage Differential[5] (percent)	Average Annual Wage in Covered Employment[6] (percent change)	CPI[7] (percent change)	Real GDP[8] (percent change)	Total Employment[9] (percent change)	Average Annual Interest Rate[10] (percent)
2007	2.7	4.6	1.9	2.6	1.0	4.6
2010	1.4	4.2	2.8	2.6	0.8	5.7
2020	1.0	3.8	2.8	2.1	0.4	5.7
2030	1.1	3.9	2.8	2.0	0.3	5.7
2040	1.1	3.9	2.8	2.0	0.4	5.7
2050	1.1	3.9	2.8	2.0	0.3	5.7
2060	1.1	3.9	2.8	1.9	0.3	5.7
2070	1.1	3.9	2.8	1.9	0.3	5.7
2080	1.1	3.9	2.8	1.9	0.3	5.7

[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2031.
[2] The age-sex-adjusted death rate is a weighted average of age-sex-specific death rates (deaths per 100,000) in a year where the weights are the number of people in the corresponding age-sex group as of April 1, 2000. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
[3] Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.
[4] The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
[5] The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.
[6] The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year.
[7] The calendar price index (CPI) is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.
[8] The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
[9] Total employment represents total of civilian and military employment in the U.S. economy.
[10] The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually for special-issue Treasury obligations sold only to the trust funds in each of the 12 months of the year.

Table 1B
Medicare – Demographic and Economic Assumptions

Demographic Assumptions

Year	Total Fertility Rate[1]	Age-Sex Adjusted Death Rate[2]	Net Immigration[3] (persons)
2007	2.04	839.8	1,075,000
2010	2.03	825.3	1,000,000
2020	2.02	764.5	950,000
2030	2.00	705.4	900,000
2040	2.00	652.8	900,000
2050	2.00	606.5	900,000
2060	2.00	565.7	900,000
2070	2.00	529.3	900,000
2080	2.00	496.8	900,000

Economic Assumptions

					Per Beneficiary Cost (percent change)[7]			
						SMI		
Year	Real Wage Differential[4] (percent)	Average Annual Wage in Covered Employment (percent change)	CPI[5] (percent change)	Real GDP[6] (percent)	HI	Part B	Part D	Real Interest Rate[8] (percent)
2007	2.7	4.6	1.9	2.6	6.4	6.2	0.1	2.9
2010	1.4	4.2	2.8	2.6	5.0	4.6	8.6	2.8
2020	1.0	3.8	2.8	2.1	4.5	4.7	7.6	2.9
2030	1.1	3.9	2.8	2.0	5.8	5.6	5.5	2.9
2040	1.1	3.9	2.8	2.0	5.8	5.4	5.2	2.9
2050	1.1	3.9	2.8	2.0	4.9	4.8	4.9	2.9
2060	1.1	3.9	2.8	1.9	4.7	4.8	4.6	2.9
2070	1.1	3.9	2.8	1.9	4.6	4.5	4.4	2.9
2080	1.1	3.9	2.8	1.9	4.3	4.3	4.3	2.9

[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2031.
[2] The age-sex-adjusted death rate is a weighted average of age-sex-specific death rates (deaths per 100,000) in a year where the weights are the number of people in the corresponding age-sex group as of April 1, 2000. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
[3] Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year.
[4] The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.
[5] The calendar price index (CPI) is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.
[6] The real Gross Domestic Product (GDP) is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
[7] These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, and pharmaceutical costs). These assumptions include changes in the payment rates, utilization, and intensity of each type of service.
[8] The average annual interest rate earned on new trust fund securities, above and beyond the rate of inflation.

Railroad Retirement – Program Description

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

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

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

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

Railroad Retirement – Employment, Demographic and Economic Assumptions

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

Three employment assumptions were used in preparing the projections and reflect optimistic, moderate and pessimistic future passenger rail and freight employment. The average railroad employment is assumed to be 232,000 in 2007. This employment assumption, based on a model developed by the Association of American Railroads, assumes that (1) passenger service employment will remain at the level of 43,000 and (2) the employment base, excluding passenger service employment, will decline at a constant 2.5 percent annual rate for 25 years, at a falling rate over the next 25 years, and remain level thereafter. All the projections are based on an open group (i.e., future entrants) population.

The moderate (middle) economic assumptions include a long-term cost of living increase of 3.0 percent, an interest rate of 7.5 percent, and a wage increase of 4 percent. The cost of living assumption reflects the expected level of price inflation. The interest rate assumption reflects the expected return on National Railroad Retirement Investment Trust (NRRIT) investments. The wage increase reflects the expected increase in railroad employee earnings.

The demographic assumptions, including rates for mortality and total termination rates, remarriage rates for widows, retirement rates and withdrawal rates are listed in Table 2. For further details on the employment, demographic, economic and all other assumptions, refer to the *Railroad Retirement System Annual Report*, June 2007 and the 23rd *Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts* (Valuation Report) as of December 31, 2004, with Technical Supplement.

Table 2
Railroad Retirement Demographic Actuarial Assumptions

Mortality Rates[1]	Mortality after age retirement	2004 RRB Annuitants Mortality Table
	Mortality after disability retirement	2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze
		2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze
	Mortality during active service	1994 RRB Active Service Mortality Table
	Mortality of widow annuitants	1995 RRB Mortality Table for Widows
Total Termination Rates[2]	Termination for spouses	2004 RRB Spouse Total Termination Table
	Termination for disabled children	2004 RRB Total Termination Table for Disabled Children
Widow Remarriage Rate[3]	1997 RRB Remarriage Table	
Retirement Rates[4]	Age retirement	See the Valuation Report
	Disability retirement	See the Valuation Report
Withdrawal Rates[5]	See the Valuation Report	

[1] These mortality tables are used to project the termination of eligible employee benefit payments within the population.
[2] Total termination rates are used to project the termination of dependent benefits to spouses and disabled children.
[3] This rate is to project the termination of spousal survivor benefits.
[4] The retirement rates are used to determine the expected annuity to be paid based on age and years of service for both age and disability retirees.
[5] The withdrawal rates are used to project all withdrawals from the railroad industry and resultant effect on the population and accumulated benefits to be paid.

Black Lung – Program Description

The Black Lung Disability Benefit Program provides compensation for medical and survivor benefits for eligible coal miners who are disabled due to pneumoconiosis (black lung disease) arising out of their coal mine employment. The DOL operates the Black Lung Disability Benefit Program. The Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible coal miners disabled by pneumoconiosis when no responsible mine operator can be assigned the liability.

Excise taxes on coal mine operators, based on the sale of coal, are the primary source of financing black lung disability payments and related administrative costs. Though excise tax revenues currently exceed costs (and are expected to in the future), that was not always the case. The Black Lung Benefits Revenue Act provides for repayable advances to the BLDTF from the General Fund of the Treasury, in the event that BLDTF resources are not adequate to meet program obligations. During earlier years of the program, general revenues were needed to pay for cash shortfalls in the program.

Black Lung – Demographic and Economic Assumptions

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

The economic assumptions used for the most recent set of projections are coal excise tax revenue estimates, the tax rate structure, Federal civilian pay raises, medical cost inflation, and the interest rate on new repayable advances from the Treasury.

Estimates of future receipts of the black lung excise tax are based on projections of future coal production and sale prices prepared by the Energy Information Agency of DOE. Treasury's Office of Tax Analysis provides the first 11 years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and Treasury's estimated tax receipts. The coal excise tax rate structure is $1.10 per ton of underground-mined coal and $0.55 per ton of surface-mined coal sold, with a cap of 4.40 percent of sales price, through December 31, 2013. Starting in 2014, the tax rates revert to $0.50 per ton of underground-mined coal and $0.25 per ton surface-mine coal sold, and a limit of 2 percent of sales price.

OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the consumer price index-medical, which are used to calculate future benefit costs. During the current projection period, future benefit rate increases range from 2.50 percent to 4.20 percent, and medical cost increases range from 3.80 percent to 4.10 percent. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, while later years are based on the number of projected beneficiaries. Estimates for future interest on advances are based on the interest rates on outstanding advances ranging from 4.5 percent to 13.9 percent and new borrowings ranging from 5.2 percent to 5.6 percent.

Note 23. Stewardship Land

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

Most stewardship land managed by the Government was once part of the 1.8 billion acres of public domain land acquired between 1781 and 1867. Stewardship land accounts for 28 percent of the current U.S. landmass.

DOI uses units as a measure to more accurately reflect the major categories of uses of stewardship land. As of fiscal year 2007, they have 548 national wildlife refuges, 391 park units, 126 geographic management areas, 87 fish hatcheries, and many other categories. At the end of fiscal year 2007, the Department of Agriculture's Forest Services managed an estimated 192.8 million acres of public land, while DOC had 13 National Marine Sanctuaries, which included near–shore coral reefs and open ocean, covering a total of 19 thousand square miles.

Stewardship lands are used and managed in accordance with the statutes authorizing their acquisition or directing their use and management. Additional detailed information concerning stewardship land can be obtained in the financial statements of DOI, DOC, DOD, and USDA.

Note 24. Heritage Assets

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

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

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

Many laws and regulations have been put in place that govern the preservation and management of heritage assets. Established policies, by individual Federal agencies, for heritage assets ensure the proper care and handling of the assets under their controls and preserve these assets for the benefit of the American public.

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

The discussion of the Government's heritage assets is not all-inclusive. Rather, it highlights significant heritage assets reported by Federal agencies.

The Government classifies heritage assets into two broad categories:

- Collection type
- Non-collection type

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

Please refer to the individual financial statements of the Department of the Interior, the Department of Agriculture-Forest Service, the National Archives and Records Administration, and the websites for the Library of Congress (http://www.loc.gov/index.html) and Smithsonian Institution (http://www.si.edu), for additional information on multi-use heritage assets, agency stewardship policies, and physical units by major categories and conditions.

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