United States Government Notes to the Financial Statements for the Years Ended September 30, 2006, and September 30, 2005

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 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. As required by SFFAS No. 27, fiscal year 2005 balances and amounts have not been restated to show this separate identification of earmarked fund activities and net position. For further information on these funds, see Note 20—Earmarked Funds.

- 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 23—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 24—Stewardship Land, and Note 25—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.

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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."

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 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 68 percent of the Government's reported property, plant, and equipment as of September 30, 2006. During fiscal year 2006, DOD changed its methodology to calculate "a more accurate" value for military equipment. DOD replaced the use of data from the Bureau of Economic Analysis (BEA) with an estimation methodology for military equipment based on internal DOD records to calculate a value for military equipment. DOD's prior use of the BEA data was determined to be incorrect and the new methodology reflects a correction of previously disclosed amounts 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. Automated data processing (internal use) software includes purchased commercial off-the-shelf software, contractor-developed software, and software that was internally developed by agency employees.

Please refer to the individual financial statements of DOD, National Aeronautics and Space Administration (NASA), the Department of Energy (DOE), the United States Postal Service (USPS), and the Tennessee Valley Authority (TVA) for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 83 percent of the Government's total reported net property, plant, and equipment of $688.5 billion as of September 30, 2006.

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 and/or disposing of hazardous waste and environmental contamination, 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 hazardous waste, only the estimable portion of the liability, typically 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, Note 20—Earmarked Funds, and Note 21—Dedicated Collections.

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 agent. They process Federal payments and deposits to Treasury's account and service Treasury securities. FRBs owned $764.6 billion and $732.7 billion of Treasury securities held by the public as of September 30, 2006, and 2005, 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 $29.9 billion and $19.3 billion for the years ended September 30, 2006, and 2005, 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.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30

(In billions of dollars)	2006	2005
Operating cash	43.6	27.9
Other cash-not restricted	13.2	10.5
Other cash-restricted	2.9	4.5
Total cash	59.7	42.9
International monetary assets	27.2	32.0
Gold	11.0	10.9
Total cash and other monetary assets	97.9	85.8

Cash

Total cash consists of:

- Operating Cash of the Federal Government representing 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). Checks outstanding are netted against operating cash until they are cleared by the Federal Reserve System.
- Other cash not included in the operating cash balance includes balances representing cash equivalents and other funds held in agencies' books, such as demand deposits, amounts held in trust, deposits in transit, imprest funds, undeposited collections, and amounts representing the balances of petty cash. Restricted cash represents cash that is restricted due to the imposition on cash deposits by law, regulation, or agreement.

Operating Cash of the Federal Government 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), U.S. holdings of Special Drawing Rights (SDRs), and official reserves of foreign currency and gold.

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 $48.1 billion and $40.4 billion for the years ended September 30, 2006, and 2005, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $6.6 billion and $13.2 billion for the years ended September 30, 2006, and 2005, 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 $8.7 billion and $8.2 billion equivalent for the years ended September 30, 2006, and 2005, 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, 2006, and 2005 and are included in Note 15—Other Liabilities.

As of September 30, 2006, and 2005, other liabilities included $7.2 billion and $7.1 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.

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 and 258,713,310 as of September 30, 2006, and 2005, respectively. The market value of gold on the London Fixing as of the reporting date was $599 and $473 per fine troy ounce for the years ended September 30, 2006, and 2005, respectively. Gold totaling $11.0 and $10.9 billion for the years ending September 30, 2006, and 2005, 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 $5.4 billion and $4.8 billion for the years ended September 30, 2006, and 2005, 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. 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 $12.5 billion and $13.2 billion for the years ended September 30, 2006 and 2005, respectively.

Taxes receivable are the gross tax receivables net of allowance for doubtful accounts. Gross taxes receivable consists 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)	2006	2005
Department of Agriculture	8.6	9.4
Department of Defense	7.9	7.6
Social Security Administration	7.6	7.0
Department of Energy	4.0	4.0
Department of Health and Human Services	3.2	2.1
Department of the Interior	2.5	2.7
Pension Benefit Guaranty Corporation	2.0	1.7
Tennessee Valley Authority	1.4	1.1
Department of Veterans Affairs	1.2	0.9
Department of Homeland Security	1.2	0.5
Department of Labor	1.1	1.0
All other departments	5.4	5.7
Accounts receivable, net	46.1	43.7
Gross taxes receivable	94.3	90.7
Allowance for doubtful accounts	(71.6)	(68.3)
Taxes receivable, net	22.7	22.4
Total accounts and taxes receivable, net	68.8	66.1

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		Long-term Cost of Loans and Guarantees Outstanding		Net Loans Receivable		Amount Guaranteed by the Government		Subsidy Expense for the Fiscal Year Ended September 30	
	2006	2005 (Restated)	2006	2005	2006	2005	2006	2005 (Restated)	2006	2005
Direct Loan Programs:										
Federal Direct Student Loans - Education	101.0	97.7	8.3	2.0	92.7	95.7			6.6	5.2
Electric Loans - USDA	34.2	30.2	1.6	2.2	32.6	28.0			(0.3)	(0.1)
Rural Housing Services - USDA	26.8	26.8	7.0	6.0	19.8	20.8			1.0	(0.5)
Federal Family Education Loans - Education	21.2	20.2	7.6	8.5	13.6	11.7			-	-
Water and Environmental Loans - USDA	8.7	8.3	0.8	0.8	7.9	7.5			-	-
Farm Loans - USDA	6.7	6.9	0.5	0.6	6.2	6.3			0.1	0.1
Housing for the Elderly and Disabled - HUD	5.5	6.5	(0.1)	(0.1)	5.6	6.6			-	-
Export-Import Bank Loans	6.0	8.4	1.5	2.9	4.5	5.5			-	-
U.S. Agency for International Development	7.2	7.7	2.4	2.6	4.8	5.1			-	-
Housing and Urban Development	3.9	4.0	(0.4)	(0.1)	4.3	4.1			(0.2)	0.4
Telecommunications Loans - USDA	4.0	4.1	-	0.1	4.0	4.0			-	-
Foreign Military Financing Program	3.7	4.2	-	-	3.7	4.2			-	-
All Other Direct Loan Programs	32.3	32.8	11.2	10.5	21.1	22.3			1.2	(0.1)
Total	261.2	257.8	40.4	36.0	220.8	221.8			8.4	5.0
Guaranteed Loan Programs:										
Federal Housing Administration Loans - HUD	434.2	454.3	3.5	4.6			395.8	416.4	(1.4)	(1.2)
Federal Family Education Loans - Education	324.6	289.2	52.6	30.5			321.0	288.1	28.0	9.8
Veterans Housing Benefit Programs - VA	203.2	202.1	3.3	3.5			61.3	62.1	(0.8)	(1.5)
Small Business Loans - SBA	67.2	63.3	1.6	2.1			54.6	51.1	-	(0.3)
Export-Import Bank Guarantees	49.4	50.9	1.3	2.3			49.4	50.9	0.2	0.2
Rural Housing Services - USDA	15.9	14.8	0.6	0.6			14.3	13.3	0.1	0.1
Israeli Loan Guarantee Program - AID	12.9	13.0	1.2	1.1			12.9	13.0	-	0.2
Overseas Private Investment Corporation Credit Program	4.1	3.6	0.6	0.6			4.1	3.6	-	-
Export Credit Guaranteed Programs - USDA	3.0	4.2	0.2	0.3			2.9	4.1	(0.3)	(0.3)
Business and Industry Loans - USDA	3.9	4.2	0.3	0.4			2.9	3.1	-	0.1
Federal Ship Financing Fund (Title XI) - DOT	2.9	3.1	0.3	0.4			2.9	3.1	-	-
All Other Guaranteed Loan Programs	18.2	20.2	0.9	1.3			16.6	18.6	0.1	2.3
Total Guaranteed Loan Programs	1,139.5	1,122.9	66.4	47.7			938.7	927.4	25.9	9.4

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 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.

Government-sponsored enterprises have the authority to request borrowings totaling $10 billion, subject to the approval of the Secretary of the Treasury. The face value and amounts guaranteed by the Federal government of guaranteed loans related to Small Business loans—SBA as of September 30, 2005 were restated to reduce both by $10 billion. Refer to Note 26—Restatements for further detail.

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 2006	All Others 2006	Total 2006	Defense 2005	All Others 2005	Total 2005
Inventory purchased for resale	86.5	0.7	87.2	80.0	0.6	80.6
Inventory held in reserve for future sale	-	-	-	-	-	-
Inventory and operating material and supplies held for repair	48.1	0.5	48.6	45.3	0.4	45.7
Inventory—excess, obsolete, and unserviceable	9.8	0.1	9.9	6.8	-	6.8
Operating materials and supplies held for use	130.5	4.6	135.1	126.3	5.2	131.5
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	2.1	(0.2)	1.9	3.7	(0.3)	3.4
Stockpile materials	0.1	42.9	43.0	0.1	42.2	42.3
Stockpile materials held for sale	1.0	0.3	1.3	1.2	0.3	1.5
Forfeited Property	-	0.2	0.2	-	0.1	0.1
Other related property	0.8	0.8	1.6	0.9	1.1	2.0
Total allowance for inventories and related property	(47.2)	(0.5)	(47.7)	(41.7)	(0.4)	(42.1)
Total inventories and related property, net	231.7	49.6	281.3	222.6	49.4	272.0

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, which accounts for nearly all of the inventory purchased for resale in the Government, generally uses the Latest Acquisition Cost (LAC) method, which is revalued for holding gains and losses. DOD is transitioning their inventory to the moving average cost (MAC) method to be compliant with SFFAS No. 3 and approximately 60 percent of their inventory is now reported using MAC.

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:

- 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 and Standard Price under the purchase and consumption methods of accounting and does not adjust for holding gains and losses, which does not approximate historical cost.

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

- 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 in all 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:

- 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 of only 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 included as 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, automated data processing 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, 2006

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions of dollars)	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
Automated data processing 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

Property, Plant, and Equipment as of September 30, 2005 (Restated)

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions of dollars)	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	163.9	172.7	95.4	87.3	68.5	85.4
Furniture, fixtures, and equipment (restated)	665.5	121.7	316.1	71.1	349.4	50.6
Construction in progress	20.3	44.0	N/A	N/A	20.3	44.0
Land	10.5	10.7	N/A	N/A	10.5	10.7
Automated data processing software	7.9	7.4	4.4	2.7	3.5	4.7
Assets under capital lease	0.6	1.6	0.4	0.5	0.2	1.1
Leasehold improvements	0.3	4.0	0.1	2.3	0.2	1.7
Other property, plant, and equipment	0.2	49.3	-	30.1	0.2	19.2
Subtotal	869.2	411.4	416.4	194.0	452.8	217.4
Total property, plant, and equipment, net		1,280.6		610.4		670.2

For physical quantity information related to the multiuse heritage assets, refer to Note 25—Heritage Assets.

Due to DOD's correction of errors, the fiscal year 2005 furniture, fixtures, and equipment acquisition costs, accumulated depreciation, and the net balances were restated downward by $600.9 billion, $592.7 billion, and $8.2 billion, respectively. Refer to Note 26—Restatements for further detail.

Please refer to the individual financial statements of DOD, NASA, DOE, USPS, and the TVA for significant detailed information for property, plant and equipment. These agencies comprise 83 percent of the Government's total reported net property, plant, and equipment of $688.5 billion as of September 30, 2006.

Note 7. Securities and Investments

Securities and Investments as of September 30

(In billions of dollars)	2006	2005
Securities and investments:		
Pension Benefit Guaranty Corporation[1]	35.5	30.8
NRRIT	28.6	26.1
Exchange Stabilization Fund	9.3	9.4
All other	10.4	9.0
Total Securities and Investments	83.8	75.3

[1] 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 NRRIT 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.

Note 8. Other Assets

Other Assets as of September 30

(In billions of dollars)	2006	2005
Advances and prepayments	29.9	32.8
Other	25.5	23.9
Total other assets	55.4	56.7

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)	2006	2005
Department of Defense	27.4	28.6
Department of Agriculture	4.2	4.3
Department of Homeland Security	2.8	3.3
Agency for International Development	2.3	3.2
Department of Justice	2.3	1.9
Pension Benefit Guaranty Corporation	2.2	9.3
U.S. Postal Service	2.0	2.3
General Services Administration	2.0	2.1
National Aeronautics and Space Administration	1.7	2.1
Department of Energy	1.3	1.4
Department of State	1.3	1.3
Department of the Interior	1.1	1.0
Tennessee Valley Authority	1.1	0.8
Department of Labor	0.9	1.1
Department of Education	0.9	0.7
All other departments	4.9	4.5
Total accounts payable	58.4	67.9

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, and 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, 2005	Net Change During Fiscal Year 2006	Balance September 30, 2006	Average Interest Rate 2006	Average Interest Rate 2005
Treasury Securities (Public):					
Marketable securities:					
Treasury bills	910.3	(1.8)	908.5	5.0%	3.4%
Treasury notes	2,328.2	117.1	2,445.3	4.2%	3.7%
Treasury bonds	520.5	14.0	534.5	7.6%	7.9%
Treasury inflation-protected securities (TIPS)	307.0	88.5	395.5	2.3%	2.4%
Total marketable Treasury securities	4,066.0	217.8	4,283.8		
Nonmarketable securities	535.2	24.1	559.3	5.0%	4.9%
Net unamortized premium/ (discounts)	(35.5)	(4.7)	(40.2)		
Total Treasury securities, net (public)	4,565.7	237.2	4,802.9		
Agency Securities:					
Tennessee Valley Authority	22.9	-	22.9		
All other agencies	0.3	(0.1)	0.2		
Total agency securities, net of unamortized premiums and discounts	23.2	(0.1)	23.1		
Accrued interest payable	35.3	6.2	41.5		
Total Federal debt securities held by the public and accrued interest	4,624.2	243.3	4,867.5		

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 2006 and 2005.

As of September 30, 2006, and 2005, respectively, $8,420.3 billion and $7,871.0 billion of debt were subject to a statutory limit (31 U.S.C. § 3101). That limit was $8,965.0 billion as of September 30, 2006, and $8,184.0 billion as of

September 30, 2005. 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 fiscal year 2005, these trust funds were reported as dedicated collections. For more information on earmarked funds and dedicated collections, see Note 20─Earmarked Funds and Note 21─Dedicated Collections. 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 2005	Net Change During Fiscal Year 2006	Balance 2006
Social Security Administration, Federal Old-Age and Survivors Insurance	1,616.1	177.0	1,793.1
Office of Personnel Management, Civil Service Retirement and Disability	660.8	29.1	689.9
Department of Health and Human Services, Federal Hospital Insurance	277.3	24.9	302.2
Social Security Administration, Federal Disability Insurance	193.3	8.9	202.2
Department of Defense, Military Retirement Fund	177.3	4.5	181.8
Department of Defense, Medicare-Eligible Retiree Health Care Fund	52.9	19.8	72.7
Department of Labor, Unemployment	54.8	11.4	66.2
Federal Deposit Insurance Corporation Funds	48.2	1.1	49.3
Pension Benefit Guaranty Corporation Fund	13.0	23.6	36.6
Department of Energy, Nuclear Waste Disposal	33.5	3.0	36.5
Department of Health and Human Services, Federal Supplementary Medical Insurance	17.2	15.1	32.3
Office of Personnel Management, Employees' Life Insurance	29.5	1.8	31.3
Housing and Urban Development, Federal Housing	22.6	(0.6)	22.0
Department of Treasury, Exchange Stabilization Fund	15.2	0.5	15.7
Office of Personnel Management, Employees Health Benefits	12.5	2.3	14.8
Department of State, Foreign Services Retirement and Disability Fund	13.4	0.5	13.9
Department of Transportation, Highway Trust Fund	8.3	2.7	11.0
Department of Veterans Affairs, National Service Life Insurance Fund	10.6	(0.4)	10.2
Department of Transportation, Airport and Airway Trust Fund	10.0	(2.0)	8.0
All other programs and funds	65.0	9.2	74.2
Subtotal	3,331.5	332.4	3,663.9
Unamortized net (discounts)/premiums	14.7	(15.9)	(1.2)
Total intragovernmental debt holdings, net	3,346.2	316.5	3,662.7

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 actuarial 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, 2006, and 2005, respectively, are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

	Civilian		Military		Total	
(In billions of dollars)	2006	2005	2006	2005	2006	2005
Pension and accrued benefits	1,349.0	1,273.8	967.1	895.4	2,316.1	2,169.2
Post-retirement health and accrued benefits	295.2	290.7	837.2	833.9	1,132.4	1,124.6
Veterans compensation and burial benefits	N/A	N/A	1,153.8	1,122.6	1,153.8	1,122.6
Life insurance and accrued benefits	34.2	32.9	-	-	34.2	32.9
FECA benefits	14.4	14.3	22.2	22.7	36.6	37.0
Liability for other benefits	1.5	1.3	4.4	4.2	5.9	5.5
Total Federal employee and veteran benefits payable	1,694.3	1,613.0	2,984.7	2,878.8	4,679.0	4,491.8

Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued pension liability as of September 30, 2005	1,273.8	895.4	2,169.2
Pension Expense:			
Normal costs	26.8	15.6	42.4
Plan amendment changes	-	0.1	0.1
Assumption changes	1.0	35.4	36.4
Interest on liability	78.0	55.0	133.0
Prior (and past) service cost	-	-	-
Actuarial (gains)/losses	29.7	6.1	35.8
Total pension expense	135.5	112.2	247.7
Less benefits paid	60.3	40.5	100.8
Actuarial accrued pension liability as of September 30, 2006	1,349.0	967.1	2,316.1

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

(In percentages)	Civilian 2006	Civilian 2005	Military 2006	Military 2005
Rate of interest	6.25%	6.25%	6.00%	6.25%
Rate of inflation	3.50%	3.25%	3.00%	3.00%
Projected salary increases	4.25%	4.00%	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, 2005	290.7	833.9	1,124.6
Post-Retirement Health Benefits Expense:			
Normal costs	11.2	21.0	32.2
Interest on liability	17.1	52.9	70.0
Other actuarial (gains)/losses	(12.5)	(53.8)	(66.3)
Total post-retirement health benefits expense	15.8	20.1	35.9
Less claims paid	11.3	16.8	28.1
Actuarial accrued post-retirement health benefits liability, as of September 30, 2006	295.2	837.2	1,132.4

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

(In percentages)	Civilian 2006	Civilian 2005	Military 2006	Military 2005
Rate of interest	6.25%	6.25%	6.25%	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. Both 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 for DOD uses a range of rates for the inflation and the projected salary increases, with an ultimate rate for the long term. The board for DOD also uses different health care cost inflation rates for inpatient, outpatient, and prescription drugs. The long-term ultimate rate is shown in the tables above.

The long-term ultimate rate for fiscal year 2006 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 2006 is 7.20 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 this fund 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. Beginning January 2006, 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 $15,000 for 2006. 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 $72.2 billion and $63.5 billion in nonmarketable Treasury securities as of September 30, 2006, and 2005, 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.

Other 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 in 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.

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The increase in the actual liability for Military Pensions is largely the result of a decrease in the assumed interest rate on invested balances, and thus a decrease in the associated assumed earnings of $32.8 billion and an increase in the actuarial liability. The majority of the remaining change is due to expected liability increases.

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. 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–3 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 August 1, 1986, 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 for fiscal year 2001 (Public Law No. 106-398) was signed into law. This law 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 belongs 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 2002-2006, the average medical cost per year was $25.7 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 increased by $31.2 billion in fiscal year 2006 and increased by $197.8 billion in fiscal year 2005. 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)	2006	2005
Veterans	970.8	925.4
Survivors	179.1	193.4
Burial benefits	3.9	3.8
Total compensation and burial benefits payable	1,153.8	1,122.6

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

(In percentages)	2006	2005
Rate of interest	4.76%	3.93%
Rate of inflation	4.10%	3.60%

Other Benefits

Veterans insurance includes the following programs:

- United States Government Life Insurance, established in 1919 to handle new issues and the conversion of World War I Risk Term Insurance.
- National Service Life Insurance, established in 1940 to meet the needs of World War II service personnel.
- Veterans Special Life Insurance, established in 1951 for Korean veterans who did not have service-connected disabilities.
- Service-Disabled Veterans Insurance, established in 1951 for veterans with service-connected disabilities.
- Veterans Reopened Insurance, which established a 1-year reopening in 1965 of National Service Life Insurance for certain disabled World War II and Korean veterans.

The VA supervises Service members' Group Life Insurance and Veterans' Group Life Insurance programs which provide life insurance coverage to members of the uniformed armed services, reservist, and post-Vietnam veterans. 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, 2006, and 2005 were $97.0 billion and $96.8 billion, respectively.

Note 12. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2006	2005
Department of Energy:		
Environmental Management Facilities	159.1	121.4
Active and Surplus Facilities	27.6	26.0
Legacy Environmental Liabilities	18.2	17.5
High-level Waste and Spent Nuclear Fuel	15.5	15.1
Surplus Plutonium and HEU Disposition	9.9	9.8
Total Department of Energy	230.3	189.8
Department of Defense:		
Environmental Restoration	33.5	36.0
Disposal of Weapon Systems Program	30.2	23.2
Base Realignment and Closure	4.1	4.1
Active Installations	2.2	1.7
Total Department of Defense	70.0	65.0
All other agencies	4.9	5.0
Total environmental and disposal liabilities	305.2	259.8

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; and 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 hexaflouride.

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. Recent increases in project cost estimates have created a significant gap between DOE's preliminary budgetary funding levels and the estimated costs of performing the work as recorded in the environmental liability estimates. If additional funding is not received, cleanup work scope will need to be extended and delayed resulting in higher costs.

DOE 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 DOE unrecognized portion of the cleanup cost associated with general property, plant, and equipment is $505.0 million and $440.0 million for fiscal years 2006 and 2005, 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 to clean up contamination resulting from waste disposal practices, leaks, spills, and other activities that have created a public health or environmental risk. 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 required by law to adhere to CERCLA and the Superfund Amendment and Reauthorization Act to clean up contamination resulting from past waste disposal practices, leaks, spills, and other activities which have created a risk to public health or the environment. The Army is DOD's executive agent for cleaning up contamination at sites formerly used by DOD. CERCLA requires DOD to clean up contamination in coordination with regulatory agencies, other responsible parties, and current property owners.

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). These two methods of valuation are used in this note's table. Additionally, cost estimates are based on the following: (1) historic comparable project, (2) a specific bid or independent Government cost estimate for the project, (3) site level data, and (4) annual cost-to-complete estimate.

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 $1,527.4 million and $152.1million for fiscal years 2006 and 2005, respectively. The unrecognized portion of the cleanup costs is recognized over a predetermined period of time. Please refer to the financial statements of the Department of Defense 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)	2006	2005
Federal Old-Age and Survivors Insurance	41.6	39.3
Federal Supplementary Medical Insurance (Medicare Part B)	21.1	16.6
Federal Disability Insurance	20.9	19.2
Federal Hospital Insurance (Medicare Part A)	19.8	16.8
Grants to States for Medicaid	19.2	20.1
Supplemental Security Income	3.5	2.8
Unemployment Insurance	1.1	0.9
All Other Benefit Programs	2.1	1.3
Total benefits due and payable	129.3	117.0

Note 14. Insurance Program Liabilities

Insurance Program Liabilities as of September 30

(In billions of dollars)	2006	2005
Insurance Program Liabilities:		
Pension Benefit Guaranty Corporation's defined benefit pension plans	69.1	69.8
National Flood Insurance Program	3.6	23.4
All other insurance programs	0.1	-
Total Insurance Programs	72.8	93.2

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 generally. As of September 30, 2006, PBGC had total liabilities of $80.0 billion, and its total liabilities exceeded its total assets by $18.9 billion. In addition, as discussed in Note 18—Contingencies, PBGC reported reasonably possible contingent losses of about $73.4 billion.

The Federal Emergency Management Agency 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

Other Liabilities as of September 30

(In billions of dollars)	2006	2005 (Restated)
Nuclear Waste Fund	21.1	19.6
Other Accrued Liabilities	19.9	23.2
Contingent liabilities	17.6	6.6
Accrued wages and benefits	15.3	16.0
Accrued annual leave	14.2	9.5
Deferred revenue	13.8	8.5
Accrued grant liability	12.8	10.4
Actuarial liabilities	12.0	11.6
Gold certificates	11.0	10.9
Deposit funds and undeposited collections	9.8	11.2
Exchange Stabilization Fund	9.4	9.3
Custodial liabilities	9.2	7.3
District of Columbia pension liabilities	9.1	8.5
Other debt	8.8	8.8
Energy Employees Occupational Illness Compensation Act	6.9	7.4
Miscellaneous liabilities	43.4	44.4
Total Other Liabilities	234.3	213.2

The following are descriptions of some of the other categories (i.e., those over $8 billion) classified as other liabilities:

- Nuclear Waste Fund (NWF) refers to revenues that are accrued by DOE based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as revenues as costs are incurred for NWF activities.
- Other accrued liabilities include amounts accrued by the USDA for the Tobacco Transition Program, Direct and Counter-Cyclical Program, Conservation Reserve Program, and other accrued liabilities.
- Contingent liabilities include amounts accrued by DOE for Spent Nuclear Fuel Litigation, and amounts accrued by DOD for future contract financing payments and other contingent liabilities.
- Accrued wages and benefits consist of the estimated liability for civilian and military salaries and wages earned but unpaid.
- Accrued annual leave represents the dollar value of annual leave accrued to employees for annual leave hours earned but not used, and that is expected to be paid from future years' appropriations. Annual leave is an expense which accrues as it is earned by employees.
- Deferred revenue refers to revenue received but not yet earned, such as payments received in advance from outside sources for future delivery of products or services.
- Accrued grant liability represents the accruals related to grant program funds provided primarily to State and local governments, as well as universities and nonprofit organizations.
- Actuarial liabilities include the estimated liability for the future benefit payments of contracted employees at the DOE. These are not for employee related benefit payments and therefore are not reflected in the Federal Employee and Veteran Benefits Payable footnote.
- Gold certificates include monetized portions of gold and certificates deposited in FRBs.

- Deposit funds and undeposited collections are deposits held and maintained by the Government on behalf of a third party and include unclassified deposited funds that are amounts offsetting undeposited collections, as well as funds deposited in clearing accounts and suspense accounts that await disposition or reclassification.
- Exchange Stabilization Fund includes SDR certificates issued to the FRBs and allocations from the IMF.
- Custodial liabilities include funds collected into the Foreign Military Sales Trust Fund in advance of the performance of services or sale of articles.
- District of Columbia (D.C.) pension liability represents the amount payable to the Judicial Retirement Fund and the D.C. Federal Pension Fund by Treasury for the annual amortized payments that are required to be made from the General Fund of the U.S. Government to fund certain D.C. retirement plans.
- Other debt includes Government obligations, whether secured or unsecured, not included in public debt.
- Miscellaneous liabilities include amounts accrued for other liabilities by PBGC, DOD, TVA, DOE, VA, Treasury, and the DOI. Refer to the financial statements and footnotes of the respective agencies for additional details.

Note 16. Collections and Refunds of Federal Revenue

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				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income tax and tax withholdings consist of FICA/SECA and other taxes including payroll taxes collected from other agencies.

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

Reconciliation of Collections to Revenue

(In billions of dollars)	2006	2005
Total revenue per the Statements of Operations and Changes in Net Position	2,440.8	2,185.5
Tax refunds	278.9	268.3
Earned Income Tax Credit and Child Tax Credit Imputed Revenue	(57.0)	(55.3)
Nontax related fines and penalties reported by agencies	(23.4)	(19.2)
Nontax related earned revenue	(17.1)	(19.2)
Collections of Federal revenue	2,622.2	2,360.1

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, 2005

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2005	2004	2003	Prior Years
Individual income and tax withholdings	1,864.7	1,211.9	620.9	13.9	18.0
Corporation income taxes	306.9	209.4	83.1	1.2	13.2
Unemployment taxes	40.1	22.2	9.9	7.9	0.1
Excise taxes	72.4	52.8	18.9	0.1	0.6
Estate and gift taxes	25.6	0.1	16.6	1.3	7.6
Railroad retirement taxes	4.5	3.4	1.1	-	-
Federal Reserve earnings	19.3	14.2	5.1	-	-
Fines, penalties, interest, and other revenue	4.3	3.9	0.4	-	-
Custom duties	23.2	23.2	-	-	-
Subtotal	2,361.0	1,541.1	756.0	24.4	39.5
Less: Amounts collected for non-federal entities	(0.9)				
Total	2,360.1				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2005

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2005	2004	2003	Prior Years
Individual income and tax withholdings	230.0	0.6	211.1	12.8	5.5
Corporation income taxes	35.1	1.0	7.2	5.5	21.5
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	1.0	0.3	0.3	-	0.3
Estate and gift taxes	0.9	-	0.3	0.4	0.3
Custom duties	1.2	0.7	0.1	-	0.3
Total	268.3	2.6	219.1	18.7	27.9

Note 17. Prior Period Adjustments-Corrections of Errors

Prior Period Adjustments to Fiscal Years 2006 and 2005

(In billions of dollars)	Increases to Net Position 2006	Increases to Net Position 2005
Prior Period Adjustments-Corrections of Errors:		
Department of Defense	-	2.9
Other prior period adjustments	-	0.2
Total prior period adjustments	-	3.1

For fiscal year 2005, DOD recorded $10.9 billion (net) for correction of accounting errors. Of these corrections, $3.6 billion (net) were due to a change in accounting principle for the historical cost of inventory-SFFAS No. 3, *Accounting for Inventory and Related Property*, which became effective during fiscal year 1994 but DOD failed to implement the accounting principle until fiscal year 2005. The $7.3 (net) were due to prior period adjustments and were the result of the Air Force completing the conversion of its inventory valuation method from Latest Acquisition Cost to Moving Average Cost. This resulted in adjustments to eliminate allowance for gains and losses, establish an allowance for repair, and revalue the inventory. Other agencies recorded $0.2 (net) as prior period adjustments.

In fiscal year 2006, DOD recorded a prior period adjustment to property, plant, and equipment, net for ($8.2) billion and other adjustments $0.2 billion for correction of accounting errors. This adjustment was due to material errors resulting from a change in the methodology for the reporting of military equipment. Refer to Notes 6 and 26 for additional details.

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.

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

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.

The Government is subject to loss contingencies which 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 that 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 PBGC for private-sector single-employer and multiemployer defined pension plans is $ 73.4 billion and $ 108.5 billion for 2006 and 2005, 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 $1,048.6 billion for 2006, and $864.3 billion for 2005. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major types are identified below:

- DHS reported $994.1 billion and $811.6 billion for 2006 and 2005, respectively for the National Flood Insurance Program (NFIP).
- EXIM reported $36.4 billion and $35.9 billion for 2006 and 2005, respectively for Export Credit Insurance.

[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.

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 $4,627.1 billion for 2006, and $4,344.4 billion for 2005. 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 $4,094.7 billion for 2006, and $3,831.0 billion for 2005, respectively for the Deposit Insurance Fund (DIF).
- National Credit Union Administration (NCUA) has estimated insured deposits of $532.3 billion for 2006, and $513.4 billion for 2005, respectively for the National Credit Union Share Insurance Fund (NCUSIC).

Legal Contingencies

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 $3.7 billion and $5.0 billion for 2006 and 2005, respectively, and are recorded in the balance sheet line items “Insurance Liabilities,” or “Other Liabilities.” A few of the major cases are summarized below:

- HHS has unasserted claims that resulted from processing errors where incorrect Medicare eligibility determinations were made. Estimated amounts payable to States to reimburse them for payments they paid on behalf of beneficiaries are $1.6 billion for 2005. No states have filed any claims since the HHS' Centers for Medicare and Medicaid Services (CMS) first disclosed this issue; no additional amounts have been recorded for 2006.
- DOI has estimated potential liability for a breach of contract case related to undeveloped Federal oil and gas leases in the amount of $0.5 billion.
- VA has recorded liabilities for pending legal claims related to medical malpractice and other tort claim exposure in the amounts of $0.6 billion and $0.5 billion for 2006 and 2005, respectively.

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 $7.6 billion to $9.5 billion for 2006, and from $1.2 billion to $7.9 billion for 2005. Two of the major cases are summarized below:

- USDA reported that, as of September 30, 2006, $2.9 billion could be owed to plaintiffs of a pending class action discrimination suit.
- DHS has pending legal claims in the range of $0.1 billion to $2.7 billion for refunds of user fees, harbor maintenance tax claims, and tariff claims as of September 30, 2006.

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 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 25,000 Administrative claims filed in relation to Hurricane Katrina with an aggregate claim amount of over $104 billion. In addition to administrative claims, there have been over 50 Katrina related litigations in Federal district courts with an aggregated claim amount of over $105 billion.

Additional suits are expected. The United States is currently awaiting a ruling on a motion to dismiss that will determine if an assertion of immunity would be successful. The range of potential loss is $10 billion to an amount perhaps several times larger. In addition to the tort claims, two purported class actions have been filed in the Court of Federal Claims alleging that property was taken in violation of the Fifth Amendment of the Constitution. The alleged just compensation owed exceeds $150 billion. Motions to dismiss have been filed in both actions.

- The North American Free Trade Agreement (NAFTA) allows Canadian and Mexican investors to bring arbitration proceedings against the United States for breaches of certain NAFTA provisions. These cases raise allegations of expropriation as well as other claims of treatment inconsistent with international law or specific treaty commitments that provide investment protections. The United States has successfully defended itself against two claims submitted to arbitration under Chapter 11 of the NAFTA. The United States is currently defending itself against eight claims submitted to arbitration and nine claims not yet submitted under Chapter 11 of NAFTA. These claims total approximately $1.4 billion.

Environmental and Disposal Contingencies

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 $7.0 billion and $5.2 billion for 2006 and 2005, respectively, and are recorded in the balance sheet line item “Other Liabilities.” 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 $6.8 billion and $5.0 billion for 2006 and 2005, respectively.

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 Department of Commerce (DOC) has estimated liabilities for a variety of cleanup costs, many of which are associated with the Second World War at various sites within the United States in the amounts of $0.5 billion and $0.8 billion for 2006 and 2005, respectively.

Other Contingencies

DOT has large contingency amounts. The major contingencies are summarized below:

- DOT’s Federal Highway Administration (FHWA) reported $45 billion and $40 billion respectively, for 2006 and 2005 for Advance Construction Projects.
- DOT reported $1.8 billion and $0.2 billion for 2006 and 2005, respectively for Hurricanes Katrina and Rita.
- DOT’s Federal Transit Administration (FTA) reported $1.4 billion and $2.2 billion for 2006 and 2005, 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)	Capital Leases 2006	Operating Leases 2006	Capital Leases 2005	Operating Leases 2005
General Services Administration	0.3	22.9	0.3	22.9
U.S. Postal Service	0.7	8.4	-	9.6
Department of Homeland Security	0.1	1.8	0.1	1.4
Department of Health and Human Services	-	1.1	-	1.4
Department of Justice	0.1	0.9	0.1	-
Department of Defense	0.2	0.4	0.3	0.8
Tennessee Valley Authority	0.2	0.1	0.2	0.1
Other Capital Leases	0.4	4.2	0.5	3.8
Total long-term leases	2.0	39.8	1.5	40.0

	Undelivered Orders 2006	Undelivered Orders 2005
Department of Defense	173.6	174.5
Department of Housing & Urban Development	72.0	68.4
Department of Transportation	68.6	68.1
Department of Health and Human Services	67.6	67.9
Department of the Treasury	51.1	44.4
Department of Education	47.6	46.4
Department of Homeland Security	28.2	23.3
Department of Agriculture	16.0	16.0
Agency for International Development	11.6	13.0
Department of Energy	11.1	10.3
Environmental Protection Agency	9.2	9.7
Department of Justice	8.9	9.1
Department of State	8.6	7.3
National Science Foundation	7.3	7.1
Department of the Interior	6.6	6.4
Other undeliverable orders	37.2	25.4
Total undelivered orders	625.2	597.3

	Other Commitments 2006	Other Commitments 2005
Callable capital subscriptions for multilateral development banks	62.1	62.0
Sales of Surplus Power	23.4	10.9
Agriculture Direct Loans and Guarantees	22.3	21.0
Long-term satellite and systems	6.4	7.5
Power purchase obligations	4.3	4.3
Grant Programs - Airport Improvement Program	3.8	3.6
Fuel purchase obligations	3.0	2.3
Conservation Reserve Program	2.0	2.0
Other	2.7	2.6
Total other commitments	130.0	116.2

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, 2006*

(In millions of dollars)	Federal Old-Age & Survivors Insurance Trust Fund	Civil Service Retirement & Disability Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)
Assets:						
Cash and other monetary assets	-	-	13.0	-	-	-
Fund balance with Treasury	(795.0)	17.0	955.0	(348.0)	30.7	37.9
Investments in U.S. Treasury securities	1,793,129.0	689,936.0	302,186.0	202,178.0	208,392.1	85,395.0
Other Federal assets	23,006.0	9,861.0	24,693.0	2,628.0	-	-
Non-federal assets	2,112.0	277.0	882.0	2,886.0	23.3	8.8
Total assets	1,817,452.0	700,091.0	328,729.0	207,344.0	208,446.1	85,441.7
Liabilities:						
Liabilities due and payable to beneficiaries	41,677.0	4,545.0	19,751.0	23,611.0	-	-
Other Federal liabilities	3,867.0	3.0	20,531.0	720.0	1.3	49.1
Other Non-federal liabilities	-	1,287,185.0	595.0	6.0	967,106.1	538,860.6
Total liabilities	45,544.0	1,291,733.0	40,877.0	24,337.0	967,107.4	538,909.7
Total net position	1,771,908.0	(591,642.0)	287,852.0	183,007.0	(758,661.3)	(453,468.0)
Total liabilities and net position	1,817,452.0	700,091.0	328,729.0	207,344.0	208,446.1	85,441.7
Change in Net Position:						
Beginning net position	1,595,523.0	(549,022.0)	266,754.0	175,137.0	(697,577.3)	(477,660.1)
Investment revenue	89,385.0	36,618.0	15,541.0	10,495.0	12,317.8	4,052.8
Revenue from the public	530,006.0	-	180,392.2	90,001.0	-	-
Other changes in fund balance	9,138.0	46,416.0	10,954.8	(1,498.0)	39,419.9	27,749.9
Other expenses	-	-	2,929.0	-	-	-
Program expenses	452,144.0	125,654.0	182,861.0	91,128.0	112,821.7	7,610.6
Ending net position	1,771,908.0	(591,642.0)	287,852.0	183,007.0	(758,661.3)	(453,468.0)

* 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

(In millions of dollars)	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	Railroad Retirement Trust Funds	Land and Water Conservation Fund	Foreign Service Retirement and Disability Fund	National Service Life Insurance Fund
Assets:						
Cash and other monetary assets	-	132.0	-	-	-	-
Fund balance with Treasury	60.3	27,771.0	(3.7)	14,836.2	2.1	5.0
Investments in U.S. Treasury securities	66,212.6	33,061.0	1,200.5	-	13,875.7	10,338.0
Other Federal assets	1,078.3	22,603.0	3,757.0	-	199.6	474.0
Non-federal assets	1,435.8	2,459.0	29,399.2	-	1.7	-
Total assets	68,787.0	86,026.0	34,353.0	14,836.2	14,079.1	10,817.0
Liabilities:						
Liabilities due and payable to beneficiaries	1,068.4	21,073.0	812.9	-	-	142.0
Other Federal liabilities	1,309.8	22,983.0	3,506.8	-	-	10,397.0
Other Non-federal liabilities	-	311.0	268.4	-	14,272.5	-
Total liabilities	2,378.2	44,367.0	4,588.1		14,272.5	10,539.0
Total net position	66,408.8	41,659.0	29,764.9	14,836.2	(193.4)	278.0
Total liabilities and net position	68,787.0	86,026.0	34,353.0	14,836.2	14,079.1	10,817.0
Change in Net Position:						
Beginning net position	54,496.5	9,266.0	28,067.8	14,303.5	72.5	284.0
Investment revenue	2,780.1	1,601.0	1,754.0	-	765.6	990.0
Revenue from the public	41,406.6	-	15.0	894.6	-	1.0
Other changes in fund balance	(1,768.7)	181,979.0	9,466.1	(361.9)	430.7	-
Other expenses	-	2,102.0	-	-	1,462.2	-
Program expenses	30,505.7	149,085.0	9,538.0	-	-	997.0
Ending net position	66,408.8	41,659.0	29,764.9	14,836.2	(193.4)	278.0

* 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*

(In millions of dollars)	Airport and Airway Trust Fund	Highway Trust Fund	Hazardous Substance Superfund	Black Lung Disability Trust Fund	All Other Earmarked Funds	Total Earmarked Funds
Assets:						
Cash and other monetary assets	-	-	-	-	23,581.6	23,726.6
Fund balance with Treasury	645.5	4,431.6	35.1	39.3	39,275.5	86,995.5
Investments in U.S. Treasury Securities	7,967.5	10,997.6	2,619.5	-	127,269.4	3,554,757.9
Other Federal assets	-	-	24.2	-	14,425.6	102,749.7
Non-federal assets	-	331.0	269.0	8.8	56,388.9	96,482.5
Total assets	8,613.0	15,760.2	2,947.8	48.1	260,941.0	3,864,712.2
Liabilities:						
Liabilities due and payable to beneficiaries	-	-	-	21.2	7,500.8	120,202.3
Other Federal liabilities	2,214.2	-	129.0	9,631.6	20,310.3	95,653.1
Other Non-federal liabilities	-	3,888.6	434.7	-	416,687.9	3,229,615.8
Total liabilities	2,214.2	3,888.6	563.7	9,652.8	444,499.0	3,445,471.2
Total net position	6,398.8	11,871.6	2,384.1	(9,604.7)	(183,558.0)	419,241.0
Total liabilities and net position	8,613.0	15,760.2	2,947.8	48.1	260,941.0	3,864,712.2
Change in Net Position:						
Beginning net position	7,317.6	10,231.4	2,200.1	(9,160.0)	(183,006.7)	247,227.3
Investment revenue	483.4	1.1	108.8	0.3	8,454.2	185,348.1
Revenue from the public	10,202.1	38,753.4	298.5	607.4	16,030.9	908,608.7
Other changes in fund balance	-	27.2	1,214.7	(57.6)	21,121.7	344,231.8
Other expenses	-	-	-	-	26,528.6	33,021.8
Program expenses	11,604.3	37,141.5	1,438.0	994.8	19,629.5	1,233,153.1
Ending net position	6,398.8	11,871.6	2,384.1	(9,604.7)	(183,558.0)	419,241.0

* 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, provide 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.

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.

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 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.

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.

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.

Unemployment Trust Fund

The 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. 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.

Railroad Retirement Trust Funds

The Railroad Retirement Trust Fund provides annuities and survivor benefits to eligible railroad employees and their survivors. The fund also pays disability annuities based on total or occupational disability. Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement

Survivor Benefit program. The law establishing the Railroad Retirement Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 45 U.S.C. § 231n and 45 U.S.C. § 231n-1.

The Railroad Retirement and Survivors' Improvement Act, enacted on December 21, 2001, created the National Railroad Retirement Investment Trust to administer the new fund, which is allowed to invest in Federal debt securities as well as other investments outside of the U.S. Government (see Railroad Retirement in the Supplemental Information-Social Insurance section).

Land and Water Conservation Fund

The Land and Water Conservation Fund (LWCF) is administered by DOI and was enacted in 1964, by Public Law 88-578, to create and maintain a nationwide legacy of high quality recreation areas and facilities. The LWCF Act established a funding source for both Federal acquisition of authorized national park, conservation, and recreation areas as well as grants to State and local governments to help them acquire, develop, and improve outdoor recreation areas. Annually, $903 million for the LWCF are transferred from the Minerals Management Service to the National Park Service, the majority of which are from royalties from Outer Continental Shelf oil deposits. Each year, amounts from the LWCF are warranted to some of the bureaus within the DOI and the rest to USDA's Forest Service. The law establishing the Land and Water Conservation Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 16 U.S.C. § 4601-11.

Foreign Service Retirement and Disability Fund

The Foreign Service Retirement and Disability Fund (FSRD) is administered by the Department of State and provides pensions to retired and disabled members of the Foreign Service. The FSRD's revenues consist of contributions from active participants and their U.S. Government agency employers, appropriations, and interest on investments in Treasury securities. Monthly annuity payments are made to eligible retired employees or their survivors. Separated employees without title to an annuity may take a refund of their contributions. P.L. 96-465 limits the amount of administrative expense that can be charged to the fund to $5,000 per year. Cash is invested in U.S. Treasury securities until it is needed. The laws establishing the Foreign Service Retirement and Disability Fund and authorizing the deposit of amounts to the credit of the trust fund are set forth in 22 U.S.C. § 4042 and 22 U.S.C. § 4045.

National Service Life Insurance Fund

The National Service Life Insurance Program (NSLI) covers policyholders who served during World War II. The program opened October 8, 1940, when it became clear that large-scale military inductions were imminent. Over 22 million policies were issued under the NSLI Program. The majority of policies administered directly by the Department of Veteran's Affairs are NSLI policies. This program remained opened until April 25, 1951, when two new programs were established for Korean War service members and veterans. The financing sources for the NSLI come from the public and veterans. The law establishing the NSLI Program and authorizing the depositing of amounts to the credit of the trust fund is set forth in 38 U.S.C. § 1920.

Airport and Airway Trust Fund

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.

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).

Highway Trust Fund

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 taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles. 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.

Hazardous Substance Superfund

The Hazardous Substance Superfund was authorized to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. The Environmental Protection Agency administers the fund. The law establishing the Hazardous Substance Superfund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9507. Funding sources include:

- Fines, penalties, and cost recoveries from responsible parties.
- Appropriations.
- Interest earned on investments in Treasury securities.

Black Lung Disability Trust Fund

The 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. Intragovernmental advances to the BLDTF, which 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.

All Other Earmarked Funds

The above sixteen earmarked funds represent the Government's most significant earmarked activity. All other earmarked activity is aggregated as "all other" in accordance with SFFAS No. 27. This "all other" aggregate includes 210 earmarked funds that are designated as significant funds by the agencies in their collective financial statements. 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
- 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-Leaking Underground Storage Tanks
- Department of Commerce-U.S. Patent and Trademark Office
- Department of Veterans Affairs-Medical Care
- Department of Homeland Security-Customs User Fees, Immigration Examination Fees and the National Flood Insurance Program.

Note 21. Dedicated Collections

The implementation of SFFAS No. 27 in fiscal year 2006 supersedes the dedicated collections provisions in SFFAS No. 7 for earmarked funds. Earmarked funds were reported as dedicated collections in fiscal year 2005. For fiscal year 2006, the dedicated collection amounts related to non-earmarked funds are immaterial. Refer to Note 20—Earmarked Funds.

Dedicated Collections as of September 30, 2005*

(In millions of dollars)	Federal Old-Age & Survivors Insurance Trust Fund	Civil Service Retirement & Disability Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)
Assets:						
Fund balance	(384.0)	23.0	366.0	(73.0)	22.9	5.0
Investments	1,616,159.0	660,750.0	280,996.0	193,263.0	197,807.1	60,691.7
Other Federal assets	20,936.0	9,684.0	17,978.0	2,539.0	-	32.9
Non-federal assets	1,965.0	276.0	3,126.0	2,480.0	26.7	11.3
Total assets	1,638,676.0	670,733.0	302,466.0	198,209.0	197,856.7	60,740.9
Liabilities:						
Liabilities due and payable to beneficiaries	39,213.0	4,323.0	16,806.0	22,375.0	-	-
Other liabilities	3,940.0	1,215,432.0	18,906.0	697.0	895,434.0	538,401.0
Total liabilities	43,153.0	1,219,755.0	35,712.0	23,072.0	895,434.0	538,401.0
Total net position	1,595,523.0	(549,022.0)	266,754.0	175,137.0	(697,577.3)	(477,660.1)
Total liabilities and net position	1,638,676.0	670,733.0	302,466.0	198,209.0	197,856.7	60,740.9
Change in Net Position:						
Beginning net position	1,433,278.0	(537,448.0)	253,259.0	170,598.0	(649,695.1)	(466,096.2)
Nonexchange revenue	585,819.0	-	184,457.0	95,591.0	-	-
Other financing sources	16.0	25,652.0	9,431.0	47.0	-	-
Other changes in fund balance	9,416.0	-	-	(1,221.0)	-	-
Exchange revenue	-	57,864.0	2,314.0	-	48,812.2	28,412.4
Program expenses	433,006.0	95,090.0	180,380.0	89,878.0	96,694.4	39,976.3
Other expenses	-	-	2,327.0	-	-	-
Ending net position	1,595,523.0	(549,022.0)	266,754.0	175,137.0	(697,577.3)	(477,660.1)

* By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Dedicated Collections as of September 30, 2005*

(In millions of dollars)	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)	Railroad Retirement Trust Funds	Land and Water Conservation Fund	Foreign Service Retirement and Disability Fund
Assets:					
Fund balance	(273.0)	1,303.0	43.3	-	0.1
Investments	54,805.9	17,448.0	2,156.3	14,303.5	13,359.4
Other Federal assets	979.0	29,345.0	3,644.3	-	196.8
Non-federal assets	1,418.1	3,424.0	26,438.8	-	1.9
Total assets	56,930.0	51,520.0	32,282.7	14,303.5	13,558.2
Liabilities:					
Liabilities due and payable to beneficiaries	931.7	16,593.0	787.4	-	45.9
Other liabilities	1,501.8	25,661.0	3,784.2	-	13,439.8
Total liabilities	2,433.5	42,254.0	4,571.6	-	13,485.7
Total net position	54,496.5	9,266.0	27,711.1	14,303.5	72.5
Total liabilities and net position	56,930.0	51,520.0	32,282.7	14,303.5	13,558.2
Change in Net Position:					
Beginning net position	45,395.9	10,043.0	25,319.5	13,859.2	(345.8)
Nonexchange revenue	44,404.4	1,336.0	5,010.7	-	-
Other financing sources	0.1	115,784.0	3,176.0	444.3	-
Other changes in fund balance	(3,815.0)	(2,577.0)	-	-	-
Exchange revenue	-	35,945.0	4,868.5	-	1,206.8
Program expenses	31,488.9	149,463.0	10,664.2	-	-
Other expenses	-	1,802.0	(0.6)	-	788.5
Ending net position	54,496.5	9,266.0	27,711.1	14,303.5	72.5

* 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.

Dedicated Collections as of September 30, 2005*

(In millions of dollars)	National Service Life Insurance Fund	Airport and Airway Trust Fund	Corpus Highway Trust Fund	Hazardous Substance Superfund	Black Lung Disability Trust Fund
Assets:					
Fund balance	9.0	692.3	2,549.0	7.2	41.9
Investments	10,758.0	10,047.4	8,270.6	2,293.0	-
Other Federal assets	505.0	85.6	-	4.2	-
Non-federal assets	-	-	-	-	9.1
Total assets	11,272.0	10,825.3	10,819.6	2,304.4	51.0
Liabilities:					
Liabilities due and payable to beneficiaries	142.0	-	-	-	24.4
Other liabilities	10,846.0	3,507.7	11,708.0	-	9,186.6
Total liabilities	10,988.0	3,507.7	11,708.0	-	9,211.0
Total net position	284.0	7,317.6	(888.4)	2,304.4	(9,160.0)
Total liabilities and net position	11,272.0	10,825.3	10,819.6	2,304.4	51.0
Change in Net Position:					
Beginning net position	283.0	6,959.1	5,562.3	2,394.5	(8,711.4)
Nonexchange revenue	-	10,699.9	37,892.6	69.0	611.1
Other financing sources	1.0	-	34.8	1,247.5	-
Other changes in fund balance	-	-	-	-	(56.7)
Exchange revenue	1,081.0	-		52.5	-
Program expenses	1,081.0	10,341.4	44,378.1	1,459.1	1,003.0
Other expenses	-	-	-	-	-
Ending net position	284.0	7,317.6	(888.4)	2,304.4	(9,160.0)

* 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.

The tables above depict selected trust funds that have been chosen based on their financial activity. Additionally, the Federal Government has many other dedicated collections and trust funds. The tables above exclude all trust funds that are identified as earmarked funds as defined by SFFAS No. 27. See Note 20—Earmarked Funds for a listing of major earmarked funds. Dedicated collections include the Indian Trust Funds. Refer to Note 22—Indian Trust Funds for more details.

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 line item "investments," listed under assets in the tables above, refers to investments in Federal debt securities, net of unamortized discounts and premiums. Total assets represent the unexpended balance from all sources of receipts and amounts due the trust 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 balance with Treasury, investments in Federal debt securities—including unamortized amounts, and other assets which include the related accrued interest receivable. These amounts were eliminated in preparing these financial statements. The non-federal assets represent only the activity with individuals and organizations outside the Government. All related Governmental balances are removed to present the Government's position as a whole.

Most of the trust fund assets are invested in intragovernmental debt holdings. These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities to pay benefits as they become due and payable will require the Government to finance these benefit payments in the same way that it finances all Government spending, which is by using cash on hand or by issuing debt to the public, if there is insufficient cash on hand.

Note 22. 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 approximately 1,450 accounts for Tribal and Other Special Trust Funds (including the Alaska Native Escrow Fund) and approximately 300,000 accounts for individuals. 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 Special 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 Special 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 tables below depict the U.S. Government as trustee for Indian Trust Funds Held for Indian Tribes and Other Special Trust Funds. The Other Special Trust Funds included in the tables below ($284.2 million and $277.3 million for fiscal years 2006 and 2005, respectively, identified in DOI's financial statements) and trust funds considered Federal funds are included in DOI's financial statements.

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)	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	503.4	501.6
Investments	2,417.8	2,380.2
Total assets	2,921.2	2,881.8
Trust fund balances, held for Indian Tribes and by DOI	2,921.2	2,881.8

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

(In millions of dollars)	2006	2005
Receipts	460.50	517.7
Disbursements	(421.1)	(611.2)
Increase (decrease) in trust fund balances, net	39.4	(93.5)
Trust fund balances, beginning of year	2,881.8	2,975.3
Trust fund balances, end of year	2,921.2	2,881.8

OST also maintains about 323,000 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)	2006	2005
Assets:		
Cash and cash equivalents	61.9	28.3
Investments	353.9	388.6
Accrued interest receivable	2.5	3.0
Total assets	418.3	419.9
Trust fund balances, held for individual Indians	418.3	419.9

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

(In millions of dollars)	2006	2005
Receipts	372.9	301.6
Disbursements	(374.5)	(278.4)
Increase (decrease) in trust fund balances, net	(1.6)	23.2
Trust fund balances, beginning of year	419.9	396.7
Trust fund balances, end of year	418.3	419.9

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 Special 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 Special 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 23. 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 relevant agency performance and accountability reports for SSA, HHS, RRB and DOL (Black Lung). The projections are based on the continuation of program provisions contained in current law. The estimates in the consolidated financial statements 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 2040).

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's future participants are the projected new entrants as of January 1 of the valuation year.

The present values of future expenditures less future revenues 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.

	*********************UNAUDITED********************				
Social Insurance Program	**2006**	**2005**	**2004**	**2003**	**2002**
Social Security	1,859	1,687	1,531	1,378	1,213
Medicare					
HI	285	268	256	235	209
SMI	23	19	24	34	41
Railroad Retirement	30	28	26	22	21
Black Lung	(10)	(9)	(8)	(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 15 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, 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.[1] 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. Similarly 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.

Social Security and Medicare – Demographic and Economic Assumptions

The Boards of Trustees[2] 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 and HHS's performance and accountability reports.

[1] Medicare legislation in 2003 created the new Part D account in the SMI Trust Fund to account for the new prescription drug benefit that began in 2006. Similar to Medicare Part B, approximately three-quarters of revenues to the Part D account is expected to come from future transfers from the General Fund of the Treasury.
[2] 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
2006	2.03	848.9	1,075,000	75.0	79.7
2010	2.03	829.2	1,000,000	75.5	79.9
2020	2.01	767.1	950,000	76.6	80.7
2030	2.00	707.4	900,000	77.6	81.6
2040	2.00	654.5	900,000	78.5	82.4
2050	2.00	608.0	900,000	79.4	83.1
2060	2.00	566.9	900,000	80.3	83.9
2070	2.00	530.3	900,000	81.0	84.5
2080	2.00	497.6	900,000	81.8	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)
2006	1.2	4.1	2.9	3.4	1.7	4.9
2010	1.5	4.3	2.8	2.6	0.7	5.9
2020	0.9	3.7	2.8	2.1	0.4	5.7
2030	1.1	3.9	2.8	1.9	0.3	5.7
2040	1.1	3.9	2.8	2.0	0.3	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	2.0	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 2030.
[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)
2006	2.03	848.9	1,075,000
2010	2.03	829.2	1,000,000
2020	2.01	767.1	950,000
2030	2.00	707.4	900,000
2040	2.00	654.5	900,000
2050	2.00	608.0	900,000
2060	2.00	566.9	900,000
2070	2.00	530.3	900,000
2080	2.00	497.6	900,000

Economic Assumptions

					Per Beneficiary Cost (percent change)[7]			
						SMI		
Year	Real Wage Differ-ential[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)
2006	1.2	4.1	2.9	3.4	4.7	8.6	0.0	1.4
2010	1.5	4.3	2.8	2.6	4.7	4.1	7.9	3.1
2020	0.9	3.7	2.8	2.1	4.4	4.5	6.6	2.9
2030	1.1	3.9	2.8	1.9	5.8	5.6	5.3	2.9
2040	1.1	3.9	2.8	2.0	5.8	5.3	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	4.6	4.7	4.6	2.9
2070	1.1	3.9	2.8	2.0	4.5	4.4	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 2030.
[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 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 228,000 in 2006. 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 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 include 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 2006 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 which are limited 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 4.00 percent to 4.30 percent, and medical cost increases range from 4.00 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 4.9 percent to 5.8 percent.

SMI Part B Physician Update Factor

The projected Part B expenditure growth reflected in the accompanying SOSI 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 37 percent over the next 9 years. Reductions of this magnitude are not feasible and such reductions are very unlikely to occur fully in practice. For example, Congress has overridden scheduled negative updates for each of the last 4 years. [3] However, since these reductions are required in the future under the current-law payment system, they are reflected in the accompanying SOSI as required under GAAP. Consequently, the projected actuarial present values of Part B expenditure shown in the accompanying SOSI 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 $17.6 trillion. 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 $22.3 trillion. Alternatively, 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 $24.4 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). 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.

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[3] Recently, Congress passed legislation to override scheduled reductions for 2007. The Tax Relief and Health Care Act of 2006, H.R. 6111, 109th Cong. As of December 11, 2006, the President had not signed the legislation.

Note 24. 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 modified its units of measure to more accurately reflect the major categories of uses of stewardship land. As of fiscal year 2006 they have 547 national wildlife refuges, 390 national parks, 126 geographic management areas, 86 fish hatcheries, and many other categories. At the end of fiscal year 2006 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 25. 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 Smithsonian Institution, the Department of the Interior, the Department of Agriculture-Forest Service, the National Archives and Records Administration, and the website for the Library of Congress at http://www.loc.gov/index.html, for additional information on multi-use heritage assets, including agency stewardship policies, physical units by major categories and the condition.

Note 26. Restatements

In billions of dollars)	September 30, 2005 Reported	Restated
Reconciliation of Net Operating Cost and Unified Budget Deficit:		
Net Operating Cost	760.0	760.2
Components of Net Operating Cost not Part of the Budget Deficit:		
Property, plant, and equipment disposals and revaluations	47.8	(43.7)
Components of the Budget Deficit not Part of Net Operating Cost:		
Capitalized Fixed assets:		
Department of Defense	(110.2)	(28.3)
Civilian Agencies	(36.4)	(25.1)
Total Capitalized Fixed Assets	(146.6)	(53.4)
(Increase) in Securities and Investments	(18.2)	(16.2)
Principal repayments of precredit reform loans	9.7	(2.2)
All other Reconciling Items	(13.2)	(4.8)
Guaranteed Loan Programs (Note 4):		
Small Business Loans-SBA:		
Face Value of Loans Outstanding	73.3	63.3
Amount Guaranteed By the Government	61.1	51.1
Property, Plant, and Equipment, Net (Note 6):		
Defense: Furniture, Fixtures and Equipment:		
Cost	1,266.4	665.5
Accumulated Depreciation	908.8	316.1
Net Balance	357.6	349.4

The fiscal year 2005 Reconciliation of Net Operating Cost and Unified Budget Deficit has been restated to correct for material errors made during the consolidation process. These errors caused an understatement of the property, plant, and equipment disposals and revaluations line item and an overstatement of the capitalized fixed assets line item by $91.5 billion and by $93.2 billion, respectively. The components of total capitalized fixed assets, Department of Defense and Civilian Agencies, were overstated by $81.9 billion and $11.3 billion, respectively. In addition, the increase in securities and investments and the principal repayments of precredit reform loans were also overstated by $2.0 billion and $11.9 billion, respectively. Lastly, all other reconciling items (formerly called the “net amount of all other differences”) was overstated by $8.4 billion.

The Department of Defense reported a prior period adjustment due to material errors resulting from a change in the methodology for the reporting of military equipment. The methodology previously used by DOD was not compliant with Statement of Federal Financial Accounting Standards (SFFAS) Number 23, *Eliminating the Category National Defense Property, Plant, and Equipment.* This adjustment decreased the value of furniture, fixtures, and equipment (FFE) and associated accumulated depreciation by $600.9 billion and 592.7 billion, respectively, resulting in an $8.2 billion downward restatement in net FFE balance. The net effect of this adjustment impacted the fiscal year 2005 Balance Sheet and the Statements of Operations and Changes in Net Position. In fiscal year 2006, DOD recorded other adjustments of $0.2 billion for correction of accounting errors.

During fiscal year 2006, the SBA discovered an error in their presentation of Guaranteed Loans Outstanding in its fiscal year 2005 financial statements. The amounts disclosed in the fiscal year 2005 consolidated financial statements’ Note 4—Loans Receivable and Loan Guarantee Liabilities, Net for Small Business Loans-SBA guaranteed loans outstanding as of September 30, 2005, were overstated by $10 billion due to a data error in SBA's loan accounting system. The correction of this error by SBA has lowered both the face value and the amount guaranteed by the Federal Government of guaranteed loans outstanding as of September 30, 2005, by $10 billion. Since these amounts are for informative purposes only and are not contained in any other financial statement line items, there is no further impact of this correction in the consolidated financial statements or notes.