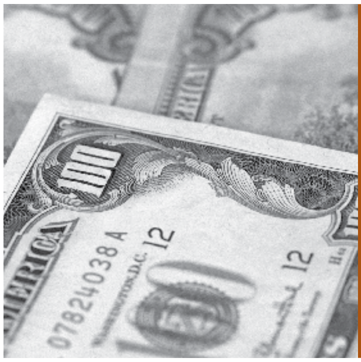

Part III:
Annual Financial Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2006

MEMORANDUM FOR SECRETARY PAULSON

FROM: Harold Damelin
Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements for Fiscal Years 2006 and 2005

SUMMARY

I am pleased to transmit the attached report presenting the results of the audit of the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2006 and 2005. The audit is required by the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994.

DISCUSSION

We contracted with the independent certified public accounting firm KPMG LLP to audit the FY 2006 and 2005 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards; Office of Management and Budget Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*; and, the *GAO/PCIE Financial Audit Manual.*

In its audit of the Department of the Treasury, KPMG LLP:

- found that the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- reported that the four material weaknesses and one other reportable condition in financial management practices identified by the auditor of the Internal Revenue Service (IRS), collectively represent a material weakness for the Department as a whole;
- reported that weaknesses in 1) electronic data processing controls and information security programs over financial systems, and 2) controls over transactions and balances related to the International Assistance Programs, represent reportable conditions for the Department as a whole;
- reported that the Department's financial management systems did not substantially comply with the requirements of the *Federal Financial Management Improvement Act of 1996*;
- reported two instances of noncompliance with laws and regulations related to the *Internal Revenue Code* Section 6325 and the *Federal Information Security Management Act of 2002;* and

- reported two instances of possible *Anti-deficiency Act* violations related to transactions and activities of the Treasury Franchise Fund and the Departmental Offices.

In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its personnel. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or conclusions about the effectiveness of internal control or on whether the Department of the Treasury's financial management systems substantially complied with the *Federal Financial Management Improvement Act of 1996*; or conclusions on compliance with laws and regulations. KPMG LLP is responsible for the attached auditor's report dated November 13, 2006, and the conclusions expressed in that report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

The IRS's pervasive internal control weaknesses have existed since audits of its financial statement were initiated in FY 1992. The Government Accountability Office (GAO), the auditor of the IRS's financial statements for the FYs ending September 30, 2006 and 2005, reported that the bureau continued to make great strides in addressing its financial management challenges and substantially mitigated several material weaknesses in its internal controls, particularly with respect to cost accounting and its property and equipment records. However, because of budgetary concerns and advances in automated financial management system technologies, the GAO reported that IRS is no longer committed to the future releases of its Integrated Financial System (IFS) that were once intended to resolve many of its most serious financial management issues, and is currently considering alternatives. IRS has not yet committed to an alternative approach nor has funding been appropriated. Additionally, IRS has not determined how to resolve issues related to the lack of integration between IFS and its tax processing systems. Consequently, it is unclear how or when these issues will be resolved. Continued involvement by IRS officials and the Department's senior leadership is essential to effectively address these matters.

Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Sandra L. Pack
Assistant Secretary for Management
and Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
U.S. Department of the Treasury:

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury (the Department) as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, the combined statements of budgetary resources, and the statements of custodial activity (consolidated financial statements), for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. These consolidated financial statements are incorporated in the accompanying *Department of the Treasury Fiscal Year 2006 Performance and Accountability Report (Performance and Accountability Report)*.

We did not audit the amounts included in the consolidated financial statements related to the Internal Revenue Service (IRS), a component entity of the Department. The financial statements of the IRS were audited by another auditor whose report has been provided to us. Our opinion, insofar as it relates to the amounts included for IRS's financial statements, is based solely on the report of the other auditor.

In connection with the fiscal year 2006 audits, we, and the other auditor, also considered the Department's internal controls over financial reporting and performance measures, and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

SUMMARY

As stated in our opinion below on the consolidated financial statements, based on our audits and the report of the other auditor, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2006 and 2005, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Also, as discussed in our opinion, in fiscal year 2006, the Department adopted new reporting requirements for earmarked funds.

Our, and the other auditor's consideration of internal controls over financial reporting and performance measures resulted in the following conditions being identified as reportable conditions:

- Financial Management Practices at the IRS (Repeat Condition);
- Electronic Data Processing (EDP) Controls and Information Security Programs Over Financial Systems (Repeat Condition); and
- Controls Over Transactions and Balances Related to the International Assistance Programs.

We consider the reportable condition related to financial management practices at the IRS noted above, to be a material weakness.

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed instances of noncompliance with *Internal Revenue Code* (IRC) Section 6325, and the *Federal Information Security Management Act of 2002* (FISMA), that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 06-03). In addition, the Department's financial management systems did not substantially comply with the *Federal Financial Management Improvement Act of 1996* (FFMIA) requirements related to compliance with Federal financial management system requirements (FFMSR), applicable Federal accounting standards, and the U.S. Government Standard General Ledger (SGL) at the transaction level.

As discussed in the Other Matters section of this report, the Department's Office of General Counsel has informed the Department of two instances of possible *Antideficiency Act* violations related to certain transactions and activities within the Treasury Franchise Fund and Departmental Offices. The facts surrounding these possible violations are currently under review by General Counsel and management.

The following sections discuss our opinion on the Department's consolidated financial statements, our, and the other auditor's consideration of the Department's internal control over financial reporting and performance measures, and tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, and management's and the auditors' responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the U.S. Department of the Treasury as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position and financing, the combined statements of budgetary resources, and the statements of custodial activity for the years then ended. We did not audit the amounts included in the consolidated financial statements related to the financial statements of the IRS, a component entity of the Department, which reflects total assets of $26 billion and $27 billion, net costs of operations of $11.5 billion each year, and custodial revenues of $2.5 trillion and $2.3 trillion, as of and for the years ended September 30, 2006 and 2005, respectively. The financial statements of the IRS as of and for the years ended September 30, 2006 and 2005, were audited by another auditor whose report dated October 31, 2006, has been provided to us and our opinion, insofar as it relates to the amounts included for the IRS's financial statements, is based solely on the report of the other auditor.

In our opinion, based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2006 and 2005, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Department changed its method of reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in the *Performance and Accountability Report* in Part I – *Management's Discussion and Analysis,* and the Required Supplemental Information section of Part III – *Annual Financial Report*, is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles, and OMB Circular A-136, *Financial Reporting Requirements* (OMB Circular No. A-136). We, and the other auditor, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits, and the audits of the other auditor, were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the *Performance and Accountability Report* in Part II – *Annual Performance Report*; the Other Accompanying Information in the Required Supplemental Information section of Part III – *Annual Financial Report*; and Part IV – *Appendices*, are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures, and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our, and the other auditor's consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our, and the other auditor's judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, due to error or fraud, may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we, and the other auditor, noted certain matters, summarized below, involving internal control over financial reporting and its operation that we consider to be reportable conditions.

MATERIAL WEAKNESS

Financial Management Practices at the IRS (Repeat Condition)

IRS has continued to make progress in addressing its financial management challenges and has resolved or substantially mitigated several material weaknesses and reportable conditions in its internal controls. However, serious internal control and financial management systems deficiencies still exist, and the IRS again had to rely extensively on resource-intensive compensating processes to prepare its financial statements.

Consequently, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until IRS successfully addresses the underlying systems and internal control weaknesses. These challenges affect IRS's ability to fulfill its responsibilities as the nation's tax collector because it is unable to obtain comprehensive, timely, useful information for day-to-day decision making.

The material weaknesses and the other reportable condition in internal control over financial reporting identified by the auditors of IRS's financial statements, all of which are repeat conditions, and collectively considered a material weakness for the Department as a whole, are summarized as follows:

- Weaknesses in controls over the financial reporting process, resulting in IRS (1) not being able to prepare reliable financial statements without extensive compensating procedures, and (2) not having current and reliable ongoing information to support management decision making and prepare cost-based performance measures;

- Weaknesses in controls over unpaid tax assessments, resulting in IRS's inability to properly manage unpaid assessments and leading to increased taxpayer burden;

- Weaknesses in controls over the identification and collection of tax revenues due the U.S. Government, and over the issuance of tax refunds, resulting in lost revenue to the U.S. Government, and allowing potentially billions of dollars in improper payments; and

- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect any decision by IRS's management that is based, in whole or in part, on information that is inaccurate because of these weaknesses.

One other reportable condition, a repeat condition, was identified that involved deficiencies in controls over hard-copy tax receipts and taxpayer data, which increase the U.S. government's and taxpayers' risk of loss or inappropriate disclosure of taxpayer data.

Additional details related to the material weaknesses and the reportable condition identified above have been provided to IRS management by the auditors of the IRS's financial statements.

Recommendations

Recommendations to address the material weaknesses and other reportable condition discussed above have been provided to IRS management by the auditors of the IRS's financial statements. We recommend that the Assistant Secretary for Management and Chief Financial Officer provide effective oversight to ensure that corrective actions are taken by the IRS to fully address these material weaknesses and the other reportable condition.

OTHER REPORTABLE CONDITIONS

EDP Controls and Information Security Programs Over Financial Systems (Repeat Condition)

Information controls and security programs at the Department require additional improvements. The weaknesses identified are summarized below.

Financial Management Service (FMS)

During fiscal year 2006, FMS continued to make progress in addressing information technology (IT) general controls weaknesses raised in prior years. However, current year tests conducted over IT general controls revealed the following weaknesses:

- **Entity-wide Security Management** – Although FMS has demonstrated its ability to remediate specific findings, current year security control deficiencies identified reveal inconsistencies in corrective actions taken, in that, while weaknesses were corrected in some systems and platforms, they continued to exist in others. An entity-wide program for security planning and management represents the foundation for an entity's security control structure and a reflection of senior management's commitment to addressing security risks. Without a well designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, and improperly implemented; and controls may be inconsistently applied.

- **Access Controls** – Although prior access control findings have been substantially addressed, additional access control weaknesses were identified this year. Access controls are designed to limit or detect access to computer programs, data, equipment, and facilities to protect these resources from unauthorized modification, disclosure, loss, or impairment. Such controls include logical and physical security access controls. A comprehensive access control security program is needed to fully address the administration of access controls in order to increase the reliability of computerized data and decrease the risk of destruction or inappropriate disclosure of data.

- **Service Continuity** – Connectivity issues were noted during a disaster and system failover exercise related to the Treasury Check Information System (TCIS) application, a new system implemented this year. In addition, system unavailability and excessive downtime for extended periods of time were also noted. Contingency planning should address critical services to system resources to ensure that operations will continue in the event of a disaster or other service interruptions. Such plans and procedures should be a key part of business continuity plans.

The above issues collectively serve to weaken the IT general control environment at FMS.

Departmental Bureaus and Offices

During fiscal year 2006, the Department took various steps to improve its IT general control environment and to address prior year IT general control issues; however, additional improvements are needed in the areas of certification and accreditation, security awareness, training employees with significant security responsibilities, tracking corrective actions, identifying and documenting system interfaces, security self-assessments, configuration management, and incident response, at various Departmental bureaus and offices.

The Department's Office of Inspector General report titled *Information Technology: 2006 Evaluation of Treasury's FISMA Implementation* dated September 29, 2006 (2006 FISMA Evaluation Report), which incorporated the results of the Treasury Inspector General for the Tax Administration's evaluation of IRS's systems, indicated that despite notable accomplishments to achieve compliance with FISMA, various security deficiencies identified throughout the Department, in the aggregate, constitute substantial noncompliance with FISMA. FISMA lays out a framework for required annual information security reviews, reporting, and remediation planning by Federal agencies. It is intended to strengthen information security by requiring agencies to develop, document, and implement agency-wide information security programs. The elements required by FISMA, as described below, also constitute an integral part of an effective internal control structure for information systems:

- Periodic testing and evaluation of the effectiveness of information security policies, procedures, and practices;

- Security awareness training for Department personnel, including contractors;

- A process for planning, implementing, evaluating, and documenting remedial action to address information security deficiencies; and

- Plans and procedures to ensure continuity of operations for information systems that support the operations and assets of the Department.

A key reason for the Department's information security weaknesses is that it has not yet fully implemented an agency-wide information security program to ensure that controls are effectively established and maintained to meet FISMA requirements.

Recommendations

Recommendations will be provided to FMS management in a separate letter. The fiscal year 2006 FISMA Evaluation Report has been provided to the Department's Chief Information Officer.

We recommend that the Department's Chief Information Officer provide effective oversight and the resources necessary to ensure that information security requirements over financial systems are implemented completely and timely throughout the Department.

Controls Over Transactions and Balances Related to the International Assistance Programs

Improvements in current accounting policies and procedures are needed for monthly reconciliations of transactions related to the *United States Quota, International Monetary Fund (IMF) Transfer to Treasury* account (fund) that is managed by the Department's Office of International Affairs (IA). The accounting and reporting of these transactions is performed by the Credit Accounting Branch (CAB) of Treasury's FMS. A review of proprietary-to-budgetary account relationships using IA's data applicable to this fund for the nine-month period ended June 30, 2006, revealed a proprietary-to-budgetary account relationship error in the net amount of approximately $1.4 billion. This was caused by a transaction posting logic error that we identified in August 2006. This error impacted various financial statement line items that are supported by these accounts. Because this was not identified in a timely manner, it also resulted in the submission of erroneous IA account balances for inclusion in Treasury's nine months' quarterly consolidated financial reporting submission to the OMB.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires the establishment of internal accounting and administrative controls by each executive agency to be established that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

This discrepancy occurred primarily because CAB's accounting procedures did not include a requirement to calculate certain proprietary-to-budgetary account relationship reconciliations during the year. These reconciliations were only performed at year-end. Since the IA's activities related to the IMF involve significant transaction amounts throughout the year, any error that occurs may have significant financial reporting impact. Corrective actions were taken as soon as the error was identified and procedures were revised to include appropriate monthly reconciliations.

Recommendation

We recommend that the Assistant Secretary for Management and Chief Financial Officer ensure that IA management continue to work with CAB to ensure that corrective actions taken remain in place so that monthly proprietary-to-budgetary account relationship reconciliations continue to be performed for the IMF account balances, and any differences are corrected in a timely manner.

INTERNAL CONTROL OVER REQUIRED PERFORMANCE MEASURES

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our, and the other auditor's consideration of the internal control over the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to the internal control over the existence and completeness assertions related to key performance measures that might be material weaknesses.

Further, in our fiscal year 2006 audit, we, and the other auditor, noted no matters involving the design and operation of the internal control over the existence and completeness assertions related to key performance measures that we considered to be material weaknesses as defined above.

* * * * * *

We also noted other matters involving internal control over financial reporting and its operation that we will report to the management of the Department in a separate letter dated November 13, 2006.

COMPLIANCE AND OTHER MATTERS

Our tests, and the tests performed by the other auditor, of compliance with certain provisions of laws, regulations, contracts, and grant agreements, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed the following instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03.

- ***Noncompliance with IRC Section 6325*** – The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under IRC Section 6325, the IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied or has become legally unenforceable or the Secretary of the Treasury has accepted a bond for the assessed tax. The fiscal year 2006 audit identified instances in which the IRS did not release the applicable Federal tax lien within 30 days of the tax liability being either paid off or abated as required by the IRC (Repeat Condition).

- ***Noncompliance with FISMA*** – Information security weaknesses continue to exist throughout the Department, despite notable progress made in fiscal year 2006, as discussed in the Internal Control Over Financial Reporting section above. These deficiencies constitute substantial noncompliance with FISMA (Repeat Condition).

The results of our tests, and the tests performed by the other auditor, of compliance with certain provisions of other laws, regulations, contracts, and grant agreements as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

The results of our tests and the tests performed by the other auditor, disclosed instances where the Department's financial management systems did not substantially comply with FFMIA Section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards, and the SGL at the transaction level, as described below.

These instances of noncompliance with FFMSR are summarized below:

- IRS's financial management systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS had to rely extensively on resource-intensive compensating procedures to generate reliable financial statements. IRS also lacks a subsidiary ledger for its unpaid assessments and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances such as tax revenues and tax refunds.

- Deficiencies identified in information security controls at the IRS, resulting in increased risk of unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

These instances of noncompliance with Federal accounting standards are summarized below:

- Material weaknesses at the IRS related to controls over unpaid tax assessments, tax revenue, and refunds.

- IRS's financial management system cannot routinely accumulate and report the full cost of its activities.

The instance of noncompliance with the SGL at the transaction level is summarized below:

- IRS's general ledger system lacks an effective audit trail to detailed records and transaction source documents for material balances such as tax revenues and tax refunds.

The Secretary of the Treasury also has stated in the Secretary's Letter of Assurance, included in Part I – *Management's Discussion and Analysis*, of the accompanying *Performance and Accountability Report*, that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are presented in Appendix E of the *Performance and Accountability Report*.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance within three years after a determination of noncompliance is made.

IRS has established a remediation plan to address the conditions affecting its systems' inability to comply substantially with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, but many future corrective actions are on hold and currently unfunded. Because of the long-term nature of IRS's systems modernization efforts, which IRS expects will resolve many of its most serious issues, many of the planned time frames exceed the three-year resolution period specified in FFMIA. However, for these instances IRS has received a waiver from this requirement from OMB, as authorized by FFMIA.

Recommendations

We recommend that the Assistant Secretary for Management and Chief Financial Officer provide effective oversight to ensure that (1) IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) information security programs are implemented throughout the Department in accordance with FISMA; and (3) IRS determines a plan of action to solve its financial management problems so as to enable resolving the identified instances of financial management systems noncompliance with the requirements of FFMIA.

Other Matters

The Department's Office of General Counsel has informed the Department of two instances of possible *Antideficiency Act* violations related to transactions and activities of the Treasury Franchise Fund (Fund) and Departmental Offices (DO). Specifically, contracting and budgetary control weaknesses existing within the Fund may have allowed a potential violation of both the *Competition in Contracting Act* and the *Antideficiency Act* for a contract whose ceiling was exceeded without proper competition. In addition, another possible *Antideficiency Act* violation may have occurred with respect to certain fiscal year 2006 classified apportionments for the National Intelligence Program funds included in a DO appropriation because reimbursable funds were received and obligated prior to apportionment. The facts surrounding these matters are currently under review by General Counsel and management and a determination of noncompliance has not yet been made.

Management's Response to Internal Control and Compliance Findings

The Department's management has indicated in a separate letter immediately following this report that it concurs with the findings presented in this section of our report. Further, it has responded that it will take corrective action as necessary to ensure the matters presented are addressed by the respective bureau management within the Department.

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RESPONSIBILITIES

Management's Responsibilities. The United States Code Title 31 Section 3515 and 9106 require agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing the Management Discussion and Analysis (including the performance measures), and Required Supplemental Information;
- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2006 and 2005 consolidated financial statements of the Department based on our audits and the report of the other auditor. We, and the other auditor, conducted our audits in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;

- Assessing the accounting principles used and significant estimates made by management; and

- Evaluating the overall consolidated financial statement presentation.

We believe that our audits, and the report of the other auditor, related to the amounts included for the IRS's financial statements, provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2006 audit, we considered the Department's internal control over financial reporting, exclusive of the internal control over financial reporting related to the IRS, by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. Internal control over financial reporting related to the IRS was considered by the other auditor whose report thereon dated October 31, 2006 has been provided to us. We, and the other auditor, limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the FMFIA. The objective of our audit and the other auditor's audit was not to provide an opinion on the Department's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our fiscal year 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in Part I – *Management's Discussion and Analysis* and Part II – *Annual Performance Report* sections of the *Performance and Accountability Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation, exclusive of those related to performance measures presented for the IRS. An understanding of the design of significant internal controls relating to the existence and completeness assertions and determination as to whether these internal controls had been placed in operation related to the IRS's performance measures was obtained by the other auditor whose report thereon was provided to us. We, and the other auditor, limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. Our, and the other auditor's procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2006 consolidated financial statements are free of material misstatement, we, and the other auditor, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit or the other auditor's audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) FFMSR, (2) applicable Federal accounting standards, and (3) the United States Government SGL at the transaction level. To meet this requirement, we, and the other auditor, performed tests of compliance with FFMIA requirements.

RESTRICTED USE

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 13, 2006

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Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 13, 2006

KPMG LLP
2001 M Street, N.W.
Washington, D.C. 20036

Ladies and Gentlemen:

On behalf of Secretary Paulson, I am responding to your draft audit report on the Department of the Treasury's FY 2006 financial statements.

All of our bureaus and program offices can be proud of the Department's success in issuing its Performance and Accountability Report by November 15th, for the fifth consecutive year. Further, I congratulate them for overcoming many obstacles to achieve another unqualified opinion on the Department's financial statements. Without their collective dedicated efforts, our accelerated reporting would not be possible.

These successful results also are due in large part to the high level of professionalism, technical expertise, and commitment demonstrated by KPMG in conducting the audit. I appreciate your efforts during the audit process to provide timely, constructive advice on how to improve our financial reporting. I am equally appreciative of the equivalent expertise and commitment level demonstrated by the other organizations involved in the audit process – the Office of Inspector General, the Government Accountability Office, and the firms that conducted the audits at several of our bureaus.

The Treasury Department continued to make progress during FY 2006 in addressing financial management and systems deficiencies. The Internal Revenue Service made considerable progress in enhancing its tax revenue accounting and the functionality of its administrative accounting system. The IRS also developed a new comprehensive systems security plan to address known shortcomings. The Department was able to finalize its systems inventory and to make considerable progress in certifying and accrediting its systems. We will continue our efforts to address longstanding financial management weaknesses. For example, we have initiated quarterly status briefings for our bureau heads and the inclusion of specific material weakness performance targets in senior managers' performance plans.

We concur with the Departmental level material weakness, the reportable conditions, and the instances of noncompliance with laws and regulations described in your report. Corrective actions are in place or underway to address each of these items.

We appreciate the continuing professional, cooperative relationship that exists with both KPMG and the Office of Inspector General.

Sincerely,

Sandra L. Pack
Assistant Secretary for Management
and Chief Financial Officer

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Consolidated Balance Sheets
As of September 30, 2006 and 2005
(In Millions)

	2006	2005
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$ 71,153	$ 66,334
Loans and Interest Receivable (Note 3)	245,206	228,491
Advances to the Black Lung Trust Fund (Note 4)	9,632	9,186
Due From the General Fund (Note 4)	8,540,195	7,978,081
Accounts Receivable and Related Interest (Note 10)	483	626
Other Intra-governmental Assets	78	40
Total Intra-governmental Assets	**8,866,747**	**8,282,758**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	63,892	47,578
Gold and Silver Reserves (Note 6)	11,062	10,933
Loans and Interest Receivable (Note 3)	288	670
Investments and Related Interest (Note 7)	9,325	9,404
Reserve Position in the International Monetary Fund (Note 8)	6,621	13,247
Investments in International Financial Institutions (Note 9)	5,488	5,464
Tax, Other and Related Interest Receivables, Net (Note 10)	21,962	21,430
Inventory and Related Property, Net (Note 11)	389	468
Property, Plant, and Equipment, Net (Note 12)	2,182	2,398
Other Assets	22	22
Total Assets (Note 13)	**$ 8,987,978**	**$ 8,394,372**
Stewardship Property (Note 12)		
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 & 14)	3,673,117	$3,354,905
Other Debt and Interest Payable (Note 14)	14,164	14,164
Due to the General Fund (Note 4)	306,352	273,551
Other Intra-governmental Liabilities (Note 18)	301	422
Total Intra-governmental Liabilities	**3,993,934**	**3,643,042**
Federal Debt and Interest Payable (Notes 4 & 14)	4,844,074	4,600,668
Certificates Issued to Federal Reserve Banks (Note 5)	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,234	7,102
Gold Certificates Issued to Federal Reserve Banks (Note 6)	11,037	10,924
Refunds Payable (Notes 4 & 22)	1,701	1,952
D.C. Pensions Actuarial Liability (Note 16)	9,068	8,511
Other Liabilities (Note 18)	3,816	4,665
Total Liabilities (Note 18)	**8,873,064**	**8,279,064**
Commitments & Contingencies (Notes 3, 5, 12, 15, 16 & 17)		
NET POSITION		
Unexpended Appropriations:		63,182
Earmarked funds (Note 23)	202	—
Other funds	68,068	—
Subtotal	68,270	63,182
Cumulative Results of Operations:		52,126
Earmarked funds (Note 23)	31,614	—
Other funds	15,030	—
Subtotal	46,644	52,126
Total Net Position (Note 19)	**114,914**	**115,308**
Total Liabilities and Net Position	**$ 8,987,978**	**$ 8,394,372**

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

Consolidated Statements of Net Cost
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
Cost of Treasury Operations:		
Economic Program:		
Gross Cost	$ 2,339	$ 3,066
Less Earned Revenue	(1,151)	(782)
Net Program Cost	**$ 1,188**	**$ 2,284**
Financial Program:		
Gross Cost	$ 17,496	$ 15,580
Less Earned Revenue	(5,083)	(4,487)
Net Program Cost	**$ 12,413**	**$ 11,093**
Management Program:		
Gross Cost	$ 987	$ 1,156
Less Earned Revenue	(559)	(739)
Net Program Cost	**$ 428**	**$ 417**
Total Program Gross Costs	20,822	19,802
Total Program Gross Earned Revenues	(6,793)	(6,008)
Total Net Cost of Operations (Note 20)	**$ 14,029**	**$ 13,794**
Federal Costs:		
Federal Debt Interest	$ 403,459	$ 354,386
Less Interest Revenue from Loans (Note 19)	(12,593)	(11,984)
Net Federal Debt Interest Costs (Note 20)	**$ 390,866**	**$ 342,402**
Other Federal Costs (Note 20)	$ 8,940	$ 8,673
Net Federal Costs	**$ 399,806**	**$ 351,075**
Net Cost of Operations, Federal Debt Interest, and Other Federal Costs	**$ 413,835**	**$ 364,869**

The accompanying notes are an integral part of these financial statements.
See Note 20 for Net Cost Schedule by Sub-organizations.

Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006				2005
	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total	Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS					
Beginning Balances	$ 30,817	$ 21,309	$ 0	$ 52,126	$ 56,308
Budgetary Financing Sources:					
Appropriations Used	298	412,116	0	412,414	362,067
Non-exchange Revenue	76	10	(30)	56	36
Donations and Forfeitures of Cash/Equivalent	79	0	0	79	169
Transfers In/Out without Reimbursement	0	(28)	0	(28)	0
Other	(12)	(37)	0	(49)	0
Other Financing Sources					
Donation/Forfeiture of Property	61	0	0	61	51
Accrued Interest & Disc. on Debt	0	8,991	0	8,991	9,879
Transfers In/out Without Reimbursement	(45)	21	0	(24)	(133)
Imputed Financing Sources	57	1,145	(470)	732	722
Transfers to the General Fund and Other (Note 19)	(69)	(13,810)	0	(13,879)	(12,104)
Total Financing Sources	**445**	**408,408**	**(500)**	**408,353**	**360,687**
Net Cost of Operations	352	(414,687)	500	(413,835)	(364,869)
Net Change	797	(6,279)	0	(5,482)	(4,182)
Cumulative Results of Operations	**$ 31,614**	**$ 15,030**	**$ 0**	**$ 46,644**	**$ 52,126**
UNEXPENDED APPROPRIATIONS					
Beginning Balances	$ 202	$ 62,980		$ 63,182	$ 56,850
Budgetary Financing Sources:					
Appropriation Received (Note 19)	298	417,468		417,766	369,312
Appropriations Transferred in/out	0	14		14	(594)
Other Adjustments	0	(278)		(278)	(319)
Appropriations Used	(298)	(412,116)		(412,414)	(362,067)
Total Budgetary Financing Sources	**0**	**5,088**		**5,088**	**6,332**
Total Unexpended Appropriations	**202**	**68,068**		**68,270**	**63,182**
Net Position	**$ 31,816**	**$ 83,098**		**$ 114,914**	**$ 115,308**

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

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
BUDGETARY RESOURCES		
Unobligated balance, brought forward	$ 64,670	$ 69,912
Recoveries of prior year unpaid obligations	380	1,286
Budget authority:		
Appropriations (Note 19)	437,427	379,567
Borrowing authority	12	331
Spending authority from offsetting collections:		
Earned:		
Collected	9,310	6,286
Change in receivables from Federal sources	19	36
Change in unfilled customer orders:		
Advance received	25	(29)
Without advance from Federal sources	(51)	(81)
Subtotal	446,742	386,110
Non-expenditure transfers, net	134	(530)
Temporarily not available pursuant to Public Law	(3,671)	1,957
Permanently not available	(5,164)	(5,403)
Total Budgetary Resources	**$ 503,091**	**$ 453,332**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred:		
Direct	$ 440,798	$ 384,853
Reimbursable	4,753	3,809
Subtotal	445,551	388,662
Unobligated Balance:		
Apportioned	14,309	14,572
Exempt from apportionment	32,784	40,084
Subtotal	47,093	54,656
Unobligated balance not available	10,447	10,014
Total Status of Budgetary Resources	**$ 503,091**	**$ 453,332**

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net:		
Unpaid obligations brought forward, Oct. 1	$ 46,381	$ 42,133
Uncollected customer payments from Federal sources, brought forward	(643)	(687)
Total unpaid obligated balance, net	45,738	41,446
Obligations incurred, net	445,551	388,662
Gross outlays	(438,494)	(383,128)
Recoveries of prior year unpaid obligations, actual	(380)	(1,286)
Change in uncollected customer payments from Federal sources	33	46
Obligated balance, net, end of period:		
Unpaid obligations	53,057	46,381
Uncollected customer payments from Federal sources	(609)	(643)
Total, unpaid obligated balance, net, end of period	**52,448**	**45,738**
Net Outlays		
Gross outlays	438,494	383,128
Offsetting collections	(8,899)	(6,258)
Distributed offsetting receipts	(16,568)	(15,649)
Net Outlays	**$ 413,027**	**$ 361,221**

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

Consolidated Statements of Financing
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 445,551	$ 388,662
Less: Spending Authority from Offsetting Collections and Recoveries	(9,683)	(7,498)
Obligations Net of Offsetting Collections and Recoveries	**435,868**	**381,164**
Less: Offsetting Receipts	(16,568)	(15,649)
Net Obligations	**419,300**	**365,515**
Other Resources:		
Donations and Forfeitures of Property	61	51
Accrued Interest & Discount on the Debt	8,991	9,879
Transfers In/Out Without Reimbursement	(24)	(133)
Imputed Financing Sources	732	722
Transfers to the General Fund and Other (Note 19)	(13,879)	(12,104)
Net Other Resources Used to Finance Activities	**(4,119)**	**(1,585)**
Total Resources Used to Finance Activities	**415,181**	**363,930**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	6,690	4,384
Resources that Fund Expenses Recognized in Prior Periods	117	432
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(37)	(7)
Other (primarily non-exchange portion of offsetting receipts)	(15,515)	(15,677)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,013	522
Adjustment to Accrued Interest & Discount on the Debt	10,496	7,313
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(326)	2,060
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**2,438**	**(973)**
Total Resources Used to Finance the Net Cost of Operations	**$ 412,743**	**$ 364,903**

Consolidated Statements of Financing
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Periods		
Components of Net Cost of Operations Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	$ 20	$ 9
Upward Reestimates of Credit Subsidy Expense	(1)	1
Increase in Exchange Revenue Receivable from the Public	(2)	(2)
Other	547	141
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	**564**	**149**
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Periods		
Depreciation and Amortization	554	612
Revaluation of Assets or Liabilities	(51)	(714)
Other	25	(81)
Total components of Net Cost of Operations that will not Require or Generate Resources	**528**	**(183)**
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	**1,092**	**(34)**
Net Cost of Operations	**$ 413,835**	**$ 364,869**

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

Statements of Custodial Activity
For the Years Ended September 30, 2006 and 2005
(In Millions)

	2006	2005
SOURCES OF CUSTODIAL REVENUE (NOTE 22)		
Revenue Received		
Individual Income and FICA Taxes	$2,034,209	$1,864,687
Corporate Income Taxes	380,426	306,869
Estate and Gift Taxes	28,688	25,605
Excise Taxes	72,774	71,970
Railroad Retirement Taxes	4,673	4,539
Unemployment Taxes	7,533	6,948
Deposit of Earnings, Federal Reserve System	29,945	19,297
Fines, Penalties, Interest & Other Revenue	3,324	3,552
Total Revenue Received	**2,561,572**	**2,303,467**
Less Refunds	(277,778)	(267,114)
Net Revenue Received	**2,283,794**	**2,036,353**
Accrual Adjustment	554	643
Total Custodial Revenue	**2,284,348**	**2,036,996**
DISPOSITION OF CUSTODIAL REVENUE:		
Amounts Provided to Fund Non-Federal Entities	374	454
Amounts Provided to Fund the Federal Government (Note 22)	2,283,420	2,035,899
Accrual Adjustment	554	643
Total Disposition of Custodial Revenue	**2,284,348**	**2,036,996**
Net Custodial Revenue	**$ 0**	**$ 0**

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Treasury Department), one of 25 Cabinet level agencies of the Executive Branch of the United States Government, and certain custodial activities managed on behalf of the entire U.S. Government. The following paragraphs describe the activities of the reporting entity.

The Treasury Department was created by Act (1 Stat. 65) on September 2, 1789. Many subsequent acts have affected the development of Treasury, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Treasury Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the U.S. Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and fiscal policy; governing the fiscal operations of the government; maintaining foreign assets control; managing the federal debt; collection of income and excise taxes; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Treasury Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Treasury Department includes Departmental Offices (DO) and nine operating bureaus. For financial reporting purposes, DO is comprised of: International Assistance Programs (IAP), Office of Inspector General (OIG), Treasury Forfeiture Fund, Treasury Franchise Fund, Exchange Stabilization Fund (ESF), Community Development Financial Institutions Fund (CDFI), Office of D.C. Pensions (DCP), Treasury Inspector General for Tax Administration (TIGTA), the Federal Financing Bank (FFB) and the Air Transportation Stabilization Board (ATSB).

The Treasury Department's nine operating bureaus are: Office of the Comptroller of the Currency (OCC); Bureau of Engraving and Printing (BEP); Financial Crimes Enforcement Network (FinCEN); Financial Management Service (FMS); Internal Revenue Service (IRS); U.S. Mint (Mint); Bureau of the Public Debt (BPD); Office of Thrift Supervision (OTS), and the Alcohol and Tobacco Tax & Trade Bureau (TTB).

The Treasury Department's financial statements reflect the reporting of its own entity activities, which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. government and others. Non-entity activities include the collection of federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government as well as for others. The Treasury Department's reporting entity does not include the "General Fund" of the U.S. government, which maintains receipt, disbursement and appropriation accounts for all federal agencies.

Transactions and balances among the Treasury Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, and the Consolidated Statements of Financing.

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of the Treasury Department in conformity with accounting principles generally accepted in the United States, and the Office of Management and

Budget (OMB) Circular A-136, *"Financial Reporting Requirements,"* as amended. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body of the U.S. government.

These financial statements are provided to meet the requirements of the Government Management Reform Act of 1994. They consist of the consolidated Balance Sheets, the consolidated Statements of Net Cost, the consolidated Statements of Changes in Net Position, the combined Statements of Budgetary Resources, the consolidated Statements of Financing, and the Statement of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2006 and FY 2005 information.

While these financial statements have been prepared from the books and records of the Treasury Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

Throughout these financial statements, intra-governmental assets, liabilities, earned revenues, and costs have been classified according to the entity for these transactions. Intra-governmental assets and liabilities are those from or to other federal entities. Intra-governmental earned revenues are collections or accruals of revenue from other federal entities, and intra-governmental costs are payments or accruals of expenditure to other federal entities.

The financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax and Other Non-Entity Receivables

Tax receivables are not accrued until related tax returns are filed or assessments are made. Prepayments of taxes are netted against liabilities. Accruals are made to reflect penalties and interest on tax receivables through the balance sheet date. Tax receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Treasury Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of Treasury. Tax receivables are shown on the balance sheet net of an allowance for doubtful accounts and abatements. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible based on historical experience of similar taxes receivable.

D. Inventory and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Treasury Department values inventories at either standard cost or lower of cost or market, except for finished goods inventories, which are valued at weighted average unit cost. All operating materials and supplies are recorded as an expense when consumed in operations.

Forfeited property is recorded at estimated fair market value at the time of seizure as deferred revenue, and may be adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the U.S. Government and a corresponding credit is made to the related taxes receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold.

Revenue from the forfeiture of property is deferred until the property is sold or transferred to a state, local or federal agency. Revenue is not recorded if the forfeited property is ultimately destroyed or cannot be legally sold.

E. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable from other federal agencies represent loans and interest receivable held by the Treasury Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from other federal agencies represent loans issued by Treasury to federal agencies on behalf of the U.S. government. The Treasury Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Treasury Department's intermediary role in issuing these loans, the Treasury Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans.

F. Advances to the Black Lung Trust Fund

Advances have been provided to the Department of Labor's Black Lung Trust Fund from the General Fund of the U.S. Government. The Bureau of Public Debt accounts for the advances on behalf of the General Fund of the U.S. government. Advances to the Black Lung Trust Fund are being accounted for pursuant to the Benefits Revenue Act which states: In the event that fund resources are not adequate to meet fund obligations, then, Advances interest and principal are paid to the General Fund of the U.S. government when the Secretary of the Treasury determines that funds are available in the trust fund for such purposes. The Black Lung Trust Funds are repayable with interest at a rate determined by the Secretary of the Treasury to be equal to the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the anticipated period during which the advance will be outstanding. Advances made prior to 1982 carried rates of interest equal to the average rate borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt.

G. Property, Plant, and Equipment

The Treasury Department's property, plant, and equipment (PP&E) is recorded at cost and depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Treasury Department owns the Treasury building — a multi-use heritage asset. Multi-use heritage assets are assets of historical significance for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury Department building are capitalized as general PP&E and depreciated over their service life.

The Treasury Department's bureaus are diverse both in size and in operating environment. Accordingly, Treasury's capitalization policy thresholds range from $25,000 to $50,000. Treasury also uses a capitalization threshold range for bulk purchases: $250,000 to $500,000 for non-manufacturing bureaus and $25,000 to $50,000 for manufacturing bureaus. Bureaus determine the individual items that comprised bulk purchases. In addition, the Treasury

Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest are reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. Discounts and premiums are amortized over the term of the security using the effective interest rate method.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Treasury Department recognizes the full costs of its employees' pension benefits. However, the liabilities associated with these costs are recognized by the Office of Personnel Management (OPM) rather than Treasury.

Most employees of the Treasury Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Treasury Department contributes 8.51 % of salaries for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Treasury Department automatically contributes 1 % of base pay and matches any employee contributions up to an additional 4 % of base pay. For most employees hired after December 31, 1983, the Treasury Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Treasury Department contributes 10.7 % for regular FERS employees.

Similar to federal retirement plans, OPM, rather than the Treasury Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Treasury Department reports the full cost of providing other retirement benefits (ORB). The Treasury Department also recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, the Treasury Department's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a defined life insurance benefit plan for current and retired employees. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. Special Drawing Rights (SDRs) Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDRs holdings, to the Federal Reserve Banks in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other Exchange Stabilization Fund operations. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

K. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases.

L. Revenue and Financing Sources

The Treasury Department activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include Internal Revenue Service reimbursable costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are recognized when received by the respective Treasury Department collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Treasury Department also incurs certain costs that are paid in total or in part by other federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Treasury Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

M. Custodial Revenues and Collections

Non-entity revenue reported on the Treasury Department's Statement of Custodial Activity includes cash collected and received by the Treasury Department, primarily taxes. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are earmarked for certain trust funds. The Statement of Custodial Activity is presented on the "modified accrual basis." Revenues are recognized as cash is collected. The Balance Sheets include an estimated amount for taxes receivable and payable to the General Fund of the U.S. government at September 30, 2006 and 2005.

N. Tax Assessments and Abatements

Under Internal Revenue Code Section 6201, the Treasury Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Treasury Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

O. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is not stated as a specific amount and is available for an indefinite period of time. Although funded through appropriations, refund activity, in most instances, is reported as a custodial activity of the Treasury Department, since refunds are, in substance, a custodial revenue-related activity resulting from taxpayer overpayments of their tax liabilities.

The Treasury Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that have matured, been called, or are eligible for early redemption. These accounts are not annual appropriations; and do not have refunds. Debt activity appropriations are related to the Treasury Department's liability and would be reported on the Treasury Department's balance sheet. Permanent indefinite authority for debt activity is available for an indefinite period of time.

Additionally, the Treasury Department receives other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. These appropriations are provided to make payments to the Federal Reserve for services provided. They also include appropriations provided to make other disbursements on behalf of the U.S. government, including payments made to various individuals as the result of certain claims and judgments rendered against the United States.

P. Imputed Costs/Financing Sources

U.S. government entities often receive goods and services from other U.S. government entities without reimbursing the providing entity for all the related costs. These constitute subsidized costs which are recognized by the receiving entity. An offsetting imputed financing source is also recognized by the receiving entity. The Treasury Department recognized imputed costs and financing sources in fiscal years 2006 and 2005 to the extent directed by the OMB, such as: employees' pension, post-retirement health and life insurance benefits; other post-employment benefits for retired, terminated, and inactive employees, which includes unemployment and workers compensation under the Federal Employee's Compensation Act; and losses in litigation proceedings.

Q. Reclassifications

Certain 2005 balances have been reclassified to conform to the 2006 presentation. Beginning with fiscal year 2006, OMB revised its' format of the SF-133 as described in OMB Circular No. A-11 (as amended). In addition, the format of the Statement of Budgetary Resources (SBR) is based on the SF-133. The comparative fiscal year 2006 SBR includes fiscal year 2005 data that has been reclassified into the new fiscal year 2006 format.

R. Income Taxes

As an agency of the Federal government, the Treasury Department is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

S. Use of Estimates

The Treasury Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Financial statement line items subject to estimates include tax receivables; depreciation; imputed costs; cost and earned revenue allocations; and, credit reform subsidy costs.

T . Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or a counter party to perform in accordance with underlying contractual obligations. The Treasury Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries. Given the history of the Treasury Department with respect to such exposure and the financial policies in place in the U. S. government and other institutions in which the United States participates, the Treasury Department has no expectation that credit losses will be incurred in the foreseeable future. The Treasury Department also takes on credit risk related to loan guarantees, committed but undisbursed direct loans and its Terrorism Risk Insurance Program. The extent of the risk assumed by the Treasury Department is described in more detail in the notes to the financial statements.

U. Liability for Loan Guarantees

The Treasury Department operates a loan guarantee program administered by the Air Transportation Stabilization Board. The purpose of the program is to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001. The program is accounted for in accordance with the provisions of the Federal Credit Reform Act of 1990, as amended. The authority to issue loan guarantees expired on September 30, 2004. The Liability for Loan Guarantees represents the present value of future projected cash outflows from the Treasury Department, net of inflows, such as fees, and other collections. A subsidy cost for the liability for loan guarantees is recognized as a cost in the year the guaranteed loan is disbursed. Subsidy costs are an estimate of the long-term cost to the U.S. Government. The subsidy costs represent the calculation of the present value of the estimated cash outflows over the life of the loan guarantee minus the present value of the estimated cash inflows, discounted at the applicable Treasury Department interest rate. The subsidy cost is reestimated on an annual basis. Administrative costs such as salaries and contractual fees are not included in the subsidy cost.

Each air carrier has material cash flows that are not considered appropriate to average with those of other air carriers, with the result that each air carrier guarantee has its own subsidy rate. The fluctuations in subsidy rates for the respective air carriers depend upon several risk factors, including current credit rating and default rates. Other factors that may affect the estimated subsidy rates include changes in loan terms (modifications, prepayments, etc), appraised collateral/liquidation values, interest payments, outstanding balances and other economic, legal and financial conditions specific to each individual air carrier (see Note 15).

V. Earmarked Funds

In 2006, Treasury has accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, which became effective October 1, 2006. This new standard amended SFFAS No. 7, *Revenue and Other Financing Sources*, by:

- elaborating the special accountability needs associated with dedicated collections;
- separating dedicated collections into two categories – earmarked funds and fiduciary activity; and
- defining and providing accounting and reporting guidance for earmarked funds.

In accordance with SFFAS No. 27, Treasury did not restate the FY 2005 columns for the Consolidated Balance Sheet, Statement of Changes in Net Position, and the related note disclosures. See Note 23 for the specific required disclosures related to Treasury's earmarked funds.

2. Fund Balance

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

Fund Balances:

As of September 30, 2006 and September 30, 2005, fund balances consisted of the following (in millions):

	2006	2005
Appropriated Funds	$ 68,748	$ 63,793
Revolving Funds	1,539	1,761
Trust Funds	10	0
Clearing Funds	13	0
Deposit Funds	511	457
Special Funds	332	315
Other Funds	0	8
Total Fund Balances	**$ 71,153**	**$ 66,334**

As of September 30, 2006 and September 30, 2005, the status of fund balances consisted of the following (in millions):

Status of Fund Balance with Treasury	2006	2005
Unobligated Balance – Available	$ 21,606	$ 30,479
Unobligated Balance – Unavailable	10,447	10,014
Obligated Balance not yet Disbursed	52,369	45,704
Subtotal	**84,422**	**86,197**
Adjustment for Non-Budgetary Funds	525	462
Adjustment for Borrowing Authority	(5,716)	(5,720)
Adjustment for Intra-Treasury Investments	(4,963)	(4,732)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for Other Budgetary Resources Not in Fund Balance - Cash & Other Assets	(6,756)	(13,427)
Authority Unavailable for Obligation	3,645	3,558
Total Status of Fund Balance	**$ 71,153**	**$ 66,334**

The above balances do not include unobligated balances related to the Exchange Stabilization Fund (ESF). Accordingly, while ESF balances are included on the Statement of Budgetary Resources (SBR), they are not a component of the Fund Balance with the Treasury. The ESF balances displayed on the SBR includes components of cash, foreign currency, and other monetary assets (see Note 5).

At September 30, 2006 and September 30, 2005, the Treasury Department did not have any budgetary authority in fund balance that was specifically withheld from apportionment by OMB. The balances in non-entity funds, such as deposit funds, are being held in a fiduciary capacity by the Treasury Department for the public or for another federal entity, such as the General Fund of the U.S. government. Such funds have an offsetting liability equal to fund balance. See Note 8 regarding restrictions related to the International Monetary Fund. Restrictions on Funds related to the line of credit held on the U.S. Quota in the International Monetary Fund.

3. Loans and Interest Receivable

Entity Intra-governmental:

As of September 30, 2006 and September 30, 2005, intra-governmental loans (issued by the Federal Financing Bank) and interest receivable consisted of the following (in millions):

	Loans Receivable	Interest Receivable	2006 Total	Loans Receivable	Interest Receivable	2005 Total
Executive Office of the President	$ 1,024	$ 13	$ 1,037	$ 1,244	$ 17	$ 1,261
Department of Agriculture	25,283	281	25,564	22,806	1	22,807
United States Postal Service	2,100	0	2,100	0	0	0
General Services Administration	2,192	39	2,231	2,201	39	2,240
Department of Housing & Urban Development	884	107	991	972	118	1,090
Department of Education	155	2	157	126	1	127
Department of Defense	171	3	174	376	6	382
Other agencies	34	1	35	49	1	50
Subtotal – Entity	**$ 31,843**	**$ 446**	**$ 32,289**	**$ 27,774**	**$ 183**	**$ 27,957**

The Federal Financing Bank (Bank) issues the above loans to federal agencies for their own use or to private sector borrowers, whose loans are guaranteed by the federal agencies. When a federal agency has to honor its guarantee because a private sector borrower defaults, the federal agency that guaranteed the loan must obtain an appropriation or use other resources to repay the Bank. Loan principal and interest are backed by the full faith and credit of the U.S. government, except for loans to the U.S. Postal Service. The Bank has not incurred and does not expect to incur any credit-related losses on its loans and accordingly, has not recorded an allowance for uncollectible intra-governmental loans.

Non-Entity Intra-governmental

	Loans Receivable	Interest Receivable	2006 Total	Loans Receivable	Interest Receivable	2005 Total
Department of Agriculture	$ 57,760	$ 427	$ 58,187	$ 60,385	$ 323	$ 60,708
Department of Interior	391	663	1,054	392	823	1,215
Federal Communications Commission	449	0	449	1,274	0	1,274
Department of Veterans Affairs	980	0	980	2,193	(3)	2,190
Railroad Retirement Board	2,958	72	3,030	2,973	69	3,042
Small Business Administration	9,303	0	9,303	7,695	0	7,695
Department of Housing & Urban Development	6,258	0	6,258	7,787	45	7,832
Department of Energy	2,482	3	2,485	2,777	13	2,790
Department of Education	105,522	0	105,522	104,471	2	104,473
Export Import Bank of the U. S.	4,911	0	4,911	5,848	0	5,848
Other agencies	20,379	359	20,738	3,459	8	3,467
Subtotal – Non-Entity	**$ 211,393**	**$ 1,524**	**$ 212,917**	**$ 199,254**	**$ 1,280**	**$ 200,534**
Total Intra-governmental Loans and Interest Receivable – Entity and Non-Entity			**$ 245,206**			**$ 228,491**

Entity and Non-Entity Non-Federal:

As of September 30, 2006 and September 30, 2005, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-entity	2006 Total	Entity	Non-entity	2005 Total
Direct Loans	$ 142	$ 133	$ 275	$ 187	$ 464	$ 651
Interest Receivable	0	87	87	0	142	142
Less: Allowance and Subsidy Cost	(74)	0	(74)	(123)	0	(123)
Total Non-Federal Loans and Related Interest Receivable	**$ 68**	**$ 220**	**$ 288**	**$ 64**	**$ 606**	**$ 670**

These amounts include certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. government has not waived or renounced its rights with respect to any of them. The loans are due and payable in U.S. denominations.

4. Due from the General Fund and Due to the General Fund

The Treasury Department is responsible for managing various assets and liabilities on behalf of the U.S. government as a whole. Due from the General Fund represents amounts required to fund liabilities managed by Treasury on behalf of the U.S. government. Liabilities managed by the Treasury Department are comprised primarily of the federal debt. Due to the General Fund represents assets held for the General Fund of the U.S. government.

As of September 30, 2006 and September 30, 2005, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

		2006		2005
Liabilities Requiring Funding from the General Fund:				
Federal Debt and Interest Payable	$	4,844,074	$	4,600,668
Federal Debt and Interest Payable - Intra-governmental		3,673,117		3,354,905
Refunds Payable		1,701		1,952
Adjustment for Eliminated Liabilities		21,303		20,556
Total Due From the General Fund	**$**	**8,540,195**	**$**	**7,978,081**
Assets to be Distributed to the General Fund:				
Fund Balance	$	224	$	170
Advances to the Black Lung Trust Fund		9,632		9,186
Cash Held by the Treasury for Government-wide Operations		44,090		28,344
Cash, Foreign Currency and Other Monetary Assets		68		39
Custodial Silver and Gold held by the U.S. Mint without certificates		25		9
Loans and Interest Receivable - Intra-governmental		212,917		200,534
Loans and Interest Receivable		220		606
Accounts Receivable - Intragovernmental		373		501
Tax and Other Non-Entity Receivables		21,819		21,331
Miscellaneous Assets		24		162
Adjustment for Eliminated Assets		16,960		12,669
Total Due to the General Fund	**$**	**306,352**	**$**	**273,551**

The Adjustment for Eliminated Intra-Treasury liabilities mainly represents investments in U.S. Government securities held by Treasury reporting entities that were eliminated against Federal Debt and Interest Payable. The Adjustment for Eliminated Intra-Treasury assets mainly represents loans and interest payable owed by reporting entities that are consolidated with Treasury, which were eliminated against Loans and Interest Receivable held by the Bureau of the Public Debt.

On the Balance Sheet, Treasury reported $21,962 million in Tax, Other, and Related Interest Receivables as of September 30, 2006 ($21,430 million as of September 30, 2005). However, only $21,819 million is reported as due to the General Fund of the U.S. government ($21,331 million as of September 30, 2005). The difference is attributable to the exclusion of amounts which will be paid to others outside the U.S. Government, and miscellaneous entity receivables (see Note 10).

5. Cash, Foreign Currency, and Other Monetary Assets

Cash, foreign currency, and other monetary assets held as of September 30, 2006 and September 30, 2005 were as follows (in millions):

		2006		2005
Entity:				
Cash	$	24	$	4
Foreign Currency:				
Japanese Yen		2,622		2,719
European Euro		8,042		7,413
Other		0		14
Other Monetary Assets:				
Special Drawing Rights		8,710		8,245
Other		135		227
Subtotal – Entity		**19,533**		**18,622**
Non-Entity:				
Operating Cash of the Federal Government		43,587		27,857
Foreign Currency		68		89
Other		704		1,010
Subtotal - Non-Entity		**44,359**		**28,956**
Total Cash, Foreign Currency, and Other Monetary Assets	**$**	**63,892**	**$**	**47,578**

Non-entity Operating Cash & Other Cash of the U.S. Government held by Treasury disclosed above consisted of the following (in millions):

		2006		2005
Operating Cash of the U.S. Government	$	46,676	$	31,299
Operating Cash - Federal Reserve Account		5,569		4,509
Subtotal		**52,245**		**35,808**
Outstanding Checks		(8,658)		(7,951)
Total Operating Cash of the U.S. Government		**43,587**		**27,857**
Other Miscellaneous Items		503		487
Total Cash Held by the Treasury for Government-wide Operations (See Note 4)	**$**	**44,090**	**$**	**28,344**

Entity

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), Special Drawing Rights (SDRs), and forfeited cash. SDRs and FCDAs are valued as of September 30, 2006 and September 30, 2005, using current exchange rates plus accrued interest, at September 30, 2006 and 2005. “Other” includes U.S. dollars restricted for use by the International Monetary Fund (IMF), which are maintained in two accounts at the Federal Reserve Bank of New York. FCDAs represent Foreign Currency Agreements (swap agreements) between the Treasury Department and various countries that provide for drawing of dollars by those countries and/or drawing of foreign currency by the Treasury Department. The Treasury Department enters into these agreements through the Exchange Stabilization Fund.

The foreign currency holdings are normally invested in interest bearing securities issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, (except for foreign currencies under swap agreements with developing countries) were valued at $6.8 billion as of September 30, 2006 ($6.6 billion as of September 30, 2005). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2006, FCDAs with maturities greater than three months were valued at $3.8 billion ($3.6 billion as of September 30, 2005).

The SDRs is an international reserve asset created by the IMF. It was created as a supplement to existing reserve assets and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDRs department. The SDRs' value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

The Special Drawing Rights Act of 1968 authorizes the Secretary of Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates maybe issued for the purpose of financing the acquisition of SDRs from other countries or to provide resources for the financing of the Treasury Department's Exchange Stabilization Fund's activities. Certificates issued are to be redeemed by the Treasury Department at such times and in such amounts as the Secretary of the Treasury may determine. As of September 30, 2006, the value of the certificates issued to Federal Reserve Banks amounted to $2.2 billion ($2.2 billion as of September 30, 2005).

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. Treasury's SDR holdings (assets resulting from various SDR related activities including remuneration received on interest earned on the U.S. reserve position – see note 8) and allocations from the IMF (liabilities of the U.S. coming due only in the event of a liquidation of, or U.S. withdrawal from the SDR department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF.

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are permanent resources unless:

a. canceled by the Board of Governors based on an 85% majority decision of the total voting power of the Executive Board of the IMF;
b. the SDR Department of the IMF is liquidated;
c. the IMF is liquidated; or
d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDRs allocations to the United States, the payment of the Treasury Department's commitment related to SDRs allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2006, the amount of SDR holdings of the United States was the equivalent of $8.7 billion and the amount of SDR allocations to the United States was the equivalent of $7.2 billion. As of September 30, 2005, the amount of SDR holdings of the United States was the equivalent of $8.2 billion and the amount of SDR allocations to the United States was the equivalent of $7.1 billion.

During FY 2006, the Treasury Department received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, in the amount of $210 million equivalent of SDRs ($316 million equivalent of SDRs during FY 2005), and paid the General Fund of the Federal Government $.5 million ($.5 million in FY 2005) in interest on these funds until they were transferred to the General Fund.

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the U.S. government, managed by the Treasury Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromises which are maintained as the result of the Treasury Department's tax collecting responsibilities.

The Operating Cash of the U.S. government represents balances from tax collections, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding, which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts at commercial banks.

The Operating Cash of the U.S. Government also includes other cash representing the balances of petty cash and funds held in other Federal agencies' books. With the passage of the Consolidated Appropriation Act of 2004, the Treasury Department received a permanent and indefinite appropriation to compensate banks for services rendered. Therefore, compensating balances and depository compensation securities accounts were closed. Operating Cash of the U.S. Government is either insured (for balances up to $100,000) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks.

6. Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks

The Treasury Department is responsible for safeguarding most of the U.S. government's gold and silver reserves in accordance with 31 USC 5117. The consolidated Balance Sheet also reflects the value of the gold being held in the Federal Reserve Bank of New York.

Gold reserves being held by the Treasury Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided in 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Treasury Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Treasury Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the U.S. government. All of the Treasury Department's certificates issued are payable to the Federal Reserve.

Gold and silver reserves are reported at the statutory rates of $42.2222 per fine troy ounce (FTO) for gold and $1.292929292 per FTO for silver for the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York. As of September 30, 2006 and September 30, 2005, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/06 Statutory Value	Market Rate	9/30/06 Market Value
Gold	248,046,116	$ 42.2222	$ 10,473	$ 599.25	$ 148,642
Gold Held by Federal Reserve	13,452,784	42.2222	568	599.25	8,062
Subtotal - Gold	**261,498,900**		**$ 11,041**		**156,704**
Silver	16,000,000	$ 1.292929292	21	$ 11.55	185
Total Gold and Silver Reserves			**$ 11,062**		**$ 156,889**

	FTOs	Statutory Rate	9/30/05 Statutory Value	Market Rate	9/30/05 Market Value
Gold	245,262,897	$ 42.2222	$ 10,356	$ 473.25	$ 116,071
Gold Held by Federal Reserve	13,450,413	42.2222	568	473.25	6,366
Subtotal - Gold	**258,713,310**		**10,924**		**122,437**
Silver	7,075,171	$ 1.292929292	9	$ 7.53	53
Total Gold and Silver Reserves			**$ 10,933**		**$ 122,490**

7. Investments and Related Interest

Investments in U.S. government Securities held by the Treasury Department entities have been eliminated against the federal debt liability for financial reporting purposes (See Note 4). The Exchange Stabilization Fund holds most of the Treasury Department's other investments. Securities that the Treasury Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts. Foreign investment holdings are normally invested in interest bearing securities issued or held through foreign governments or monetary authorities (see Note 5). As of September 30, 2006 and September 30, 2005, entity investments consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/06 Investment Balance	9/30/06 Market Value
Euro Bonds	$ 3,713	$ 68	$ 3,781	$ 102	$ 3,883	$ 3,873
Japanese Government Bond	5,386	4	5,390	4	5,394	5,386
Other Investments	53	(5)	48	0	48	0
Total Non-Federal	**$ 9,152**	**$ 67**	**$ 9,219**	**$ 106**	**$ 9,325**	**$ 9,259**

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/05 Investment Balance	9/30/05 Market Value
Euro Bonds	$ 3,398	$ 95	$ 3,493	$ 104	$ 3,597	$ 3,677
Japanese Financing Bills	874	0	874	0	874	873
Japanese T Bills	1,986	0	1,986	0	1,986	1,986
Japanese Government Bond	2,751	8	2,759	0	2,759	2,756
Other	191	(3)	188	0	188	188
Total Non-Federal	**$ 9,200**	**$ 100**	**$ 9,300**	**$ 104**	**$ 9,404**	**$ 9,480**

8. Reserve Position in the International Monetary Fund

The United States participates in the IMF through a quota subscription. Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or SDRs, which are international reserve currency assets created by the IMF, and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, issued by the Treasury Department and maintained by the Federal Reserve Bank of New York (FRBNY), represents the bulk of the IMF's holdings of dollars. Approximately one quarter of 1 % of the U.S. quota is maintained in cash balances in an IMF account at FRBNY.

While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because U.S./IMF quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest-bearing and can be drawn at any time for balance of payments needs. When the IMF draws dollars from the letter of credit to finance its operations and expenses, the drawing does not represent a net budget outlay on the part of the United States because there is a commensurate increase in the U.S. reserve position. When the IMF repays dollars to the United States, no net budget receipt results because the U.S. reserve position declines concurrently in an equal amount.

As of September 30, 2006, the U.S. quota in the IMF was 37.1 billion SDRs, valued at approximately $54.8 billion. (The quota as of September 30, 2005 was 37.1 billion SDRs, valued at approximately $53.8 billion.) The quota consisted of the following (in millions):

	2006	2005
Letter of Credit /1	$ 48,090	$ 40,419
U.S. Dollars Held in Cash by the IMF /1	135	181
Reserve Position /2	6,621	13,247
U.S Quota in the IMF	**$ 54,846**	**$ 53,847**

1/ *This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations – Obligations/Undelivered orders.*

2/ *This amount is included in the Cumulative Results of Operations.*

The U.S. reserve position is denominated in SDRs, as is the U.S. quota. Consequently fluctuations in the value of the dollar with respect to the SDR results in valuation changes in dollar terms for the U.S. reserve position in the

IMF as well as the IMF letter of credit. The Treasury Department periodically adjusts these balances to maintain the SDR value of the U.S. quota and records the change as a deferred gain or loss in its cumulative results of operations. These adjustments, known as maintenance of value adjustments, are settled annually after the close of the IMF financial year on April 30. Such adjustments do not involve a flow of funds. At April 30, 2006, the annual settlement with the IMF resulting from the appreciation of the dollar against the SDR since April 30, 2005, called for an downward adjustment of the U.S. quota by $1.057 billion (at April 30, 2005, the depreciation of the dollar against the SDR since April 30, 2004, called for an upward adjustment of the U.S. quota by $1.523 billion) and a corresponding increase to Unexpended Appropriations on the Statement of Changes in Net Position. The dollar balances shown above for the U.S. quota include accrued valuation adjustments. At September 30, 2006, the Treasury Department recorded a net deferred valuation gain in the amount of $76.9 million ($54.1 million valuation loss as of September 30, 2005) for deferred maintenance of value adjustments needed at year end.

The United States earns "remuneration" (interest) on its reserve position in the IMF except for the portion of the reserve position originally paid in gold. Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket.) Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share the financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors' share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors' share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines to pay the remuneration. There was $3 million deducted in the remuneration paid by the IMF as a result of burden-sharing during FY 2006. There were no deductions in the remuneration paid by the IMF as a result of burden-sharing during FY 2005. For FY 2006 and 2005, the Treasury Department received $210 million and $316 million, respectively, as remuneration (see note 5).

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in times of crisis when IMF liquidity is low. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). There were no U.S. loans outstanding under these arrangements in FY 2006 and FY 2005. The dollar equivalent of SDR 6.7 million has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2006, and September 30, 2005, this amounted to $9.9 billion and $9.7 billion, respectively, in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB result in concurrent adjustments to the U.S. reserve position in the IMF.

9. Investments in International Financial Institutions

The Treasury Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing United States' economic, political, and commercial interests abroad. The MDBs consist of the World Bank Group (International Bank for Reconciliation & Development, International Finance Corporation, and Multilateral Investment Guarantee Agency), and five regional development banks (the African, Asian, European, Inter-American, and North American institutions), as enumerated in the table below. These investments are non-marketable equity investments valued at cost.

As of September 30, 2006 and September 30, 2005, investments in international financial institutions consisted of the following (in millions):

		2006		2005
African Development Bank	$	168	$	165
Asian Development Bank		458		458
European Bank for Reconstruction & Development		611		593
Inter-American Development Bank		1,477		1,475
International Bank for Reconstruction & Development		1,985		1,985
International Finance Corporation		569		569
Multilateral Investment Guarantee Agency		45		44
North American Development Bank		175		175
Total	**$**	**5,488**	**$**	**5,464**

Refer to Note 17 for a description of the contingent liability related to these institutions.

10. Accounts Receivable and Related Interest

A. Tax, Other, and Related Interest Receivables, Net

Tax, other, and related interest receivables include receivables from tax assessments, excise taxes, fees, penalties, and interest assessed and accrued that were not paid or abated, reduced by an estimate for uncollectible amounts. Also included is interest income due on monies deposited in Federal Reserve Banks.

As of September 30, 2006 and September 30, 2005, tax, other, and related interest receivables, net, consisted of the following (in millions):

Non-Entity:		2006		2005
IRS Federal Tax Receivable, Gross	$	91,018	$	88,019
Less Allowance on Taxes Receivable		(70,008)		(67,008)
Receivable, Deposit of Earnings, Federal Reserve		774		312
Other Receivable & Interest		47		20
Less: Allowance on Other & Related Interest Receivable		(6)		(6)
Total Tax, and Other Non-Entity Receivables, Net	**$**	**21,825**	**$**	**21,337**
Entity: Miscellaneous Entity Receivables & Related Interest		**137**		**93**
Total Tax, Other & Related Interest Receivables, Net	**$**	**21,962**	**$**	**21,430**

IRS federal taxes receivable constitute the largest portion of the receivables. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. An allowance for doubtful accounts is established for the difference between the gross receivables and the portion deemed collectible. The portion of tax receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable. The Treasury Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

B. Intra-governmental Accounts and Related Interest Receivable

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Treasury Department under the Contract Disputes Act ($366 million of the $483 million and $501 million of the $626 million displayed for 2006 and 2005, respectively). Unlike Judgment Fund payments, other federal agencies are required to reimburse the Treasury Department for payments made to contractors or federal employees, on their behalf, under the Act. These amounts remain a receivable on the Treasury Department's books of the Financial Management Service and a payable on the other federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

11. Inventory and Related Property, Net

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by Treasury. The Treasury Department's operating materials and supplies are maintained for the production of bureau products. The Treasury Department maintains inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. Inventory for check processing activities is also maintained.

As of September 30, 2006 and September 30, 2005, inventory and related property consisted of the following (in millions):

		2006		2005
Operating materials and supplies held for use	$	15	$	16
Operating materials and supplies held in reserve for future use		23		22
Forfeited property		59		57
Other related property		304		388
Total allowance for inventories and related property		(12)		(15)
Total Inventories and Related Property	**$**	**389**	**$**	**468**

12. Property, Plant, and Equipment, Net

As of September 30, 2006 and 2005, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2006 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 642	$ (249)	$ 393
Furniture, fixtures and equipment	S/L	2 - 20 years	3,182	(2,317)	865
Construction in progress	N/A	N/A	14	0	14
Land and land improvements	N/A	N/A	12	0	12
ADP software	S/L	2 - 10 years	1,027	(431)	596
Assets under capital lease	S/L	2 - 25 years	22	(7)	15
Leasehold improvements	S/L	2 - 25 years	487	(292)	195
Other	S/L	2 - 30 years	92	0	92
Total			**$ 5,478**	**$ (3,296)**	**$ 2,182**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2005 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 583	$ (216)	$ 367
Furniture, fixtures and equipment	S/L	2 - 20 years	2,602	(1,796)	806
Construction in progress	N/A	N/A	172	0	172
Land and land improvements	N/A	N/A	11	0	11
ADP software	S/L	2 - 10 years	901	(285)	616
Assets under capital lease	S/L	2 - 25 years	86	(48)	38
Leasehold improvements	S/L	2 - 25 years	461	(245)	216
Other	S/L	2 - 30 years	584	(412)	172
Total			**$ 5,400**	**$ (3,002)**	**$ 2,398**

The Treasury Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties. The service life ranges are large due to the Treasury Department's diversity of held plant, property, and equipment.

Stewardship Property

The Treasury Department Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Department Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely.

13. Non-Entity Assets

As of September 30, 2006 and September 30, 2005, non-entity assets consisted of the following (in millions):

		2006		2005
Intra-governmental Assets:				
Fund Balance (Note 2)	$	753	$	776
Loans and Interest Receivable (Note 3)		212,917		200,534
Accounts Receivable and Related Interest (Note 10)		372		501
Advances to the Black Lung Trust Fund (Note 4)		9,632		9,186
Due from the General Fund (Note 4)		8,540,195		7,978,081
Total Non-Entity Intra-governmental Assets	**$**	**8,763,869**	**$**	**8,189,078**
Cash, Foreign Currency and Other Monetary Assets (Note 5)	$	44,359	$	28,956
Gold & Silver Reserves (Note 6)		11,062		10,933
Loans and Interest Receivable (Note 3)		220		606
Tax, Other, and Related Interest Receivables, Net (Note 10)		21,825		21,337
Miscellaneous Assets		11		161
Total Non-Entity Assets	**$**	**8,841,346**	**$**	**8,251,071**

Non-entity assets are those that are held by the Treasury Department but are not available for use by the Treasury Department. Non-entity fund balance with Treasury represents unused balances of appropriations received by various Treasury Department entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes and fees. Non-entity loans and interest receivable represents loans managed by the Treasury Department on behalf of the U.S. government. These loans are provided to federal agencies, and the Treasury Department is responsible for collecting these loans and transferring the proceeds to the General Fund of the U.S. government. Non-entity cash, foreign currency, and other monetary assets include the operating cash of the U.S. government, managed by the Treasury Department. It also includes foreign currency maintained by various U.S. and military disbursing offices, as well as seized monetary instruments.

14. Federal Debt & Interest Payable

The Treasury Department is responsible for administering the federal debt on behalf of the U.S. government. The federal debt includes borrowings from the public as well as borrowings from federal agencies. The federal debt managed by the Treasury Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The federal debt as of September 30, 2006 and September 30, 2005 was as follows (in millions):

Intra-governmental	FY 2006	FY 2005
Beginning Balance	$ 3,297,110	$ 3,056,484
New Borrowings/Repayments	331,591	240,626
Subtotal at Par Value	**3,628,701**	**3,297,110**
Premium/(Discount)	(1,262)	14,597
Interest Payable Covered by Budgetary Resources	45,678	43,198
Total	**$ 3,673,117**	**$ 3,354,905**

Owed to the Public	FY 2006	FY 2005
Beginning Balance	$ 4,601,239	$ 4,307,345
New Borrowings/Repayments	241,882	293,894
Subtotal at Par Value	**4,843,121**	**4,601,239**
Premium/Discount	(40,165)	(35,532)
Interest Payable Covered by Budgetary Resources	41,118	34,961
Total	**$ 4,844,074**	**$ 4,600,668**

Debt held by the public approximates the U.S. government's competition with other sectors in the credit markets. In contrast, debt held by federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest) that have been used to finance general government operations.

Federal Debt held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Treasury Department on behalf of the U.S. government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. government. The vast majority is non-marketable securities issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for debt held by the federal entities in FY 2006 was 5.2 % (5.2 % in FY 2005).

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt, at par value (not including interest receivable), owed to federal agencies as of September 30, 2006 and September 30, 2005 was as follows (in millions):

	FY 2006	FY 2005
Social Security Administration*	$ 1,995,307	$ 1,809,422
Office of Personnel Management*	722,042	688,767
Department of Defense Agencies	259,961	234,916
Department of Health and Human Services	337,659	296,658
All Other Federal Entities - Consolidated	313,732	267,347
Total Federal Debt Held by Federal Entities	**$ 3,628,701**	**$ 3,297,110**

The above balances do not include premium/discount and interest payable.

*These amounts include marketable Treasury securities as well as non-marketable debt securities as follows (in millions):

	Non-Marketable Debt Securities	Marketable Securities	2006 Total
Civil Service Retirement and Disability Fund, Par Value	$ 675,936	$ 0	$ 675,936
Federal Disability Insurance Trust Fund, Par Value	$ 202,178	$ 0	$ 202,178

	Non-Marketable Debt Securities	Marketable Securities**	2005 Total
Civil Service Retirement and Disability Fund, Par Value	$ 646,750	$ 0	$ 646,750
Federal Disability Insurance Trust Fund, Par Value	$ 193,263	$ 0	$ 193,263

*** The marketable securities were called on February 15, 2005, and the proceeds were rolled over as investments in GAS securities.*

Federal Debt Held by the Public

As of September 30, 2006 and September 30, 2005, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	2006
Marketable:			
Treasury Bills	1 Year or Less	5.0%	$ 908,474
Treasury Notes	Over 1 Year - 10 Years	4.2%	2,445,307
Treasury Bonds	Over 10 Years	7.6%	534,473
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	395,550
Total Marketable			**$ 4,283,804**
Non-Marketable	On Demand to Over 10 Years	5.0%	559,317
Total Federal Debt (Public)			**$ 4,843,121**

(at par value, in millions)	Term	Average Interest Rates	2005
Marketable:			
Treasury Bills	1 Year or Less	3.4%	$ 910,323
Treasury Notes	Over 1 Year - 10 Years	3.7%	2,328,212
Treasury Bonds	Over 10 Years	7.9%	520,507
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.4%	307,011
Total Marketable			**$ 4,066,053**
Non-Marketable	On Demand to Over 10 Years	4.9%	535,186
Total Federal Debt (Public)			**$ 4,601,239**

The above balances do not include premium/discount and interest payable.

The Treasury Department issues marketable bills at a discount and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding as of September 30, 2006 and 2005, respectively. Treasury bills are issued with a term of one year or less.

The Treasury Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or a premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding as of September 30, 2006 and 2005. Treasury notes are issued with a term of over one year to 10 years and Treasury bonds are issued with a term of more than 10 years. The Treasury Department also issues inflation–protected securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, the leading measurement of inflation. TIPS are issued with a term of 5 years or more. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal.

Other Debt and Interest Payable

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 4.62% to 5.62%, and the maturity dates range from June 30, 2009 to June 30, 2019. Borrowings began in 2005.

15. Liability for Loan Guarantee

The liability for loan guarantees is associated with the Air Transportation Stabilization Program which guarantees loans to assist air carriers that suffered losses as a result of the terrorist attacks on the United States that occurred on September 11, 2001. In FY 2005 the guaranteed loan with Aloha airlines was repaid. In FY 2006 the guaranteed loans with US Airways and America West were sold to private investors and World Airlines fully repaid the remaining balance of its guaranteed loan.

Liabilities for loan guarantees represent the present value of future projected cash outflows from the Department, net of inflows, such as fees, and other collections. The modification that occurred in FY 2006 was related to the merger and subsequent exit from the program of US Airways and American Airlines. Related details for FY 2006 and 2005 are provided below.

	2006	2005
Loans Guaranteed		
Face value of loans outstanding	$ 0	$ 879
Amount guaranteed by the government	0	799
Defaulted Guaranteed Loans		
Loan amount	$ 2	$ 125
Subsidy transferred from liability	0	103
Subsidy reestimate	(22)	(3)
Subsidy Expense		
Components of Current Year Subsidy:		
Re-estimates	$ (40)	$ (143)
Modifications	(537)	0
Administrative Expenses	$ 3	$ 5

Schedule for Reconciling Loan Guarantee Liability Balances:	**2006**	**2005**
Beginning balance of the liability for loan guarantee liability	$ 555	$ 724
Other subsidy costs	0	0
	555	**724**
Payment of defaulted loan	0	(124)
Loan guarantee modifications	(537)	0
Net defaulted loan assets	0	22
Fees received	5	69
Interest accumulation on the liability balance	0	7
Loan Asset Sale Expense	(5)	0
Ending balance of the loan guarantee liability before reestimates	**18**	**698**
Reestimate of subsidy**	(18)	(143)
Ending balance of loan guarantee liability*	**$ 0**	**$ 555**

**This amount is included in "Other Liabilities with the Public" (Note 18).*
***The reduction in the subsidy expense in FY 2006 is associated with two guaranteed loans that were paid off.*

16. D.C. Pensions Actuarial Liability

Pursuant to Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, Treasury became responsible for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia Government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. Prior to December 23, 2004, the Act established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund), and the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund).

The purpose of the Trust Fund was to make federal benefit payments and pay necessary administrative expenses for the District of Columbia Police Officers', Firefighters', and Teachers' Retirement Plans for benefits earned based upon service on or before June 30, 1997. The purpose of the Judicial Retirement Fund was to make federal benefit payments and pay necessary administrative expenses of the Judges' Retirement Plan for all benefits earned. The purpose of the Supplemental Fund was to accumulate funds to finance federal benefit payments and necessary administrative expenses for the Police Officers', Firefighters', and Teachers' Retirement Plans after funds in the Trust Fund were depleted.

On December 23, 2004, the President signed into law the District of Columbia Retirement Protection Improvement Act of 2004. This amendment to the Act terminated the Trust Fund and the Supplemental Fund and transferred the assets to the D.C. Teachers, Police Officers and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) effective as of October 1, 2004.

The Treasury Department is required to make annual amortized payments from the General Fund of the U.S. government to the D.C. Federal Pension Fund and Judicial Retirement Fund. The amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. government was $285.4 million during FY 2006 ($277 million during FY 2005). The amount paid into the Judicial Retirement Fund from the General Fund of the U.S. government was $7.4 million during FY 2006 ($7.0 million during FY 2005).

As of September 30, 2006, the unobligated budgetary resources of the two funds were approximately $3.6 billion, and the pension actuarial liability was $9.0 billion, resulting in an unfunded liability of $5.4 billion. (As of September 30, 2005, the unobligated budgetary resources of the two funds were approximately $3.6 billion, and the pension actuarial liability was $8.5 billion, resulting in an unfunded liability of $4.9 billion.) The actuarial cost method used to determine costs for the retirement plans is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon long term assumptions selected by the Treasury Department. In FY 2006, the assumption for the annual rate of investment return was 6.0% for the Judicial Fund and 4.8% for the D.C. Federal Pension Fund with a gradual increase to 6.0% by FY 2012 and the annual rate of inflation and cost-of-living adjustments were 3.5%. In FY 2005, the assumption for the annual rate of investment return was 6% for the Judicial Fund and 4.8% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2011 and the annual rate of inflation and cost-of-living adjustments were 3%. In FY 2006, the assumption for the annual rate of salary increases was 6.5% for police officers and firefighters, 5.5% for teachers, and 3.5% for judges. In FY 2005, the assumption for the annual rate of salary increases was 6.5% for police officers and firefighters, 5.5% for teachers, and 3.5% for judges. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

17. Commitments and Contingencies

The Department is a party in various administrative proceedings, legal actions, and claims including equal opportunity matters which may ultimately result in settlements or decisions adverse to the Federal government. These contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where a loss is probable and an estimate cannot be determined. The Department has disclosed contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of these matters, individually or in the aggregate, will not have a materially adverse effect on the financial statements, except for the litigation described below.

Legal Action Settlement

The Departments of Interior, Justice and Treasury settled an Indian Tribal Trust Fund case for $20 million on October 23, 2006. This settlement was paid from the Department of the Treasury's Judgment Fund.

Pending Legal Actions

As of September 30, 2006, one claim was reported relative to proceedings and claims for which it is reasonably possible that a loss totaling $488 million may be incurred. As of September 30, 2005, no claims were reported for which a reasonable possibility of loss may be incurred.

Based on the information provided by legal counsel and in the opinion of management, the ultimate resolution of the following legal actions, for which the possibility of loss could not be determined, may materially affect Treasury's financial position or results. These specific cases all of which existed in FY 2005 are summarized as follows:

Cobell v. Kempthorne (formerly Cobell v. Norton): Native Americans allege that the Departments of Interior 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 $27.487 billion.

Tribal Trust Fund Cases: Numerous cases have been filed in which Native American Tribes seek a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and seek an order requiring the government to provide such an accounting. In addition, there are a number of other related cases for damages which do not name Treasury as a defendant. It is probable that additional tribes may file claims. It is not possible at this time to determine the number of suits that may be filed or the amount of damages that may be claimed.

Ferreiro v. United States: Plaintiffs claim allegedly past due civil service retirement benefits relating to individuals' employment by the U.S. government in Cuba prior to 1963.

There are also other legal actions pending where the ultimate resolution of the legal actions, for which the possibility of loss could not be determined, may materially affect Treasury's financial position or results. As of September 30, 2006, 12 legal claims amounting to approximately $3.9 billion existed for which the possibility of loss could not be determined.

The Department also had employment cases (e.g., discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) in which a loss may be reasonably possible, but for which a range of potential loss could not be determined.

OTHER CONTINGENCIES

Multilateral Development Banks (MDBs): The Treasury Department has subscribed to capital for certain MDBs, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Treasury Department subscriptions. As of September 30, 2006 and September 30, 2005, U.S. callable capital in MDBs was as follows (in millions):

	2006	2005
African Development Bank	$ 1,513	$ 1,428
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,803	1,800
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,642	22,642
Multilateral Investment Guarantee Agency	293	285
North American Development Bank	1,275	1,275
Total	**$ 62,124**	**$ 62,028**

Terrorism Risk Insurance Program: The Terrorism Risk Insurance Act (TRIA) was signed into law on November 26, 2002. This law was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. The act helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. If a certified act of terrorism occurs, insurers may be eligible to receive Federal government insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the Federal government. The Terrorism Risk Insurance Program is activated upon the certification of an "act of terrorism" by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General.

The original TRIA program was scheduled to expire on December 31, 2005. However, this program was subsequently extended through December 31, 2007 when President Bush signed the Terrorism Risk Insurance Extension Act of 2005. This law includes the following changes: a reduced Federal role in terrorism risk insurance markets by increasing insurer deductibles and the exclusion of certain types of previously covered insurance. The act also reduces the Federal governments' share of insured losses. Another noteworthy change is a "Program Trigger" provision which precludes Federal payments unless insured losses from a certified terrorism event exceed $50 million in FY 2006 and $100 million in FY 2007.

18. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2006 and September 30, 2005, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2006	2005
Intra-governmental Liabilities Not Covered by Budgetary & Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	$ 3,627,439	$ 3,311,707
Other Intra-governmental Liabilities	103	97
Total Intra-governmental Liabilities Not Covered by Budgetary & Other Resources	**$ 3,627,542**	**$ 3,311,804**
Federal Debt Principal, Premium/Discount (Note 14)	4,802,956	4,565,707
D.C. Pensions Liability (Note 16)	5,422	4,851
Other Liabilities	1,055	1,072
Total Liabilities Not Covered by Budgetary & Other Resources	**$ 8,436,975**	**$ 7,883,434**

Other Liabilities with the Public

Total "Other Liabilities" displayed on the Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources. The amounts displayed of $3,816 and $4,665 million, respectively, at September 30, 2006, and September 30, 2005 consisted of the following (in millions):

	FY 2006		
	Non-Current	Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 66	$ 51	$ 117
Accounts Payable	0	60	60
Other Accrued Liabilities	3	121	124
Total Intra-governmental	**$ 69**	**$ 232**	**$ 301**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 601	$ 0	$ 601
Liability for Deposit Funds (Held by the Federal Government for Others) & Suspense Accounts	0	498	498
ATSB Loan Guarantee Liabilities (Note 15)	0	0	0
Accrued Funded Payroll and Benefits	0	343	343
Capital Lease Liabilities	3	1	4
Accounts Payable & Other Accrued Liabilities	34	2,336	2,370
Total With the Public	**$ 638**	**$ 3,178**	**$ 3,816**

	FY 2005		
	Non-Current	Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 51	$ 62	$ 113
Accounts Payable	0	172	172
Other Accrued Liabilities	0	137	137
Total Intra-governmental	**$ 51**	**$ 371**	**$ 422**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	$ 645	$ 0	$ 645
Liability for Deposit Funds (Held by the Federal Government for Others) & Suspense Accounts	0	843	843
ATSB Loan Guarantee Liabilities (Note 15)	555	0	555
Accrued Funded Payroll and Benefits	0	326	326
Capital Lease Liabilities	10	16	26
Accounts Payable & Other Accrued Liabilities	34	2,236	2,270
Total with the Public	**$ 1,244**	**$ 3,421**	**$ 4,665**

19. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired.

Cumulative Results of Operations represents the net results of operations since inception, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and (c) expenses for contingent liabilities.

The amount reported as "appropriations received" are appropriated from Treasury General Fund of the U.S. government receipts, such as income taxes, that are not earmarked by law for a specific purpose. This amount will not necessarily agree with the "appropriation received" amount reported on the Statement of Budgetary Resources (SBR) because of differences between proprietary and budgetary accounting concepts and reporting requirements. For example, certain dedicated and earmarked receipts are recorded as "appropriations received" on the SBR, but are recognized as exchange or non-exchange revenue (i.e. typically in special and non-revolving trust funds) and reported on the Statement of Changes in Net Position in accordance with SFFAS No.7.

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statements of Changes in Net Position under "Other Financing Sources" mainly represents the distribution of interest revenue to the General Fund of the U.S. Government of $13,192 million and $12,034 million, for the years ended September 30, 2006 and September 30, 2005, respectively. The interest revenue is accrued on inter-agency loans held by the Treasury Department on behalf of the U.S. Government. A corresponding balance is reported on the Consolidated Statement of Net Cost under "Federal Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statement of Net Cost is reduced by eliminations with Treasury bureaus.

The Treasury Department also includes seigniorage in "Transfers to the General Fund and Other." Seigniorage is the face value of newly minted circulating coins less the cost of production. The United States Mint is required to distribute the seigniorage that it recognizes to the General Fund of the U.S. government. The distribution is also included in "Transfers to the General Fund and Other." In any given year, the amount recognized as seigniorage may differ for the amount distributed to the General Fund by an insignificant amount due to timing differences.

Seigniorage in the amounts of $682 million and $745 million was recognized, respectively, for the years ended September 30, 2006 and September 30, 2005. Distributions to the General Fund, including seigniorage, amounted to $750 million and $775 million, respectively for the years ended September 30, 2006, and September 30, 2005.

20. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

The Treasury Department's Consolidated Statement of Net Cost displays information on a consolidated basis. The complexity of the Treasury Department's organizational structure and operations requires that supporting schedules for Net Cost be included in the notes to the financial statements. These supporting schedules provide consolidating information, which fully displays the costs of each sub-organization (Departmental Offices and each operating bureau).

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *"Managerial Cost Accounting Concepts and Standards for the Federal Government"* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

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

Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Treasury Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred as a result of assets and liabilities managed on behalf of the U.S. government. These costs are not reflected as program costs related to the Treasury Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury Department sub-organizations.

Other federal costs for the years ended September 30, 2006 and 2005 consisted of the following (in millions):

	2006	2005
Credit Reform Interest on Uninvested Funds (intra-governmental)	$ 5,200	$ 4,405
Resolution Funding Corporation	1,979	2,130
Judgment Claims and Contract Disputes	677	973
Corporation for Public Broadcasting	460	466
Legal Services Corporation	328	299
Refunds of Moneys Erroneously Received	0	27
All Other Payments	296	373
Total	**$ 8,940**	**$ 8,673**

Pricing Policies – Exchange Revenues – Reimbursable Services

A portion of the earned revenue displayed on the Treasury Department's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Exchange revenues resulting from work performed for other Treasury Department sub-organizations or federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between federal entities is subject to the Economy Act (31 U.S.C. 1535) or other statutes authorizing reimbursement. Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price. The Treasury Department does not incur losses on the provision of goods or services on a reimbursable basis.

The tables on the following pages present the Treasury Department's earned revenues, gross costs, and net cost of operations by program and by responsibility segment (in millions).

20. Supporting Net Cost Schedule by Strategic Plan Goal (In Millions):

	Economic Program		Financial Program		Management Program	
Treasury Sub-organization	**Promote Prosperous U.S. & World Economies**	**Promote Stable U.S. and World Economies**	**Preserve the Integrity of Financial Systems**	**Manage the U.S. Government's Finances Effectively**	**Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury**	**2006 Totals**
Bureau of Engraving and Printing	$ 0	$ 0	$ 24	$ 0	$ 0	$ 24
Bureau of the Public Debt	0	0	0	289	0	289
Departmental Offices	143	326	218	478	221	1,386
Financial Crimes Enforcement Network	0	0	99	0	0	99
Financial Management Service	0	0	0	972	0	972
Internal Revenue Service	0	0	161	11,324	0	11,485
U.S. Mint	0	0	(43)	0	0	(43)
Office of the Comptroller of the Currency	(9)	0	(50)	0	0	(59)
Office of Thrift Supervision	(3)	0	(28)	0	0	(31)
Alcohol and Tobacco Tax and Trade Bureau	0	47	0	48	0	95
Combined Goal Net Cost	**$ 131**	**$ 373**	**$ 381**	**$ 13,111**	**$ 221**	**$ 14,217**
Eliminations & Adjustments		684		(1,079)	207	(188)
Consolidated Program Net Cost		**$ 1,188**		**$ 12,413**	**$ 428**	**$ 14,029**

(continued)

20. Supporting Net Cost Schedule by Strategic Plan Goal (In Millions):

	Economic Program		Financial Program		Management Program	
Treasury Sub-organization	Promote Prosperous U.S. & World Economies	Promote Stable U.S. and World Economies	Preserve the Integrity of Financial Systems	Manage the U.S. Government's Finances Effectively	Ensure Professionalism, Excellence, Integrity, and Accountability in the Management and Conduct of the Department of the Treasury	2005 Totals
Bureau of Engraving and Printing	$ 0	$ 0	$ 34	$ 0	$ 0	$ 34
Bureau of the Public Debt	0	0	0	312	0	312
Departmental Offices	137	1,783	192	(1,206)	211	1,117
Financial Crimes Enforcement Network	0	0	90	0	0	90
Financial Management Service	0	0	0	872	0	872
Internal Revenue Service	0	0	192	11,268	0	11,460
U.S. Mint	0	0	(31)	0	0	(31)
Office of the Comptroller of the Currency	(12)	0	(64)	0	0	(76)
Office of Thrift Supervision	(2)	0	(12)	0	0	(14)
Alcohol and Tobacco Tax and Trade Bureau	0	44	0	42	0	86
Combined Goal Net Cost	**$ 123**	**$ 1,827**	**$ 401**	**$ 11,288**	**$ 211**	**$ 13,850**
Eliminations & Adjustments		334		(596)	206	(56)
Consolidated Program Net Cost		**$ 2,284**		**$ 11,093**	**$ 417**	**$ 13,794**

20. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions)

For FYE September 30, 2006	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervsion	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations/ Adjustments	9/30/2006 Consolidated
Program Costs:													
Economic Program:													
Intragovernmental Gross Costs	$ 0	$ 0	$ 198	$ 0	$ 0	$ 0	$ 0	$ 12	$ 3	$ 13	$ 226	$ (21)	$ 205
Less: Earned Revenue	0	0	(706)	0	0	0	0	(3)	(2)	0	(711)	705	(6)
Intragovernmental Net Costs	0	0	(508)	0	0	0	0	9	1	13	(485)	684	199
Gross Costs with the public	0	0	2003	0	0	0	0	78	18	35	2,134	0	2,134
Less: Earned Revenue	0	0	(1,026)	0	0	0	0	(96)	(22)	(1)	(1,145)	0	(1,145)
Net Costs with the public	0	0	977	0	0	0	0	(18)	(4)	34	989	0	989
Net Cost: Economic Program	**0**	**0**	**469**	**0**	**0**	**0**	**0**	**(9)**	**(3)**	**47**	**504**	**684**	**1,188**
Financial Program:													
Intragovernmental Gross Costs	83	73	1,617	51	165	3,829	72	62	25	13	5,990	(1,359)	4,631
Less: Earned Revenue	(6)	(17)	(2,127)	(1)	(136)	(47)	(8)	(17)	(12)	0	(2,371)	280	(2,091)
Intragovernmental Net Costs	77	56	(510)	50	29	3,782	64	45	13	13	3,619	(1,079)	2,540
Gross Costs with the public	418	236	1,206	49	943	7,869	1,526	422	160	36	12,865	0	12,865
Less: Earned Revenue	(471)	(3)	0	0	0	(166)	(1,633)	(517)	(201)	(1)	(2,992)	0	(2,992)
Net Costs with the public	(53)	233	1,206	49	943	7,703	(107)	(95)	(41)	35	9,873	0	9,873
Net Cost: Financial Program	**24**	**289**	**696**	**99**	**972**	**11,485**	**(43)**	**(50)**	**(28)**	**48**	**13,492**	**(1,079)**	**12,413**
Management Program:													
Intragovernmental Gross Costs	0	0	158	0	0	0	0	0	0	0	158	(52)	106
Less: Earned Revenue	0	0	(818)	0	0	0	0	0	0	0	(818)	259	(559)
Intragovernmental Net Costs	0	0	(660)	0	0	0	0	0	0	0	(660)	207	(453)
Gross Costs with the public	0	0	881	0	0	0	0	0	0	0	881	0	881
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Costs with the public	0	0	881	0	0	0	0	0	0	0	881	0	881
Net Cost: Management Program	**0**	**0**	**221**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**221**	**207**	**428**
Total Program Costs, Net	**$ 24**	**$ 289**	**$ 1,386**	**$ 99**	**$ 972**	**$ 11,485**	**$ (43)**	**$ (59)**	**$ (31)**	**$ 95**	**$ 14,217**	**$ (188)**	**$ 14,029**

20. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations (In Millions)

For FYE September 30, 2005	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervsion	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations/ Adjustments	9/30/2005 Consolidated
Program Costs:													
Economic Program:													
Intragovernmental Gross Costs	$ 0	$ 0	$ 669	$ 0	$ 0	$ 0	$ 0	$ 12	$ 2	$ 16	$ 699	$ (11)	$ 688
Less: Earned Revenue	0	0	(346)	0	0	0	0	(3)	(1)	0	(350)	345	(5)
Intragovernmental Net Costs	0	0	323	0	0	0	0	9	1	16	349	334	683
Gross Costs with the public	0	0	2,260	0	0	0	0	72	17	29	2,378	0	2,378
Less: Earned Revenue	0	0	(663)	0	0	0	0	(93)	(20)	(1)	(777)	0	(777)
Net Costs with the public	0	0	1,597	0	0	0	0	(21)	(3)	28	1,601	0	1,601
Net Cost: Economic Program	**0**	**0**	**1,920**	**0**	**0**	**0**	**0**	**(12)**	**(2)**	**44**	**1,950**	**334**	**2,284**
Financial Program:													
Intragovernmental Gross Costs	82	74	905	49	166	3,856	55	57	22	15	5,281	(1,423)	3,858
Less: Earned Revenue	(21)	(7)	(2,688)	(1)	(133)	(118)	(7)	(14)	(9)	0	(2,998)	827	(2,171)
Intragovernmental Net Costs	61	67	(1,783)	48	33	3,738	48	43	13	15	2,283	(596)	1,687
Gross Costs with the public	464	248	768	42	840	7,879	941	360	152	28	11,722	0	11,722
Less: Earned Revenue	(491)	(3)	1	0	(1)	(157)	(1,020)	(467)	(177)	(1)	(2,316)	0	(2,316)
Net Costs with the public	(27)	245	769	42	839	7,722	(79)	(107)	(25)	27	9,406	0	9,406
Net Cost: Financial Program	**34**	**312**	**(1,014)**	**90**	**872**	**11,460**	**(31)**	**(64)**	**(12)**	**42**	**11,689**	**(596)**	**11,093**
Management Program:													
Intragovernmental Gross Costs	0	0	124	0	0	0	0	0	0	0	124	(19)	105
Less: Earned Revenue	0	0	(964)	0	0	0	0	0	0	0	(964)	225	(739)
Intragovernmental Net Costs	0	0	(840)	0	0	0	0	0	0	0	(840)	206	(634)
Gross Costs with the public	0	0	1,051	0	0	0	0	0	0	0	1,051	0	1,051
Less: Earned Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Costs with the public	0	0	1,051	0	0	0	0	0	0	0	1,051	0	1,051
Net Cost: Management Program	**0**	**0**	**211**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**211**	**206**	**417**
Total Program Costs, Net	**$ 34**	**$ 312**	**$ 1,117**	**$ 90**	**$ 872**	**$ 11,460**	**$ (31)**	**$ (76)**	**$ (14)**	**$ 86**	**$13,850**	**$ (56)**	**$ 13,794**

21. Additional Information Related to the Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statement of Budgetary Resources (per OMB Circular A-136, "Financial Reporting Requirements") as amended. In accordance with SFFAS No. 7, the Department must report the value of goods and services ordered and obligated which have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred. The information for the fiscal years ended September 30, 2006 and September 30, 2005 was as follows (in millions):

	2006	2005
Undelivered orders at the end of the period.	$ 51,382	$ 44,722
Available borrowing and contract authority at the end of the period.	$ 5,720	$ 5,669
Adjustments to beginning balance of budgetary resources.	$ 0	$ 1

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations		
	2006	**2005**
Obligations Incurred		
Direct - Category A	$ 8,832	$ 6,457
Direct - Category B	13,652	13,704
Direct - Exempt from Apportionment	418,314	364,692
Total Direct	**$ 440,798**	**$ 384,853**
Reimbursable - Category B	$ 3,739	$ 2,872
Reimbursable - Exempt from Apportionment	1,014	937
Total Reimbursable	**$ 4,753**	**$ 3,809**
Total Direct and Reimbursable	**$ 445,551**	**$ 388,662**

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for FY 2006, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2007. It will be available from the United States Government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2005 Performance and Accountability Report and the actual FY 2005 balances included in the FY 2007 President's Budget (PB).

Reconciliation of FY 2005 Combined Statement of Budgetary Resources To the 2007 President's Budget (in millions)

	Budgetary Resources	Outlays	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	$ 453,332	$ 376,870	$ (15,649)	$ 361,221	$ 388,662
Included in the Treasury Chapter of the President's Budget (PB) but not in the Statement of Budgetary Resources (SBR):					
IRS non-entity tax credit payments (1)	55,392	55,392		55,392	55,363
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	421	421		421	419
Non-Treasury offsetting receipts included in Treasury chapter of PB			(27)	(27)	
Treasury offsetting receipts considered to be "General Fund" transaction for reporting purposes (2)			(2,742)	(2,742)	
Continued dumping subsidy – U.S. Customs	237	296		296	
Other	2	2	(58)	(56)	1
Subtotal	**56,052**	**56,111**	**(2,827)**	**53,284**	**55,783**
Included in the SBR but not in the Treasury chapter of the PB:					
Treasury resources shown in non-Treasury chapters of the PB, included in SBR (3)	(48,117)	(5,650)		(5,650)	(10,501)
Offsetting collections net of collections shown in PB	(5,331)				
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR			(284)	(284)	(9)
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(2,170)				(29)
Exchange Stabilization Fund resources not shown in PB	(24,357)	(513)		(513)	534
Treasury Financing Accounts (CDFI & ATSB)	(913)	207		207	
Other	(13)	1	6	7	(2)
Subtotal	**(80,901)**	**(5,955)**	**(278)**	**(6,233)**	**(10,007)**
Trust Fund – Comptroller of the Currency (OCC)		**121**		**121**	
President's Budget Amounts*	**$ 428,483**	**$ 427,147**	**$ (18,754)**	**$ 408,393**	**$ 434,438**

1. These are primarily Earned Income Tax Credit and Child Tax Credit payments that are reported with refunds as custodial activities in Treasury's financial statements and thus are not reported as budgetary resources.
2. These are receipt accounts that Treasury manages on behalf of other agencies and considers to be "General Fund" receipts rather than receipts of the Treasury reporting entity.
3. The largest of these is Treasury's International Assistance Programs.

**Per Presidents Budget for FY 2007 – Budgetary Resources and Outlays are from the Analytical Perspective, Offsetting Receipts and Obligations Incurred are from the Appendix.*

Legal Arrangements Affecting Use of Unobligated Balances

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

Amounts in expired fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

22. Collection and Disposition of Custodial Revenue

The Treasury Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, was as follows for the fiscal years ended September 30, 2006 and September 30, 2005 (in millions):

	Tax Year				
	2006	2005	2004	Pre-2004	2006 Collections
Individual Income and FICA Taxes	$ 1,309,338	$ 690,831	$ 17,307	$ 16,733	$ 2,034,209
Corporate Income Taxes	259,140	103,803	1,669	15,814	380,426
Estate and Gift Taxes	50	18,806	1,240	8,592	28,688
Excise Taxes	53,488	18,999	91	196	72,774
Railroad Retirement Taxes	3,577	1,094	0	2	4,673
Unemployment Taxes	5,080	2,276	52	125	7,533
Federal Reserve Earnings	24,141	5,804	0	0	29,945
Fines, Penalties, Interest & Other Revenue	2,888	436	0	0	3,324
Subtotal	**$ 1,657,702**	**$ 842,049**	**$ 20,359**	**$ 41,462**	**$ 2,561,572**
Less Amounts Collected for Non-Federal Entities					(374)
Total					**$ 2,561,198**

	Tax Year				
	2005	2004	2003	Pre-2003	2005 Collections
Individual Income and FICA Taxes	$ 1,211,866	$ 620,914	$ 13,873	$ 18,034	$ 1,864,687
Corporate Income Taxes	209,398	83,098	1,178	13,195	306,869
Estate and Gift Taxes	77	16,616	1,278	7,634	25,605
Excise Taxes	52,330	18,954	104	582	71,970
Railroad Retirement Taxes	3,464	1,071	1	3	4,539
Unemployment Taxes	4,915	1,890	37	106	6,948
Federal Reserve Earnings	14,208	5,089	0	0	19,297
Fines, Penalties, Interest & Other Revenue	3,192	360	0	0	3,552
Subtotal	**$ 1,499,450**	**$ 747,992**	**$ 16,471**	**$ 39,554**	**$ 2,303,467**
Less Amounts Collected for Non-Federal Entities					(454)
Total					**2,303,013**

Amounts reported for Corporate Income Taxes collected in FY 2006 include corporate taxes of $10 billion for tax year 2007. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2005 include corporate taxes of $9 billion for tax year 2006.) Individual Income and FICA Taxes, includes $71 billion in payroll taxes collected from other federal agencies. Of this amount, $12 billion represents the portion paid by the employers. (The comparable amounts for FY 2005 are $68 billion in payroll taxes collected from other federal agencies and $11 billion paid by the employers.)

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2006 and September 30, 2005, collections of custodial revenue transferred to other entities were as follows (in millions):

	2006	2005
Department of Interior	$ 250	$ 226
General Fund	2,283,170	2,035,673
Total	**$ 2,283,420**	**$ 2,035,899**

Federal Tax Refunds Paid

Refund activity, broken out by revenue type and by tax year, was as follows for the fiscal years ended September 30, 2006 and September 30, 2005 (in millions):

	Tax Year				
	2006	2005	2004	Pre-2004	2006 Refunds
Individual Income and FICA Taxes	$ 612	$ 225,503	$ 13,465	$ 5,606	$ 245,186
Corporate Income Taxes	1,238	8,805	3,906	16,514	30,463
Estate and Gift Taxes	429	240	332	279	1,280
Excise Taxes	0	479	46	178	703
Railroad Retirement Taxes	0	(31)	15	19	3
Unemployment Taxes	0	86	19	38	143
Total	**$ 2,279**	**$ 235,082**	**$ 17,783**	**$ 22,634**	**$ 277,778**

	Tax Year				
	2005	2004	2003	Pre-2003	2005 Refunds
Individual Income and FICA Taxes	$ 586	$ 211,102	$ 12,842	$ 5,489	$ 230,019
Corporate Income Taxes	970	7,167	5,500	21,458	35,095
Estate and Gift Taxes	0	257	373	253	883
Excise Taxes	329	337	46	283	995
Railroad Retirement Taxes	0	2	0	2	4
Unemployment Taxes	1	73	13	31	118
Total	**$ 1,886**	**$ 218,938**	**$ 18,774**	**$ 27,516**	**$ 267,114**

Refunds Payable

As of September 30, 2006 and September 30, 2005, refunds payable to taxpayers consisted of the following (in millions):

		2006		2005
Alcohol, Tobacco Tax and Trade Bureau	$	6	$	6
Internal Revenue Service		1,695		1,946
Total	**$**	**1,701**	**$**	**1,952**

23. 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 or purposes. The Statement of Federal Financial Accounting Standards No. 27 *"Identifying and Reporting Earmarked Funds"* issued by the Federal Accounting Standards Advisory Board (FASAB) defines the following three criteria for determining an earmarked fund: 1) A statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; 2) Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

The majority of Treasury's earmarked fund activities are attributed to the Exchange Stabilization Fund (ESF) and the pension and retirement funds managed by the Office of D.C. Pensions. In addition, several Treasury bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are the Bureau of Engraving and Printing (BEP), the U.S. Mint, the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). Other miscellaneous earmarked funds are managed by the Bureau of Public Debt (BPD), the Departmental Offices (DO), the Financial Management Service (FMS/FMD), and the Treasury Forfeiture Fund (TFF).

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

Exchange Stabilization Fund (ESF)

ESF	20X4444	Exchange Stabilization Fund

D.C. Pensions

DCP	201099	Fines, penalties & forfeitures
DCP	20X1713	Federal payment – DC Judicial Retirement
DCP	20X1714	Federal Supplemental – Pension
DCP	20X5511	D.C. Federal Pension Fund
DCP	20X8212	D.C. Judicial Retirement and Survivor's Annuity Fund

Public Enterprise Revolving Fund

BEP	20X4502	Bureau of Engraving & Printing Public Enterprise Fund
MNT	20X4159	Public Enterprise Revolving Fund
OCC	20X8413	Assessment Funds
OTS	20X4108	Public Enterprise Revolving Fund

Other Earmarked Funds

BPD	2061738	Payments to the Terrestrial Wildlife Habitat Restoration
BPD	20X5080	Gifts To Reduce Public Debt
BPD	20X5080.001	Gifts To Reduce Public Debt
BPD	20X8207	Lower Brule Sioux Tribe Terrestrial Wildlife Habitat Restoration Trust Fund
BPD	20X8209	Cheyenne River Sioux Terrestrial Wildlife Habitat Restoration Trust Fund
DO	20X5407	Sallie Mae Assessments
DO	20X5816	Confiscated and Vested Iraqi Property and Assets
DO	20X8527	Violent Crime Reduction Trust
DO	20X8790	Gifts and Bequests Trust Fund
FMD	205445	Debt Collection
FMD	20X5081	Presidential Election Campaign
FMD	20X8902	Esther Cattell Schmitt Gift Fund
FMS	200/15445	Debt Collection Special Fund
FMS	201/25445	Debt Collection Special Fund
FMS	202/35445	Debt Collection Special Fund
FMS	203/45445	Debt Collection Special Fund
FMS	204/55445	Debt Collection Special Fund
FMS	205/65445	Debt Collection Special Fund
FMS	206/75445	Debt Collection Special Fund
IRR	20X5080.001	Gifts to the U.S. to reduce the Public Debt
IRR	20X5081.001	Presidential Election Campaign Fund
IRR	20X5099	Reimburse Law Enforcement
IRR	20X5433	Informant Reimbursement
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase or sell foreign currencies, to hold U.S. foreign exchange and Special Drawing Rights (SDR) assets, and to provide financing to foreign governments. ESF accounts and reports its holdings to FMS on the SF224, "Statement of Transactions," as well as to the Congress and Treasury's policy office. The Gold Reserve Act of 1934, Bretton Woods Agreement Act of 1945, P.L. 95-147 and P.L. 94-564 established and authorized the use of the Fund. SDR in the IMF, Investments in U.S. Securities (BPD), and Investments in Foreign Currency Denominated assets are the sources of revenues or other financing sources. ESF's earnings and realized gains on foreign currency denominated assets represent inflows of resources to the Government, and the revenues earned are the result of intra-governmental inflows.

D.C. Pension funds provide annuity payments for retired D.C. teachers, police officers, judges, and firefighters. The sources of revenues are through annual appropriations, employees' contributions, and interest earnings from investments. All proceeds are earmarked fund. Note 16 provides detailed information on various funds managed by the Office of D.C. Pensions.

Treasury's four non-appropriated bureaus, BEP, Mint, OCC and OTS, operate "public enterprise funds". These bureaus account for the revenue and expenses related to the production and sale of numismatic products and circulating coinage (Mint), currency printing activities (BEP), and support of oversight functions of banking (OCC) and thrift operations (OTS). 31 USC 142 established the revolving fund for the BEP to account for revenue and expenses related to the currency printing activities. Public Law 104-52 (31 USC §5136) established the Public Enterprise Fund for the U.S. Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion coins, and the sale of circulating coins to the Federal Reserve Banks system. 12 USC 481 established the Assessment Funds for the OCC, and 103 Stat. 278 established the Public Enterprise Revolving Fund for the OTS. Revenue and financing sources are from the bank examination and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These earmarked funds do not directly contribute to the inflows of resources to the government; however, revenues in excess of costs are returned to the General Fund of the U.S. government. There are minimal transactions with other government agencies.

There are other earmarked funds at several Treasury bureaus, such as donations to the Presidential Election Campaign Fund, funds related to the debt collection program, gifts to reduce public debt, and other enforcement related activities. Public laws, statutory laws, U.S. Code, and the Debt Collection Improvement Act, established and authorized the use of these funds. Sources of revenues and other financing sources include contributions, cash and property seized in enforcement activities, public donations, the sale of forfeited properties, and debt collection.

Intra-governmental Investments in Treasury Securities

The Federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. Treasury bureaus and other Federal agencies invest some of the earmarked funds that they collect from the public. The funds are invested in securities issued by the Treasury Bureau of Public Debt (BPD), which are shown an Treasury's balance sheet as "Federal Debt and Interest Payable" (under Intra-Governmental Liabilities). The cash collected by BPD is deposited in the General Fund of the U.S. Government, which uses the cash for general government purposes.

The investments provide the Treasury bureaus and other Federal agencies with authority to draw upon the General Fund of the U.S. Government to make future benefit payments or other expenditures. When Treasury bureaus or other Federal agencies require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

The securities are an asset to the Treasury bureaus and other Federal agencies and a liability of the BPD. The General Fund of the United States Government is liable to BPD. Because Treasury bureaus and other Federal agencies are parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. In addition, because BPD is a subcomponent of the Treasury Department reporting entity, balances related to the investments made by Treasury bureaus are eliminated from these consolidated financial statements. However, the General Fund of the U.S. government remains liable to BPD for the eliminated balances (see Note 4).

The following table presents the summary information for the Balance Sheet, Statement of Net Cost, and the Statement of Changes in Net Position for Treasury's earmarked funds.

Summary Statements for Earmarked Funds as of and for the year ended September 30, 2006

Balance Sheet	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds
ASSETS:					
Fund Balance	$ 0	$ 0	$ 400	$ 234	$ 634
Investments & Related Interest – Intra-governmental	15,736	3,862	993	322	20,913
Cash, Foreign Currency & Other Monetary Assets	19,351	0	0	19	19,370
Investments & Related Interest	9,278	0	0	0	9,278
Other Assets	0	48	1,132	61	1,241
Total Assets	**$ 44,365**	**$ 3,910**	**$ 2,525**	**$ 636**	**$ 51,436**
LIABILITIES:					
Intra-governmental Liabilities	$ 0	$ 0	$ 151	$ 178	$ 329
Certificates Issued to Federal Reserve Banks	2,200	0	0	$0	2,200
Allocation of Special Drawing Rights	7,234	0	0	$0	7,234
Other Liabilities	46	9,119	558	134	9,857
Total Liabilities	**$ 9,480**	**$ 9,119**	**$ 709**	**$ 312**	**$ 19,620**
NET POSITION:					
Unexpended Appropriations	$ 200	$ 0	$ 0	$ 2	$ 202
Cumulative Results of Operations	34,685	(5,209)	1,816	322	31,614
Total Liabilities and Net Position	**$ 44,365**	**$ 3,910**	**$ 2,525**	**$ 636**	**$ 51,436**
Statement of Net Cost					
Gross Cost	$ 377	$ 1,069	$ 2,879	$ 184	$ 4,509
Less Earned Revenue	(1,710)	(163)	(2,988)	0	(4,861)
Total Net Cost of Operations	**$ (1,333)**	**$ 906**	**$ (109)**	**$ 184**	**$ (352)**
Cumulative Results of Operations					
Beginning Balance, as Adjusted	$ 33,352	$ (4,596)	$ 1,729	$ 332	$ 30,817
Budgetary Financing Sources	0	293	(11)	159	441
Other Financing Sources	0	0	(11)	15	4
Total Financing Sources	**0**	**293**	**(22)**	**174**	**445**
Net Cost of Operations	1,333	(906)	109	(184)	352
Net Change	**1,333**	**(613)**	**87**	**(10)**	**797**
Total Cumulative Results of Operations	**$ 34,685**	**$ (5,209)**	**$ 1,816**	**$ 322**	**$ 31,614**

Required Supplemental Information (Unaudited)

Introduction

This section provides the Required Supplemental Information as prescribed by Office of Management and Budget (OMB) Circular A-136, *"Financial Reporting Requirements."*

Other Claims for Refunds

The Department has estimated that $17.9 billion may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $10.8 billion and by appeals is $7.1 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2006 were as follows (in billions):

Gross Unpaid Assessments	$	245
Less: Compliance Assessments		(57)
Write Offs		(97)
Gross Federal Taxes Receivable	**$**	**91**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $9 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Internal Revenue Service (IRS)

The unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the IRS's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered federal taxes receivable. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered federal taxes receivable.

Assessments with little or no future collection potential are called write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayers, including many failed financial institutions liquidated by the FDIC and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires.

Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in Millions):

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Fin. Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	Alcohol and Tobacco Tax and Trade Bureau	9/30/2006 Combined-Total
Budgetary Resources											
Unobligated balance brought forward	$ 118	$ 12	$ 63,050	$ 9	$ 225	$ 490	$ 62	$ 507	$ 195	$ 2	$ 64,670
Recoveries of prior year unpaid obligations		17	131	3	96	128			3	2	380
Budget Authority:											
Appropriations		409,503	5,686	74	11,293	10,780				91	437,427
Borrowing authority			12								12
Spending authority from offsetting collections:											
Earned:											
Collected	487	20	3,951	3	2,245	106	1,611	649	236	2	9,310
Change in receivable from federal sources	(10)		(15)		1	(2)	46	(1)			19
Change in unfilled customer order:											
Advance received	(3)		22						6		25
Without advance from federal sources			(56)		5						(51)
Subtotal	474	409,523	9,600	77	13,544	10,884	1,657	648	242	93	446,742
Non-expenditure transfers, net		(2)	136								134
Temporarily not available pursuant to Public Law		(5)	(3,666)								(3,671)
Permanently not available		(3,342)	(115)	(1)	(1,394)	(227)	(84)			(1)	(5,164)
Total Budgetary Resources	**$ 592**	**$ 406,203**	**$ 69,136**	**$ 88**	**$ 12,471**	**$ 11,275**	**$ 1,635**	**$ 1,155**	**$ 440**	**$ 96**	**$ 503,091**
Status of Budgetary Resources											
Obligations incurred											
Direct		$ 406,171	$ 11,786	$ 71	$ 12,044	$ 10,634				$ 92	$ 440,798
Reimbursable	$ 496	20	1,548	4	178	90	$ 1,656	$ 557	$ 202	2	4,753
Subtotal	496	406,191	13,334	75	12,222	10,724	1,656	557	202	94	445,551
Unobligated Balance											
Apportioned	96	5	13,825	10	202	192	(21)				14,309
Exempt from apportionment		2	31,924	3	19			598	238		32,784
Subtotal	96	7	45,749	13	221	192	(21)	598	238		47,093
Unobligated balance not available		5	10,053		28	359				2	10,447
Total Status of Budgetary Resources	**$ 592**	**$ 406,203**	**$ 69,136**	**$ 88**	**$ 12,471**	**$ 11,275**	**$ 1,635**	**$ 1,155**	**$ 440**	**$ 96**	**$ 503,091**
Relationship of Obligations to Outlays											
Obligated balance, net											
Unpaid obligations brought forward	$ 106	$ 70	$ 43,957	$ 23	$ 309	$ 1,524	$ 233	$ 99	$ 39	$ 21	$ 46,381
Uncollected customer payments from Federal sources brought forward	(43)	(1)	(532)		(30)	(16)	(15)	(5)		(1)	(643)
Total unpaid obligated balance, net	63	69	43,425	23	279	1,508	218	94	39	20	45,738
Obligations incurred, net	496	406,191	13,334	75	12,222	10,724	1,656	557	202	94	445,551
Gross Outlays	(502)	(406,182)	(6,559)	(75)	(12,178)	(10,589)	(1,580)	(538)	(198)	(93)	(438,494)
Recoveries of prior year unpaid obligations, actual		(17)	(131)	(3)	(96)	(128)			(3)	(2)	(380)
Change in uncollected customer payments from federal sources	10		72		(6)	2	(46)	1			33
Obligated balance net, end of period											
Unpaid obligations	101	62	50,599	19	257	1,532	309	118	40	20	53,057
Uncollected customer payments from federal sources	(33)	(1)	(457)		(37)	(15)	(62)	(4)			(609)
Total unpaid obligated balance, net, end of period	68	61	50,142	19	220	1,517	247	114	40	20	52,448
Net Outlays											
Gross outlays	502	406,182	6,559	75	12,178	10,589	1,580	538	198	93	438,494
Offsetting collections	(485)	(20)	(3,535)	(3)	(2,245)	(107)	(1,611)	(649)	(242)	(2)	(8,899)
Distributed offsetting receipts		(13,625)	(1,634)		(1,206)	(103)					(16,568)
Net Outlays	**$ 17**	**$ 392,537**	**$ 1,390**	**$ 72**	**$ 8,727**	**$ 10,379**	**$ (31)**	**$ (111)**	**$ (44)**	**$ 91**	**$ 413,027**

Deferred Maintenance

In FY 2006, the Department had no deferred maintenance to report on vehicles, buildings, and structures owned by the Department.

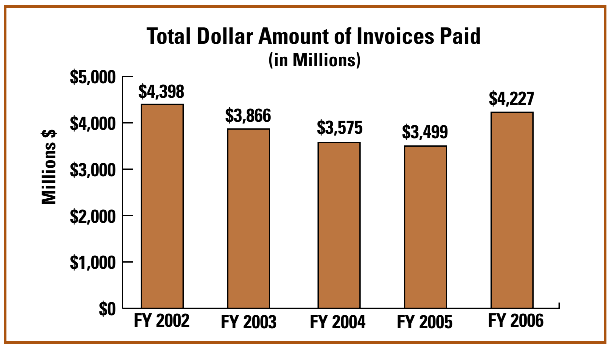
Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building, and other structure logistic reports. Upon completion of this review, logistic personnel use a condition assessment survey to determine the status of referenced assets. A five level rating scale (excellent, good, fair, poor, and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates.

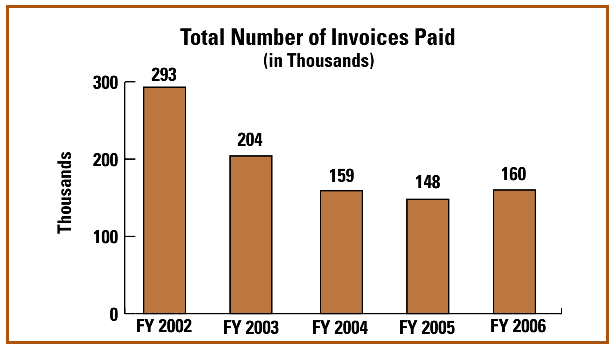
Other Accompanying Information (Unaudited)

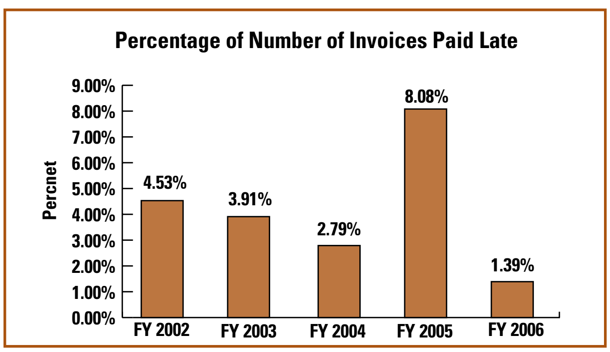
This section provides Other Accompanying Information as prescribed by OMB Circular A-136, *"Financial Reporting. Requirements"*

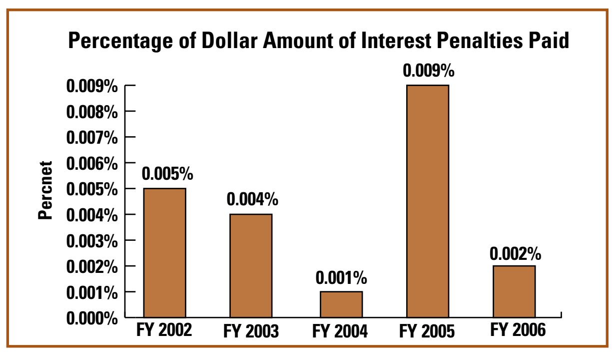
Prompt Payment

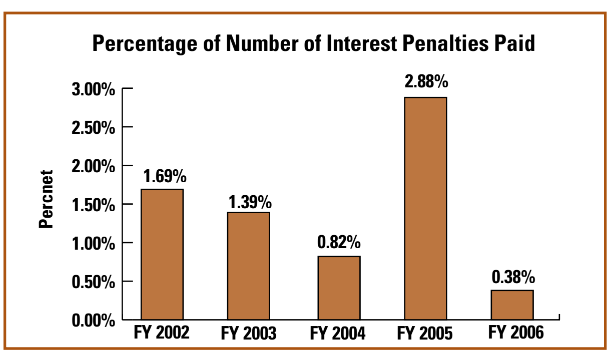
The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems. The number of late payments and the amount of interest penalties decreased in FY 2006. This vast improvement was mostly due to improved management oversight and the completion of the implementation of the new financial system at the Internal Revenue Service.











Tax Gap

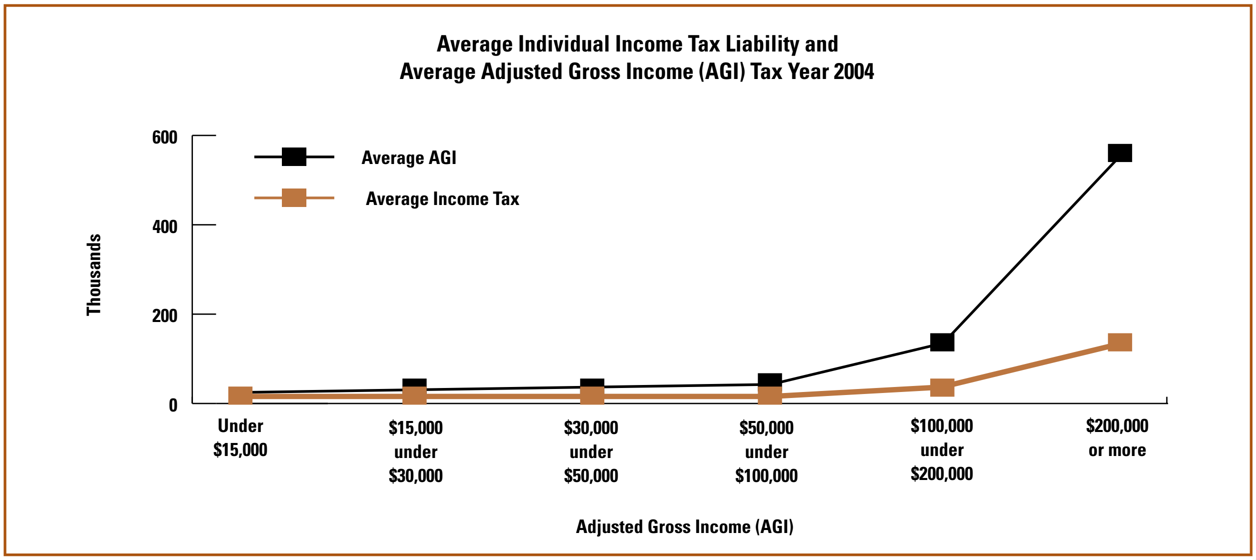
Reducing the tax gap is at the heart of IRS' enforcement programs. The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about $345 billion based on updated FY 2006 estimates, represents the amount of noncompliance with the tax laws. Underreporting tax liability accounts for 83% of the gap, with the remainder almost evenly divided between non-filing (8%) and underpaying (9%). The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time.

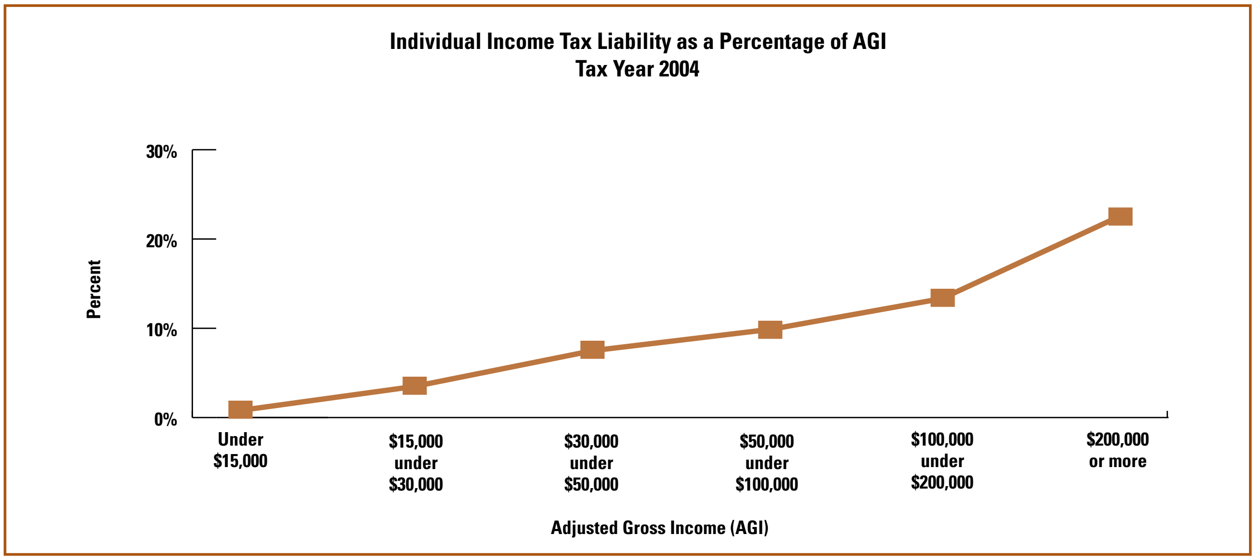
The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the non-filing gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the non-filing gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Obviously, some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

The collection gap is the cumulative amount of tax, penalties, and interest that has been assessed over many years, but has not been paid by a certain point in time, and which the Service expects to remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the Service's balance sheet. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance).

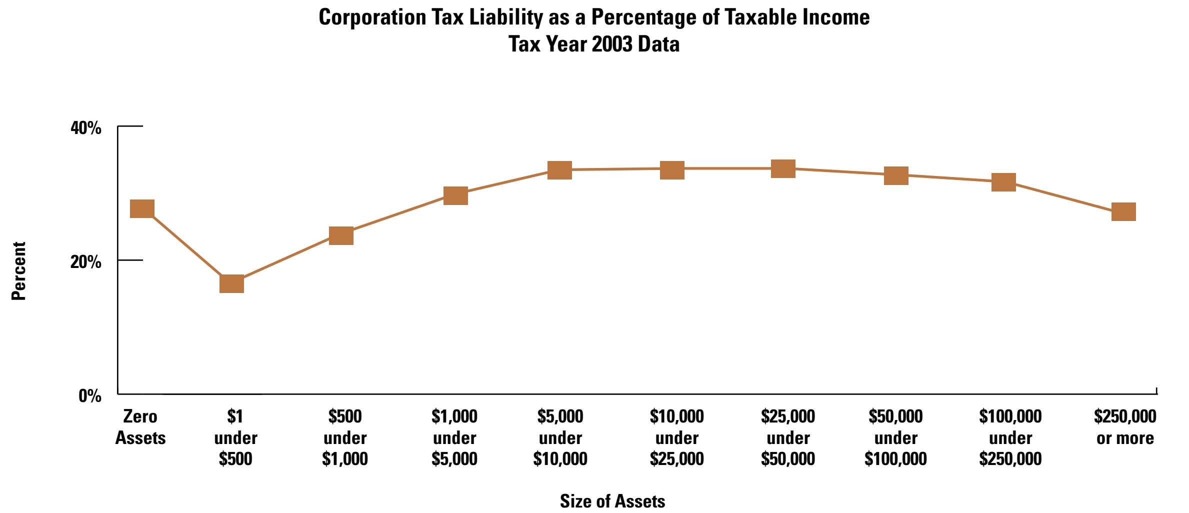
Tax Burden

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The graphs below present the latest available information on income tax and adjusted gross income (AGI) for individuals by AGI level and for corporations by size of assets. For individuals, the information illustrates, in percentage terms, the tax burden borne by varying AGI levels. For corporations, the information illustrates, in percentage terms, the tax burden borne by these entities by various sizes of their total assets. The graphs are only representative of more detailed data and analysis available from the Statistics of Income (SOI) office.





Adjusted Gross Income (AGI)	Number of tax returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000	37,315	$ 200,248	$ 3,306	$ 5,366	$ 89	1.7%
$15,000 under $30,000	29,581	650,044	23,749	21,975	803	3.7%
$30,000 under $50,000	24,536	957,783	62,190	39,036	2,535	6.5%
$50,000 under $100,000	28,196	1,984,569	178,486	70,385	6,330	9.0%
$100,000 under $200,000	9,750	1,291,062	176,173	132,417	18,069	13.6%
$200,000 or more	3,007	1,681,201	386,515	559,096	128,538	23.0%
Total	**132,385**	**$ 6,764,907**	**$ 830,419**			



Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$7,476	$1,987	26.6%
$1 under $500	8,159	1,435	17.6%
$500 under $1,000	3,541	785	22.2%
$1,000 under $5,000	10,482	2,994	28.6%
$5,000 under $10,000	6,240	2,045	32.8%
$10,000 under $25,000	9,033	2,941	32.6%
$25,000 under $50,000	8,208	2,677	32.6%
$50,000 under $100,000	10,321	3,297	31.9%
$100,000 under $250,000	20,870	6,516	31.2%
$250,000 or more	615,006	152,840	24.9%
Total	**$699,336**	**$177,517**	**25.4%**