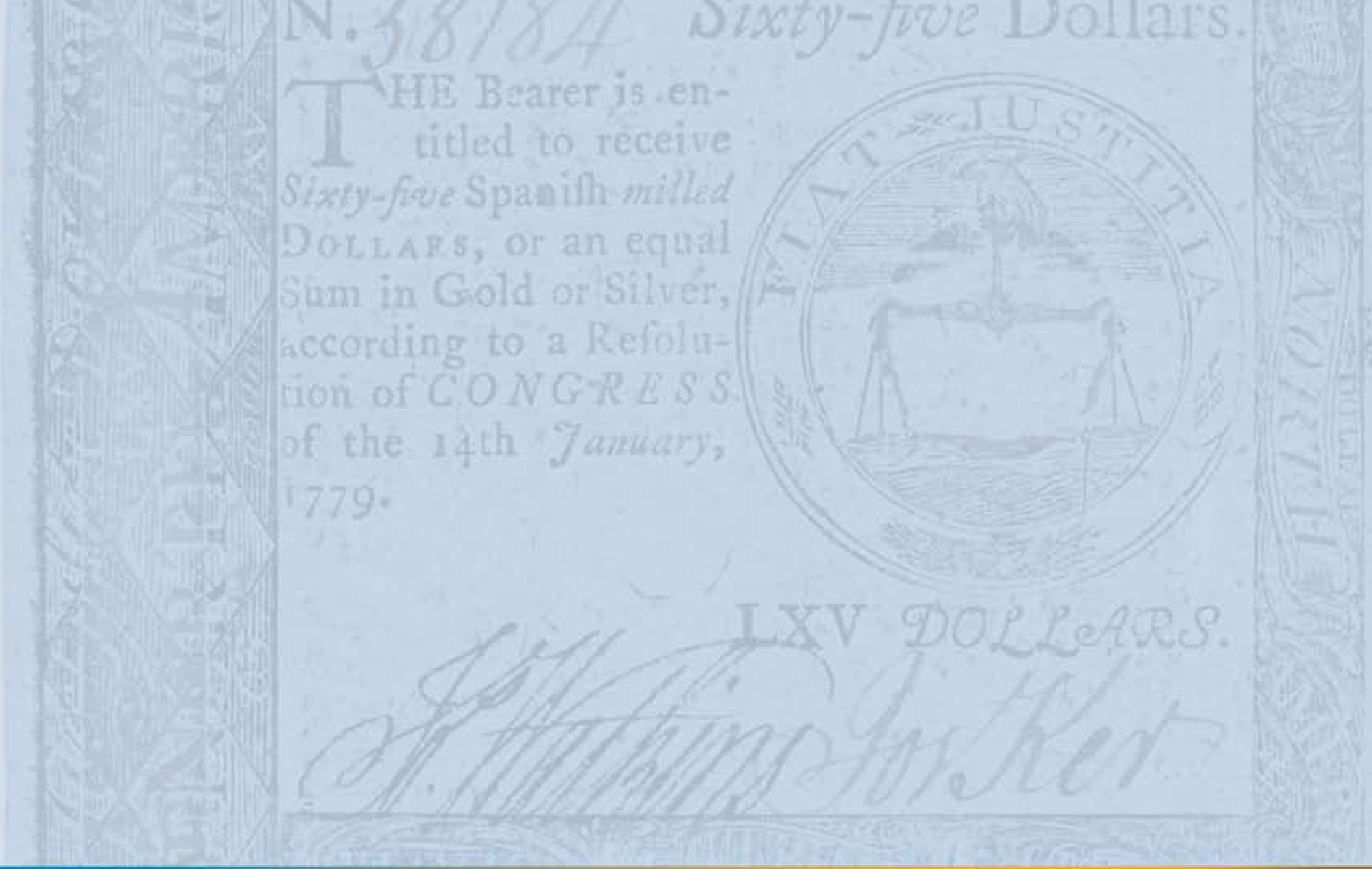

Part III: Annual Financial Report

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2007

MEMORANDUM FOR SECRETARY PAULSON

FROM: Dennis S. Schindel
Acting Inspector General

SUBJECT: Audit of the Department of the Treasury's Financial Statements
for Fiscal Years 2007 and 2006

INTRODUCTION

I am pleased to transmit KPMG LLP's report on the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ending September 30, 2007 and 2006.

The Department of the Treasury Office of Inspector General is responsible for ensuring that the financial statement audit of the Department of the Treasury is conducted in accordance with the Chief Financial Officers' Act of 1990, as amended by the Government Management Reform Act of 1994.

RESULTS OF INDEPENDENT AUDIT

Under a contract monitored by my office, KPMG LLP, an independent certified public accounting firm, performed an audit of the FY 2007 and 2006 financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States; Office of Management and Budget Bulletin No. 07-04, *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 the other significant deficiency in financial management practices identified by the auditor of the Internal Revenue Service (IRS) are collectively considered a material weakness for the Department as a whole;
- reported that control deficiencies related to (1) information system controls and (2) financial management practices at the departmental level represent significant deficiencies for the Department as a whole;
- 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;
- reported that the Department's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996; and

- reported an instance of a potential Anti-deficiency Act violation related to transactions and activities of the Treasury Franchise Fund.

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 IRS's financial statements for the fiscal years ending September 30, 2007 and 2006, reported that the bureau continued to make significant strides in addressing its financial management challenges and substantially mitigated several material weaknesses in its internal controls. In particular, IRS made progress related to tax receipts reporting and certification, cost accounting implementation, targeting outstanding tax debt collection efforts, reducing the risk of improper refund disbursements, and improving accounting for tax administration activities. However, IRS's ability to fully address its remaining financial management issues largely depends on addressing the limitations of its automated systems used to process tax-related activities. IRS is in the midst of a major business systems modernization effort that is ultimately intended to resolve its most serious financial systems challenges. However, it is unclear when this effort will be completed or if it will be fully successful. Continued involvement by IRS officials and the Department's senior leadership is essential to effectively address these matters.

EVALUATION OF AUDITORS' PERFORMANCE

To ensure the quality of the audit work performed, we reviewed KPMG LLP's approach and planning of the audit, evaluated the qualifications and independence of the auditors, monitored the progress of the audit at key points, reviewed and accepted KPMG LLP's audit report, and performed other procedures that we deemed necessary. We also provide oversight of the audits of financial statements and certain accounts and activities conducted at 12 component entities of the Department. 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'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 14, 2007, 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.

I appreciate the courtesies and cooperation extended to KPMG LLP and my staff during the audit. 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: Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
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, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, combined statements of budgetary resources, and the statements of custodial activity (hereinafter referred to as the 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 2007 Performance and Accountability Report* (PAR).

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 2007 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 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, 2007 and 2006, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources to the net cost of operations in fiscal year 2007 in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*.

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

- Financial Management Practices at the IRS (Repeat Condition)
- Information System Controls (Repeat Condition)
- Financial Management Practices at the Departmental Level.

We consider the significant deficiency related to Financial Management Practices at the IRS noted above, to be a material weakness.

We, and the other auditor, noted no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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. 07-04, *Audit Requirements for Federal Financial Statements*. 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.

In other matters, the Department's management has informed us of an instance of a potential *Anti-deficiency Act* violation related to certain transactions and activities within the Treasury Franchise Fund. This potential violation is currently under review.

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; our, and the other auditor's, tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; other matters; 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, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, 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 $31.3 billion and $26.3 billion, net costs of operations of $11.7 billion and $11.5 billion, and custodial revenues of $2.7 trillion and $2.5 trillion, as of and for the years ended September 30, 2007 and 2006, respectively. The financial statements of the IRS as of and for the years ended September 30, 2007 and 2006, were audited by another auditor whose report dated November 5, 2007, 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, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity, for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources to the net cost of operations in fiscal year 2007 in accordance with OMB Circular No. A-136 (OMB Circular No. A-136).

The information in the PAR 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 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 PAR on pages v through xx, in Part II – *Annual Performance Report*; in Other Accompanying Information section of Part III – *Annual Financial Report*; and in 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 is described below in the Responsibilities section of this report. Our consideration of internal control over financial reporting was for a limited purpose and would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. The other auditor's consideration of internal control over financial reporting was for the purpose of providing an opinion on the effectiveness of IRS's internal controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2007 audit, we, and the other auditor, noted certain matters, summarized below, involving internal control over financial reporting and its operations that we consider to be significant deficiencies. Because of the IRS material weaknesses in internal controls discussed below, the other auditor's opinion on internal controls stated that the IRS did not maintain effective internal controls over financial reporting (including safeguarding of assets), or compliance with laws and regulations, and thus did not provide reasonable assurance that losses, misstatements, and noncompliance with laws material in relation to the financial statements would be prevented or detected on a timely basis.

MATERIAL WEAKNESS

Financial Management Practices at the IRS (Repeat Condition)

IRS has continued to make significant strides in addressing its financial management challenges and has substantially mitigated several material weaknesses in its internal controls. However, serious internal control and financial management systems deficiencies continued to make it necessary for IRS to rely on resource-intensive compensating procedures to prepare its financial statements. IRS's ability to fully address its remaining financial management issues largely depends on addressing the limitations of its automated systems used to process tax related activities.

As a result, IRS personnel will continue to be challenged to sustain the level of effort needed to produce reliable financial statements timely until the 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 the IRS continues to lack accurate, useful, and timely financial information

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and sound controls with which to make fully informed decisions day to day and to ensure ongoing accountability.

The material weaknesses and the other significant deficiency 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 not (1) being able to prepare reliable financial statements without extensive compensating procedures, and (2) having current and reliable ongoing information to support management decision making and to prepare cost-based performance measures

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

- Weaknesses in controls over the collection of tax revenues due to the federal government and over the issuance of tax refunds, resulting in lost revenue to the federal government and potentially billions of dollars in improper payments

- Weaknesses in information security controls, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

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

Another significant deficiency in internal control, although not a material weakness, a repeat condition, was identified that involved weaknesses in IRS's controls over hard-copy taxpayer receipts and related information, that increase the risk that this information may be lost, stolen, or compromised.

Additional details related to the material weaknesses and the significant deficiency identified above have been provided to IRS management by the auditors of the IRS's financial statements in their report dated November 5, 2007.

Recommendations

Recommendations to address the material weaknesses and other significant deficiency 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 (ASM/CFO) provide effective oversight to ensure that corrective actions are taken by the IRS to fully address this material weakness and the other significant deficiency.

SIGNIFICANT DEFICIENCIES

Information System Controls (Repeat Condition)

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

Financial Management Service (FMS)

During fiscal year 2007, FMS continued to make progress in addressing information technology (IT) general controls weaknesses raised in prior years. However, control weaknesses continue to exist in this area. Current year tests conducted over IT general controls revealed the following weaknesses:

- **Entity-wide Information Security Management** – 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. While weaknesses were corrected in some systems and platforms, they continue to exist in other areas as evidenced by the continued existence of previously identified problems in newly reviewed IT areas indicating a lack of consistency in the application of an agency-wide strategy.

- **System Software** – Controls over access to, and modification of system software are essential to protect the overall integrity and reliability of information systems. Previously noted mainframe operating system support issues were identified again this year.

- **Access Controls** – 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. A comprehensive access control program, including increased management oversight, 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. Although prior access control findings have been substantially addressed, additional access control weaknesses were identified again this year.

The above weaknesses collectively serve to weaken the IT general control environment at FMS. The detailed findings and related recommendations will be provided to FMS management in a separate report.

Departmental IT Security Program

We identified deficiencies related to configuration management throughout the Department. Specifically, not all Treasury bureaus/offices have established configuration, vulnerability, and patch management guides or baselines for IT systems, and some bureaus/offices that have configuration baselines in place do not meet the requirements of National Institute of Standards and Technology (NIST) *Special Publication 800-70*. This deficiency impacts the Department's ability to comply 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.

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 NIST and FISMA requirements.

Recommendation

We recommend that the Department's ASM/CFO provide effective oversight and the resources necessary to ensure that required information security requirements over financial systems are implemented throughout the Department.

Financial Management Practices at the Departmental Level

Improvements are needed in current financial management and reporting practices at the Departmental level. We reported that improvements are needed in these areas in respective Management Letters that were issued related to our fiscal year 2006 and 2005 audits. The Office of Accounting and Internal Control (AIC), within the Office of the Deputy Chief Financial Officer (ODCFO), is responsible for establishing and maintaining financial policies that guide consolidated financial reporting throughout the Department, and implementing internal controls to ensure the overall integrity of the consolidated financial statements that are prepared by AIC from trial balances and other financial data submitted by Treasury components. The Department's Office of Strategic Planning and Performance Management (OSPPM) within the Office of Performance Budgeting (OPB), is responsible for the preparation of the performance section of the PAR. Certain quality control procedures are conducted by AIC and OSPPM to ensure that Treasury bureaus' and offices' financial and other data is accurate and complete for inclusion in the Department's consolidated financial statements and PAR. However, several deficiencies were noted as described below that indicated a weak control environment, resulting in financial management and reporting weaknesses. These deficiencies in internal control over financial reporting are collectively considered a significant deficiency for the Department as a whole.

- AIC's financial management infrastructure is inadequately staffed for an office that is responsible for the consolidated financial reporting and internal control structure of a large and complex Executive Branch agency. AIC does not have a sufficient number of experienced financial managers and staff to expeditiously address routine and nonroutine accounting issues. In addition, the accuracy of financial information is highly dependent on the knowledge and experience of a limited number of key financial personnel. Both AIC and OPB have several key personnel with significant institutional knowledge of the Department's accounting and reporting processes that are at or near retirement eligibility status, and in the event of the retirement or sudden prolonged absence of one or more of the key accounting individuals, there could be a serious loss of operational and institutional knowledge. Some steps have been taken to address succession planning during the year, such as the development of a set of core competencies as well as an analysis of the strengths and weaknesses within AIC; however, continued focus is needed to resolve this long-term issue.

- Supervisory and monitoring control procedures were not consistently performed and documented over work prepared by AIC and OSPPM staff, and over financial data and other information transmitted by Treasury components. During our review of the March 31 and June 30 consolidated financial statements, we noted errors and discrepancies that were only corrected after they were identified during audit test work. Further, comments provided by the auditor on the initial draft 2007 PAR were not reviewed by responsible officials within OSPPM prior to submission of the revised draft of the 2007 PAR for audit, causing the same errors to be identified repeatedly. In other instances, we noted inadequate and/or untimely follow-up of accounting and/or reporting issues.

- Although the Department established an effective plan to assess, document, test and report on internal controls over financial reporting, in accordance with OMB Circular No. A-123 Revised, *Management's Responsibility for Internal Control* (A-123), Appendix A, certain Treasury components did not fully execute the plan. Specifically, certain smaller components did not have or provide verifiable and documented results to support their conclusion as to whether internal controls over financial reporting were properly designed and operating effectively for certain areas in accordance with the Department's guidelines. Instead, these components relied on prior year financial statement audit results to support their position that no further work was required. In addition, AIC did not conduct an adequate and timely centralized review of the work done by components to assess whether the Department's A-123 methodology and implementation requirements had been followed and supported the Departmental assurance statement on internal control over financial reporting.

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires that agencies establish internal controls according to standards prescribed by the Comptroller General and specified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government (Standards)*. The GAO defines "internal control" as an integral component of an organization's management that provides reasonable assurance that the following objectives are achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The GAO *Standards* identify the control environment as one of the five key elements of control, which emphasizes the importance of control conscientiousness in management's operating philosophy and commitment to internal control. These standards cover controls such as human capital practices, supervisory reviews, and segregation of duties, policies, procedures, and monitoring.

A-123 requires agencies to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective actions; and (5) report annually on management controls in support of FMFIA.

The issues identified occurred mainly due to the fact that key AIC financial personnel have excessive workloads and insufficient time is available for key financial personnel to devote to supervisory reviews and other financial management activities. AIC has not hired the staff necessary, nor has it been able to train other Treasury staff sufficiently to assume their responsibilities, due in part to budget constraints. These issues have resulted in increased reliance being placed on the annual audit process to identify errors and omissions in the consolidated financial statements, as well as the Department's implementation of A-123.

Recommendations

We recommend that the ASM/CFO, and Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer, with input from the Director of AIC, as appropriate:

1. Complete a human capital needs assessment, with particular focus on the management skills needed to perform the daily operations of AIC. Once the human capital needs are assessed, hire staff, or consider transferring suitable staff from other offices within Treasury to meet these immediate needs. Consider what actions can be taken now, without additional staff, to ensure that if a key staff member is unexpectedly unavailable to perform his/her duties, that the Department's financial management responsibilities will be met with minimal disruption, and document these actions, as necessary.

2. Improve supervisory and monitoring control procedures over all financial data, and other information to ensure timely identification and correction of errors and discrepancies.

3. Conduct an earlier review of the A-123 work being conducted by components to ensure that the Department's A-123 guidance is fully implemented, and if not, document the rationale or mitgating factors that were considered for not following the Department's requirements. Also, communicate the deficiencies identified during the fiscal year 2007 A-123 testing, as discussed above, to all components, and conduct timely follow-up to ensure that these deficiencies have been addressed, as necessary, during fiscal year 2008 A-123 testing. In addition, conduct training, as necessary, to ensure that there is consistency amongst all components in following Departmental A-123 requirements.

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INTERNAL CONTROL OVER PERFORMANCE MEASURES

Our, and the other auditor's, tests of internal control over performance measures, as described below in the Responsibilities section of this report, disclosed no deficiencies involving the design of the internal control over the existence and completeness assertions related to key performance measures.

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 below in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04, and are described below.

- ***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 2007 audit continued to identify 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*** – FISMA requires agencies to conduct annual security reviews, reporting, and remediation planning. Information security weaknesses continue to exist throughout the Department, despite notable progress made in fiscal year 2007, as discussed further in the section above related to Internal Control Over Financial Reporting. These deficiencies collectively constitute noncompliance with FISMA (Repeat Condition).

The results of our tests, and the tests performed by the other auditor, of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no other instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA, 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.

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 tax-related balances such as tax revenues, tax receivables, and tax refunds.

- Deficiencies were identified in information security controls at the IRS, resulting in increased risk of unauthorized individuals accessing, altering, or abusing proprietary IRS programs and electronic data and taxpayer information.

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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 produce managerial cost information consistent with the requirements of Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*.

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

- 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 tax-related balances such as tax revenues, tax receivables, 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 PAR that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related time frames are presented in Appendix E of the PAR.

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 because of the long-term nature of IRS's systems modernization efforts, which IRS expects will resolve many of the most serious issues, many of the planned time frames exceed the three-year resolution period specified in FFMIA. OMB concurred with Treasury's determination that IRS could not bring its systems into substantial compliance within three years, and OMB monitors IRS's progress in remediating its systems deficiencies on an ongoing basis.

Recommendations

We recommend that the ASM/CFO 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 defines 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 management informed us of an instance of a potential *Anti-deficiency Act* violation related to transactions and activities of the Treasury Franchise Fund. Specifically, budgetary control weaknesses existing within the Treasury Franchise Fund may have allowed a potential violation of the *Anti-deficiency Act*. This matter is currently under review.

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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 component management within the Department. We did not audit the Department's response and, accordingly, we express no opinion on it.

* * * * *

We noted certain additional matters involving internal control over financial reporting and its operation that we will report to the Department's management in a separate letter.

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 Management's Discussion and Analysis (including the performance measures), and Required Supplemental Information
- Establishing and maintaining effective internal control
- 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 2007 and 2006 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 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. However, the purpose of the other auditor's audit is to express an opinion on the effectiveness of the IRS's internal control over financial reporting.

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
- 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 2007 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 design effectiveness of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing 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 November 5, 2007 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. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the FMFIA. The objective of our audit was not to express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not provide an opinion on the effectiveness of the Department's internal control over financial reporting. The objective of the other auditor's audit was to express an opinion on the effectiveness of the IRS's internal control over financial reporting. Accordingly, the other auditor provided an opinion on IRS's internal control over financial reporting.

As required by OMB Bulletin No. 07-04, in our fiscal year 2007 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 PAR, 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 dated November 5, 2007 was provided to us. We, and the other auditor, limited our testing to those controls necessary to report deficiencies in the design of internal control over key performance measures in accordance with OMB Bulletin No. 07-04. However, 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 2007 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. 07-04, including certain provisions referred to in FFMIA. We, and the other auditor, 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.

KPMG

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. 07-04 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 Standard General Ledger at the transaction level. To meet this requirement, we, and the other auditor, performed tests of compliance with FFMIA Section 803(a) requirements.

RESTRICTED USE

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the GAO, 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 14, 2007

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

November 13, 2007

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 2007 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 sixth 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 partnership 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 2007 to address financial and information management deficiencies. The Internal Revenue Service (IRS) made significant progress in improving its tax administration financial systems by expanding the capabilities of the Custodial Detail Database (CDDB). In FY 2008, the IRS plans to complete the development and implementation of additional CDDB releases that add other revenue receipt transactions and create a refund transactions subsidiary ledger. The Office of the Chief Information Officer (OCIO) made substantial improvements in its Information Security Program with the audit outcome of "significant progress in compliance" with the Federal Information Security Management Act (FISMA), for both Treasury unclassified and National Intelligence systems. The OCIO recognizes the need for continued attention to FISMA in FY 2008 and will continue to focus and improve the IT Security program to address increasing cyber security threats.

We concur with the Departmental level material weakness, the significant deficiencies, 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,

Peter B. McCarthy
Assistant Secretary for Management
and Chief Financial Officer

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Consolidated Balance Sheets

As of September 30, 2007 and 2006

(In Millions)

ASSETS	2007	2006
Intra-governmental Assets		
Fund Balance (Note 2)	$ 74,767	$ 71,153
Loans and Interest Receivable (Note 3)	236,932	245,206
Advances to the Black Lung Trust Fund (Note 4)	10,058	9,632
Due From the General Fund (Note 4)	9,052,624	8,540,195
Accounts Receivable and Related Interest (Note 10)	466	483
Other Intra-governmental Assets	32	78
Total Intra-governmental Assets	**9,374,879**	**8,866,747**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	92,330	63,892
Gold and Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	175	288
Investments and Related Interest (Note 7)	10,074	9,325
Reserve Position in the International Monetary Fund (Note 8)	4,464	6,621
Investments in International Financial Institutions (Note 9)	5,521	5,488
Tax, Other and Related Interest Receivables, Net (Note 10)	27,559	21,962
Inventory and Related Property, Net (Note 11)	638	389
Property, Plant, and Equipment, Net (Note 12)	2,086	2,182
Other Assets	19	22
Total Assets (Note 13)	**$ 9,528,807**	**$ 8,987,978**
Heritage Asset (Note 12)		
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 & 14)	$ 3,974,788	$ 3,673,117
Other Debt and Interest Payable (Note 14)	14,164	14,164
Due to the General Fund (Note 4)	328,973	306,352
Other Intra-governmental Liabilities (Note 17)	329	301
Total Intra-governmental Liabilities	**4,318,254**	**3,993,934**
Federal Debt and Interest Payable (Notes 4 & 14)	5,054,250	4,844,074
Certificates Issued to Federal Reserve Banks (Note 5)	2,200	2,200
Allocation of Special Drawing Rights (Note 5)	7,627	7,234
Gold Certificates Issued to Federal Reserve Banks (Note 6)	11,037	11,037
Refunds Payable (Notes 4 & 21)	1,684	1,701
D.C. Pensions Actuarial Liability (Note 15)	8,992	9,068
Other Liabilities (Note 17)	3,664	3,816
Total Liabilities (Note 17)	**9,407,708**	**8,873,064**
Commitments & Contingencies (Notes 3, 5, 12, & 16)		
NET POSITION		
Unexpended Appropriations:		
Earmarked funds (Note 22)	200	202
Other funds	72,117	68,068
Subtotal	72,317	68,270
Cumulative Results of Operations:		
Earmarked funds (Note 22)	35,385	31,614
Other funds	13,397	15,030
Subtotal	48,782	46,644
Total Net Position (Note 18)	**$ 121,099**	**$ 114,914**
Total Liabilities and Net Position	**$ 9,528,807**	**$ 8,987,978**

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Net Cost

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Cost of Treasury Operations (Note 19):		
Financial Program:		
Gross Cost	$ 13,980	$ 17,496
Less Earned Revenue	(2,245)	(5,083)
Net Program Cost	**$ 11,735**	**$ 12,413**
Economic Program:		
Gross Cost	$ 5,660	$ 2,339
Less Earned Revenue	(6,116)	(1,151)
Net Program Cost	**$ (456)**	**$ 1,188**
Security Program		
Gross Cost	$ 302	$ 0
Less Earned Revenue	(2)	0
Net Program Cost	**$ 300**	**$ 0**
Management Program		
Gross Cost	$ 883	$ 987
Less Earned Revenue	(443)	(559)
Net Program Cost	**$ 440**	**$ 428**
Total Program Gross Costs	$ 20,825	$ 20,822
Total Program Gross Earned Revenues	(8,806)	(6,793)
Total Net Cost of Treasury Operations	**$ 12,019**	**$ 14,029**
Federal Costs (Note 19):		
Federal Debt Interest	$ 432,153	$ 403,459
Less Interest Revenue from Loans	(11,714)	(12,593)
Net Federal Debt Interest Costs	**$ 420,439**	**$ 390,866**
Other Federal Costs	$ 8,863	$ 8,940
Net Federal Costs	**$ 429,302**	**$ 399,806**
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs	**$ 441,321**	**$ 413,835**

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

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2007
(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balances	$ 202	$ 68,068		$ 68,270
Budgetary Financing Sources:				
Appropriations Received (Note 18)	390	450,832		451,222
Appropriations Transferred In/Out	0	27		27
Other Adjustments	(2)	(143)		(145)
Appropriations Used	(390)	(446,667)		(447,057)
Total Budgetary Financing Sources	(2)	4,049		4,047
Total Unexpended Appropriations	$ 200	$ 72,117		$ 72,317
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 31,614	$ 15,030	$ 0	$ 46,644
Budgetary Financing Sources:				
Appropriations Used	390	446,667	0	447,057
Non-exchange Revenue	109	7	(43)	73
Donations and Forfeitures of Cash/Equivalent	210	0	0	210
Transfers In/out Without Reimbursement	0	(8)	0	(8)
Other	(1)	0	0	(1)
Other Financing Sources (non exchange)				
Donation/Forfeiture of Property	73	0	0	73
Accrued Interest & Discount on Debt	0	7,632	0	7,632
Transfers In/out Without Reimbursement	(39)	15	0	(24)
Imputed Financing Sources	60	1,172	(492)	740
Transfers to the General Fund and Other (Note 18)	205	(12,498)	0	(12,293)
Total Financing Sources	1,007	442,987	(535)	443,459
Net Cost of Operations	2,764	(444,620)	535	(441,321)
Net Change	3,771	(1,633)	0	2,138
Cumulative Results of Operations	$ 35,385	$ 13,397	$ 0	$ 48,782
Net Position	**$ 35,585**	**$ 85,514**	**$ 0**	**$ 121,099**

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

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2006
(In Millions)

	Combined Earmarked Funds	Combined All Other Funds	Eliminations	Consolidated Total
UNEXPENDED APPROPRIATIONS				
Beginning Balance	$ 202	$ 62,980		$ 63,182
Budgetary Financing Sources:				
Appropriation Received (Note 18)	298	417,468		417,766
Appropriations Transferred In/Out	0	14		14
Appropriations Used	(298)	(412,116)		(412,414)
Other Adjustments	0	(278)		(278)
Total Budgetary Financing Sources	0	5,088		5,088
Total Unexpended Appropriations	$ 202	$ 68,068		$ 68,270
CUMULATIVE RESULTS OF OPERATIONS				
Beginning Balances	$ 30,817	$ 21,309	$ 0	$ 52,126
Budgetary Financing Sources:				
Appropriations Used	298	412,116	0	412,414
Non-exchange Revenue	76	10	(30)	56
Donations and Forfeitures of Cash/Equivalent	79	0	0	79
Transfers In/Out without Reimbursement	0	(28)	0	(28)
Other	(12)	(37)	0	(49)
Other Financing Sources				
Donation/Forfeiture of Property	61	0	0	61
Accrued Interest & Discount on Debt	0	8,991	0	8,991
Transfers In/Out Without Reimbursement	(45)	21	0	(24)
Imputed Financing Sources	57	1,145	(470)	732
Transfers to the General Fund and Other (Note 18)	(69)	(13,810)	0	(13,879)
Total Financing Sources	445	408,408	(500)	408,353
Net Cost of Operations	352	(414,687)	500	(413,835)
Net Change	797	(6,279)	0	(5,482)
Cumulative Results of Operations	$ 31,614	$ 15,030	$ 0	$ 46,644
Net Position	**$ 31,816**	**$ 83,098**	**$ 0**	**$ 114,914**

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

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Budgetary Resources		
Unobligated balance, brought forward	$ 57,540	$ 64,670
Recoveries of prior year unpaid obligations	474	380
Budget authority:		
Appropriations (Note 18)	465,200	437,427
Borrowing authority	11	12
Spending authority from offsetting collections:		
Earned:		
Collected	9,937	9,310
Change in receivables from Federal sources	(66)	19
Change in unfilled customer orders:		
Advance received	17	25
Without advance from Federal sources	(125)	(51)
Subtotal	474,974	446,742
Non-expenditure transfers, net	25	134
Temporarily not available pursuant to Public Law	90	(3,671)
Permanently not available	(10,123)	(5,164)
Total Budgetary Resources	**$ 522,980**	**$ 503,091**
Status of Budgetary Resources		
Obligations incurred:		
Direct	$ 460,999	$ 440,798
Reimbursable	4,531	4,753
Subtotal	465,530	445,551
Unobligated Balance:		
Apportioned	13,525	14,309
Exempt from apportionment	32,930	32,784
Subtotal	46,455	47,093
Unobligated balance not available	10,995	10,447
Total Status of Budgetary Resources	**$ 522,980**	**$ 503,091**

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

(continued)

Combined Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

(In Millions)

(Continued)

	2007	2006
Change in Obligated Balance		
Obligated balance, net:		
Unpaid obligations brought forward, Oct. 1	$ 53,057	$ 46,381
Uncollected customer payments from Federal sources brought forward	(609)	(643)
Total unpaid obligated balance, net	52,448	45,738
Obligations incurred, net	465,530	445,551
Gross outlays	(460,302)	(438,494)
Recoveries of prior year unpaid obligations, actual	(474)	(380)
Change in uncollected customer payments from Federal sources	191	33
Obligated balance, net, end of period:		
Unpaid obligations	57,811	53,057
Uncollected customer payments from Federal sources	(418)	(609)
Total, unpaid obligated balance, net, end of period	**57,393**	**52,448**
Net Outlays		
Gross outlays	460,302	438,494
Offsetting collections	(8,192)	(8,899)
Distributed offsetting receipts	(16,040)	(16,568)
Net Outlays	**$ 436,070**	**$ 413,027**

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

Statements of Custodial Activity

For the Years Ended September 30, 2007 and 2006
(In Millions)

	2007	2006
Sources of Custodial Revenue (Note 21):		
Revenue Received		
Individual Income and FICA Taxes	$ 2,201,464	$ 2,034,209
Corporate Income Taxes	395,320	380,426
Estate and Gift Taxes	26,978	28,688
Excise Taxes	67,766	72,774
Railroad Retirement Taxes	4,718	4,673
Unemployment Taxes	7,416	7,533
Deposit of Earnings, Federal Reserve System	32,043	29,945
Fines, Penalties, Interest & Other Revenue	3,084	3,324
Total Revenue Received	**2,738,789**	**2,561,572**
Less Refunds	(292,684)	(277,778)
Net Revenue Received	**2,446,105**	**2,283,794**
Accrual Adjustment	5,588	554
Total Custodial Revenue	**2,451,693**	**2,284,348**
Disposition of Custodial Revenue:		
Amounts Provided to Fund Non-Federal Entities	486	374
Amounts Provided to Fund the Federal Government (Note 21)	2,445,619	2,283,420
Accrual Adjustment	5,588	554
Total Disposition of Custodial Revenue	**2,451,693**	**2,284,348**
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, and the Consolidated Statements of Changes in Net Position.

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, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both FY 2007 and FY 2006 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's 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 internal use software capitalization policy thresholds range from $25,000 to $50,000. For internally developed software, capitalized costs will include the full cost (direct and indirect cost) incurred during the software development stage. 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 OCC and 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 ESF 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, 2007 and 2006.

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 2007 and 2006 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 FECA; and losses in litigation proceedings.

Q. 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.

R. 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.

S. 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.

T. Earmarked Funds

Treasury has accounted for revenues and other financing sources for earmarked funds separately from other funds. This 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 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.

U. Allocation Transfers

The Treasury Department adopted the allocation transfer provisions of OMB Circular No. A-136 Revised, *Financial Reporting Requirements*, effective October 1, 2006. The Treasury Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Beginning in fiscal year 2007, parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. The Treasury Department had no significant allocation transfers to report in fiscal year 2007.

The Treasury Department allocates funds, as the parent, to the Department of Energy. OMB allows certain exceptions to allocation reporting for certain funds. Accordingly, the Treasury Department has reported certain funds for which the Treasury Department is the child in the allocation transfer, but per OMB guidance, will report all activities relative to these allocation transfers in the Treasury Department's financial statements. The Treasury Department receives allocation transfers, as the child, from the Agency for International Development.

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, 2007 and September 30, 2006, fund balances consisted of the following (in millions):

	2007	2006
Appropriated Funds	$ 72,897	$ 68,748
Revolving Funds	912	1,539
Trust Funds	8	10
Clearing Funds	10	13
Deposit Funds	542	511
Special Funds	395	332
Other Funds	3	0
Total Fund Balances	**$ 74,767**	**$ 71,153**

As of September 30, 2007 and September 30, 2006, the status of fund balances consisted of the following (in millions):

Status of Fund Balance with Treasury	2007	2006
Unobligated Balance – Available	$ 17,843	$ 21,606
Unobligated Balance – Unavailable	10,995	10,447
Obligated Balance not yet Disbursed	57,310	52,369
Subtotal	**86,148**	**84,422**
Adjustment for Non-Budgetary Funds	556	525
Adjustment for Borrowing Authority	(5,716)	(5,716)
Adjustment for Intra-Treasury Investments	(5,280)	(4,963)
Adjustment for Imprest Funds	(4)	(4)
Adjustment for Other Budgetary Resources Not in Fund Balance - Cash & Other Assets	(4,616)	(6,756)
Authority Unavailable for Obligation	3,679	3,645
Total Status of Fund Balance	**$ 74,767**	**$ 71,153**

The above balances do not include unobligated balances related to the 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).

As of September 30, 2007 and September 30, 2006, 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 line of credit held on the U.S. Quota in the International Monetary Fund.

3. Loans and Interest Receivable

As of September 30, 2007 and September 30, 2006, intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

Entity Intra-governmental:

	Loans Receivable	Interest Receivable	2007 Total	Loans Receivable	Interest Receivable	2006 Total
Executive Office of the President	$ 836	$ 9	$ 845	$ 1,024	$ $13	$ 1,037
Department of Agriculture	25,604	300	25,904	25,283	281	25,564
United States Postal Service	4,200	3	4,203	2,100	0	2,100
General Services Administration	2,151	38	2,189	2,192	39	2,231
Department of Housing & Urban Development	791	96	887	884	107	991
Department of Education	315	4	319	155	2	157
Department of Defense	70	1	71	171	3	174
Other agencies	25	1	26	34	1	35
Subtotal – Entity	**$ 33,992**	**$ 452**	**$ 34,444**	**$ 31,843**	**$ 446**	**$ 32,289**

The FFB 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 FFB. 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 FFB 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	2007 Total	Loans Receivable	Interest Receivable	2006 Total
Department of Agriculture	$ 49,133	$ 64	$ 49,197	$ 57,760	$ 427	$ 58,187
Department of Interior	345	513	858	391	663	1,054
Federal Communications Commission	106	0	106	449	0	449
Department of Veterans Affairs	1,047	27	1,074	980	0	980
Railroad Retirement Board	2,945	73	3,018	2,958	72	3,030
Small Business Administration	11,366	0	11,366	9,303	0	9,303
Department of Housing & Urban Development	4,573	0	4,573	6,258	0	6,258
Department of Energy	2,241	(8)	2,233	2,482	3	2,485
Department of Education	103,973	0	103,973	105,522	0	105,522
Export Import Bank of the U. S.	4,364	0	4,364	4,911	0	4,911
Department of Homeland Security	17,787	367	18,154	17,092	353	17,445
Other agencies	3,545	27	3,572	3,287	6	3,293
Subtotal – Non-Entity	**$ 201,425**	**$ 1,063**	**$ 202,488**	**$ 211,393**	**$ 1,524**	**$ 212,917**
Total Intra-governmental Loans and Interest Receivable – Entity and Non-Entity			**$ 236,932**			**$ 245,206**

Entity and Non-Entity Non-Federal:

As of September 30, 2007 and September 30, 2006, loans and interest receivable from non-federal entities consisted of the following (in millions):

	Entity	Non-entity	2007 Total	Entity	Non-entity	2006 Total
Direct Loans	$ 63	$ 131	$ 194	$ 142	$ 133	$ 275
Interest Receivable	1	2	3	0	87	87
Less: Allowance and Subsidy Cost	(22)	0	(22)	(74)	0	(74)
Total Non-Federal Loans and Related Interest Receivable	**$ 42**	**$ 133**	**$ 175**	**$ 68**	**$ 220**	**$ 288**

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, 2007 and September 30, 2006, Due from and Due to the General Fund, included the following non-entity assets and liabilities (in millions):

	2007	2006
Liabilities Requiring Funding from the General Fund:		
Federal Debt and Interest Payable	$ 5,054,250	$ 4,844,074
Federal Debt and Interest Payable - Intra-governmental	3,974,788	3,673,117
Refunds Payable	1,684	1,701
Adjustment for Eliminated Liabilities	21,902	21,303
Total Due from the General Fund	**$ 9,052,624**	**$ 8,540,195**
Assets to be Distributed to the General Fund:		
Fund Balance	$ 222	$ 224
Advance to the Black Lung Trust Fund	10,058	9,632
Cash Held by the Treasury	70,347	44,090
Foreign Currency	91	68
Custodial Silver and Gold held by the U.S. Mint without certificates	25	25
Loans and Interest Receivable - Intra-governmental	202,488	212,917
Loans and Interest Receivable	133	220
Accounts Receivable – Intra-governmental	368	373
Tax and Other Non-Entity Receivables	27,395	21,819
Miscellaneous Assets	9	24
Adjustment for Eliminated Assets	17,837	16,960
Total Due to the General Fund	**$ 328,973**	**$ 306,352**

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 $27,559 million in Tax, Other, and Related Interest Receivables as of September 30, 2007 ($21,962 million as of September 30, 2006). However, only $27,395 million is reported as Due to the General Fund of the U.S. government ($21,819 million as of September 30, 2006).

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, 2007 and September 30, 2006 were as follows (in millions):

	2007	2006
Entity:		
Cash	$ 32	$ 24
Foreign Currency	12,081	10,664
Other Monetary Assets:		
Special Drawing Rights	9,363	8,710
Other	153	135
Subtotal – Entity	**21,629**	**19,533**
Non-Entity:		
Operating Cash of the U.S. Government	69,701	43,587
Foreign Currency	91	68
Miscellaneous Cash held by all Treasury sub-components	909	704
Subtotal - Non-Entity	**$ 70,701**	**$ 44,359**
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 92,330**	**$ 63,892**

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

	2007	2006
Operating Cash of the U.S. Government	$ 69,797	$ 46,676
Operating Cash - Federal Reserve Account	5,539	5,569
Subtotal	**75,336**	**52,245**
Outstanding Checks	(5,635)	(8,658)
Total Operating Cash of the U.S. Government	**69,701**	**43,587**
Other Cash	700	588
Subtotal	**70,401**	**44,175**
Amounts Due to the Public	(54)	(85)
Total Cash Due to the General Fund (See Note 4)	**$ 70,347**	**$ 44,090**

Entity

Entity cash, foreign currency, and other monetary assets primarily include Foreign Currency Denominated Assets (FCDA), SDRs, and forfeited cash. SDRs and FCDAs are valued as of September 30, 2007 and September 30, 2006, using current exchange rates plus accrued interest, at September 30, 2007 and 2006. "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 ESF.

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 $7.6 billion as of September 30, 2007 ($6.8 billion as of September 30, 2006). 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, 2007, FCDAs with maturities greater than three months were valued at $4.5 billion ($3.8 billion as of September 30, 2006).

The SDRs are international reserve assets 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 reserve assets derive, 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 the 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 may be 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 ESF 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, 2007, the value of the certificates issued to Federal Reserve Banks amounted to $2.2 billion ($2.2 billion as of September 30, 2006).

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, 2007, the amount of SDR holdings of the United States was the equivalent of $9.3 billion and the amount of SDR allocations to the United States was the equivalent of $7.6 billion. 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.

During FY 2007, the Treasury Department received remuneration on the U.S. reserve position in the IMF, at the prevailing rates, in the amount of $107 million equivalent of SDRs ($210 billion equivalent of SDRs during FY 2007), and paid the General Fund of the Federal Government $.5 million ($.5 million in FY 2006) 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, 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.

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, or through securities held under reverse repurchase agreements.

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 Sheets 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 (FRBNY). The U. S. Mint also holds gold and silver reserves without certificates (See Note 4). As of September 30, 2007 and September 30, 2006, the gold and silver reserves consisted of the following (in millions):

	FTOs	Statutory Rate	9/30/07 Statutory Value	Market Rate	9/30/07 Market Value
Gold	248,046,116	42.2222	$ 10,473	$ 743.00	$ 184,298
Gold Held by Federal Reserve	13,452,784	42.2222	568	$ 743.00	9,996
Subtotal - Gold	**261,498,900**		**$ 11,041**		**$ 194,294**
Silver	16,000,000	1.292929292	21	$ 13.65	$ $218
Total Gold and Silver Reserves			**$ 11,062**		**$ 194,512**

	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**

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 ESF 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, 2007 and September 30, 2006, entity investments consisted of the following (in millions):

Type of Investment	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Net Investment	Interest Receivable	9/30/07 Investment Balance	9/30/07 Market Value
Euro Bonds	$ 4,338	$ 52	$ 4,390	$ 113	$ 4,503	$ 4,462
Japanese Government Bond	5,520	9	5,529	8	5,537	5,538
Other Investments	40	(6)	34	0	34	34
Total Non-Federal	$ 9,898	$ 55	$ 9,953	$ 121	$ 10,074	$ 10,034

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	48
Total Non-Federal	$ 9,152	$ 67	$ 9,219	$ 106	$ 9,325	$ 9,307

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 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, 2007, the U.S. quota in the IMF was 37.1 billion SDRs, valued at approximately $57.8 billion. (The quota as of September 30, 2006 was 37.1 billion SDRs, valued at approximately $54.8 billion.) The quota consisted of the following (in millions):

	2007	2006
Letter of Credit /1	$ 53,212	$ 48,090
U.S. Dollars Held in Cash by the IMF /1	152	135
Reserve Position /2	4,464	6,621
U.S Quota in the IMF	**$ 57,828**	**$ 54,846**

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, 2007, the annual settlement with the IMF resulting from the depreciation of the dollar against the SDR since April 30, 2006, called for a upward adjustment of the U.S. quota by $1.793 billion (at April 30, 2006, 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) and a corresponding decrease 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, 2007, the Treasury Department recorded a net deferred valuation gain in the amount of $258.2 million ($76.9 million valuation gain as of September 30, 2006) 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 no deduction in the remuneration paid by the IMF as a result of burden-sharing during FY 2007. There was $3 million deducted in the remuneration paid by the IMF as a result of burden-sharing during FY 2006. For FY 2007 and 2006, the Treasury Department received $107 million and $210 million 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 2007 and FY 2006. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2007, and September 30, 2006, this amounted to $10.4 billion and $9.9 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, 2007 and September 30, 2006, investments in international financial institutions consisted of the following (in millions):

	2007	2006
African Development Bank	$ 172	$ 168
Asian Development Bank	458	458
European Bank for Reconstruction & Development	624	611
Inter-American Development Bank	1,480	1,477
International Bank for Reconstruction & Development	1,985	1,985
International Finance Corporation	569	569
Multilateral Investment Guarantee Agency	45	45
North American Development Bank	188	175
Total	**$ 5,521**	**$ 5,488**

Refer to Note 16 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, 2007 and September 30, 2006, Tax, Other, and Related Interest Receivables, Net, consisted of the following (in millions):

		2007		2006
Non-Entity:				
IRS Federal Tax Receivable, Gross	$	98,016	$	$91,018
Less Allowance on Taxes Receivable		(72,007)		(70,008)
Receivable, Deposit of Earnings, Federal Reserve		1,291		774
Other Receivable & Interest		105		47
Less: Allowance on Other & Related Interest Receivable		(6)		(6)
Total Tax, and Other Non-Entity Receivables, Net	**$**	**27,399**	**$**	**21,825**
Entity:				
Miscellaneous Entity Receivables & Related Interest		160		137
Total Tax, Other & Related Interest Receivables, Net	**$**	**27,559**	**$**	**21,962**

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 ($364 million of the $466 million and $366 million of the $483 million displayed for 2007 and 2006, 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 by the Federal Reserve Banks, or through securities held under reverse repurchase agreements.

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, 2007 and September 30, 2006, inventory and related property consisted of the following (in millions):

	2007	2006
Operating materials and supplies held for use	$ 15	$ $15
Operating materials and supplies held in reserve for future use	23	23
Forfeited property	85	59
Inventory – raw materials	288	81
Inventory – work in process	117	142
Inventory – finished goods	121	81
Total allowance for inventories and related property	(11)	(12)
Total Inventories and Related Property, Net	**$ 638**	**$ 389**

12. Property, Plant, and Equipment, Net

General Property, Plant and Equipment

As of September 30, 2007 and September 30, 2006, property, plant, and equipment consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2007 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 658	$ (276)	$ 382
Furniture, fixtures, and equipment	S/L	2 - 20 years	3,271	(2,503)	768
Construction in progress	N/A	N/A	27	0	27
Land and land improvements	N/A	N/A	12	0	12
Internal use software	S/L	2 - 10 years	1,116	(564)	552
Internal use software in development	S/L	2 - 30 years	148	0	148
Assets under capital lease	S/L	2 - 25 years	25	(12)	13
Leasehold improvements	S/L	2 - 25 years	526	(342)	184
Total			**$ 5,783**	**$ (3,697)**	**$ 2,086**

	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
Internal use software	S/L	2 - 10 years	1,027	(431)	596
Internal use software in development	S/L	2 - 30 years	92	0	92
Assets under capital lease	S/L	2 - 25 years	22	(7)	15
Leasehold improvements	S/L	2 - 25 years	487	(292)	195
Total			**$ 5,478**	**$ (3,296)**	**$ 2,182**

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.

Heritage Assets

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, 2007 and September 30, 2006, non-entity assets consisted of the following (in millions):

	2007	2006
Intra-governmental Assets:		
Fund Balance (Note 2)	$ 874	$ 753
Loans and Interest Receivable (Note 3)	202,488	212,917
Accounts Receivable and Related Interest (Note 10)	367	372
Advances to the Black Lung Trust Fund (Note 4)	10,058	9,632
Due from the General Fund (Note 4)	9,052,624	8,540,195
Total Non-Entity Intra-governmental Assets	**9,266,411**	**8,763,869**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	70,701	44,359
Gold & Silver Reserves (Note 6)	11,062	11,062
Loans and Interest Receivable (Note 3)	133	220
Tax, Other, and Related Interest Receivable, Net (Note 10)	27,399	21,825
Miscellaneous Assets	9	11
Total Non-Entity Assets	**$ 9,375,715**	**$ 8,841,346**

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, 2007 and September 30, 2006 was as follows (in millions):

	FY 2007	FY 2006
Intra-governmental		
Beginning Balance	$ 3,628,701	$ 3,297,110
New Borrowings/Repayments	293,847	331,591
Subtotal at Par Value	**3,922,548**	**3,628,701**
Premium/(Discount)	3,672	(1,262)
Interest Payable Covered by Budgetary Resources	48,568	45,678
Total	**$ 3,974,788**	**$ 3,673,117**

Owed to the Public	**FY 2007**	**FY 2006**
Beginning Balance	$ 4,843,121	$ 4,601,239
New Borrowings/Repayments	206,184	241,882
Subtotal at Par Value	**5,049,305**	**4,843,121**
Premium/Discount	(39,441)	(40,165)
Interest Payable Covered by Budgetary Resources	44,386	41,118
Total	**$ 5,054,250**	**$ 4,844,074**

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 2007 was 5.1% (5.2% in FY 2006).

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, 2007 and September 30, 2006 was as follows (in millions):

	2007	2006
Social Security Administration	$ 2,182,091	$ 1,995,307
Office of Personnel Management	762,013	722,042
Department of Defense Agencies	288,456	259,961
Department of Health and Human Services	361,294	337,659
All Other Federal Entities - Consolidated	328,694	313,732
Total Federal Debt Held by Federal Entities	**$ 3,922,548**	**$ 3,628,701**

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

Federal Debt Held by the Public

As of September 30, 2007 and September 30, 2006, Federal Debt held by the Public consisted of the following:

(at par value, in millions)	Term	Average Interest Rates	2007
Marketable:			
Treasury Bills	1 Year or Less	4.6%	$ 954,607
Treasury Notes	Over 1 Year - 10 Years	4.4%	2,456,100
Treasury Bonds	Over 10 Years	7.4%	560,922
Treasury Inflation Protected Security (TIPS)	5 Years or More	2.3%	456,776
Total Marketable			**4,428,405**
Non-Marketable	On Demand to Over 10 Years	4.9%	620,900
Total Federal Debt (Public)			**$ 5,049,305**

(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**

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, 2007 and 2006, 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, 2007 and 2006. 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–indexed securities (TIPS) that have interest and redemption payments, which are tied to the Consumer Price Index, a widely used measurement of inflation. TIPS are issued with a term of five 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. District of Columbia (D.C.) Pensions Actuarial Liability

Pursuant to the Title XI of the Balanced Budget Act of 1997, as amended (the Act), on October 1, 1997, the Treasury Department 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. To fulfill its responsibility, the Treasury Department manages two funds -- the D.C. Teachers, Police Officers and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund), and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). 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 the Judicial Retirement Fund. 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. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

D.C. Federal Pension Fund

The purpose of the D.C. Federal Pension Fund is 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 amount paid into the D.C. Federal Pension Fund from the General Fund of the U.S. government was $345.4 million for FY 2007 ($285.4 million during FY 2006). As of September 30, 2007, the unobligated budgetary resources of the

D.C. Federal Pension Fund was approximately $3.6 billion, and the pension actuarial liability was $8.9 billion, resulting in an unfunded liability of $5.3 billion. (As of September 30, 2006, the unobligated budgetary resources of the D.C. Federal Pension Fund was approximately $3.5 billion, and the pension actuarial liability was $8.9 billion, resulting in an unfunded liability of $5.4 billion.) In FY 2007, the assumption for the annual rate of investment return in FY 2008 is 4.7% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2013; and, the assumption for the future annual rate of inflation and future cost-of-living adjustments were 3.5%. In FY 2006, the assumption for the annual rate of investment return was 4.8% for the D.C. Federal Pension Fund with a gradual increase to 6% by FY 2012; and, the assumption for the future annual rate of inflation and the future cost-of-living adjustments was 3.5%. In FY 2007, the assumption for the future annual rate of salary increases is 6.5% for the police officers and firefighters (also 6.5% during FY 2006), and 5.5% for teachers (also 5.5% during FY 2006).

Judicial Retirement Fund

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 amount paid into the Judicial Retirement Fund from the General Fund of the U.S. government was $7.4 million for FY 2007 ($7.4 million during FY 2006). As of September 30, 2007, the unobligated budgetary resources of the Judicial Retirement Fund was approximately $114.3 million, and the pension actuarial liability was $150.1 million, resulting in an unfunded liability of $35.8 million. (As of September 30, 2006, the unobligated budgetary resources of the Judicial Retirement Fund was approximately $107.9 million, and the pension actuarial liability was $145.7 million, resulting in an unfunded liability of $37.8 million.) In FY 2007, the assumption for the future annual rate of investment return was 6% for the Judicial Retirement Fund; and, the annual rate of inflation and cost-of-living adjustments were 3.5%. In FY 2007, the assumption for the annual rate of salary increases was 3.5% for judges. These economic assumptions are unchanged from FY 2006.

16. Commitments and Contingencies

Legal 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. Treasury does not have any FY 2007 contingent liabilities where losses are determined to be probable and amounts can be estimated. However, 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. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable.

In some cases, a portion of any loss that may occur may be paid by the Treasury's Judgment Fund which is separate from the operating resources of the Department. For those cases related to the Contract Disputes

Act of 1978 and awards under Federal anti-discrimination and whistleblower protection act, Treasury must reimburse the Judgment Fund from future appropriations.

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

Pending Legal Actions

- ***The American Council of the Blind and Others:*** Plaintiffs have filed suit against the Department under Section 504 of the Rehabilitation Act seeking the redesign of U.S. currency. A judge has ruled that the current U.S. currency design violates this Act and this ruling has been appealed. Should the appellate court find for the plaintiffs in this case, the Department may be required to make changes to U.S. currency that would result in capital investment costs of up to $320 million, as well as increased annual expenditures of up to $174 million. Any such costs would be charged to the Federal Reserve as part of the billing rate for the production of U.S. currency.
- ***Cobell v. Kempthorne (formerly Cobell v. Norton):*** Native Americans allege that the Department of Interior and the Department 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 the tribes have asserted that the potential loss could reach $27.5 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 the Department 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.
- ***Other Legal Actions:*** The Department is also involved in employment related legal actions (e.g., Discrimination, Equal Employment Opportunity Commission, Merit System Protection Board, etc.) which were reported to be reasonably possible, but for which an estimate of potential loss cannot be determined at this time.

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, 2007, 28 legal claims amounting to approximately $126 million existed for which the possibility of 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, 2007 and September 30, 2006, U.S. callable capital in MDBs was as follows (in millions):

	2007	2006
African Development Bank	$ 1,602	$ 1,513
Asian Development Bank	5,911	5,911
European Bank for Reconstruction and Development	1,805	1,803
Inter-American Development Bank	28,687	28,687
International Bank for Reconstruction and Development	22,641	22,642
Multilateral Investment Guarantee Agency	301	293
North American Development Bank	1,275	1,275
Total	**$ 62,222**	**$ 62,124**

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 reimbursement from the Federal government for 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 expired 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 $100 million in FY 2007 and $100 million in FY 2008. Legislation has been introduced to extend the program beyond 2007.

17. Liabilities

Liabilities Not Covered by Budgetary and Other Resources

As of September 30, 2007 and September 30, 2006, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2007	2006
Intra-governmental Liabilities Not Covered by Budgetary & Other Resources:		
Federal Debt Principal, Premium/Discount (Note 14)	$ 3,926,220	$ 3,627,439
Other Intra-governmental Liabilities	105	103
Total Intra-governmental Liabilities Not Covered by Budgetary & Other Resources	**3,926,325**	**3,627,542**
Federal Debt Principal, Premium/Discount (Note 14)	5,009,864	4,802,956
D.C. Pensions Liability (Note 15)	5,313	5,422
Other Liabilities	1,037	1,055
Total Liabilities Not Covered by Budgetary & Other Resources	**$ 8,942,539**	**$ 8,436,975**

Other Liabilities

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 $3,664 million and $3,816 million, respectively, at September 30, 2007 and September 30, 2006 consisted of the following (in millions):

	2007		
	Current	Non-Current	Total
Intra-governmental			
Unfunded Federal Workers Compensation Program Liability (FECA)	$ 44	$ 58	$ 102
Accounts Payable	46	21	67
Other Accrued Liabilities	158	2	160
Total Intra-governmental	**248**	**81**	**329**
With the Public			
Actuarial Federal Workers Compensation Program Liability (FECA)	0	573	573
Liability for Deposit Funds (Held by the Federal Government for Others) & Suspense Accounts	573	0	573
Accrued Funded Payroll and Benefits	402	0	402
Capital Lease Liabilities	2	5	7
Accounts Payable & Other Accrued Liabilities	2,045	64	2,109
Total with the Public	**$ 3,022**	**$ 642**	**$ 3,664**

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

18. 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 Statement of Federal Financial Accounting Standards (SFFAS No.7.)

Transfers to the General Fund and Other

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 $12,393 million and $13,192 million, for the year ended September 30, 2007 and year ended September 30, 2006, 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 $1.032 billion and $682 million was recognized, respectively, for the year ended September 30, 2007 and year ended September 30, 2006. Distributions to the General Fund, including seigniorage, amounted to $825 million and $750 million, respectively, for the years ended September 30, 2007, and September 30, 2006.

19. 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 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, 2007 and September 30, 2006 consisted of the following (in millions):

	2007	2006
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ 4,632	$ 5,200
Resolution Funding Corporation	1,987	1,979
Judgment Claims and Contract Disputes	1,222	677
Corporation for Public Broadcasting	464	460
Legal Services Corporation	350	328
All Other Payments	208	296
Total	**$ 8,863**	**$ $8,940**

FY 2007 Presentation Changes

The Government Performance Results Act (GPRA) requires that Federal agencies formulate Strategic Plans, identify major strategic goals, and report performance and costs related to the goals. Under GPRA, strategic plans are to be revised and updated every three years. Accordingly, Treasury updated the Departmentwide Strategic Plan in FY 2007 by adding an additional goal applicable to FY 2007 and thereafter. The Security Program Mission goal was added. It is defined as "Prevent Terrorism and Promote the Nation's Security Through Strengthened International Financial Systems."

OMB Circular No. A-136 *"Financial Reporting Requirements"* requires that the presentation of the Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, Treasury has presented the gross costs and earned revenues in FY 2007 by the applicable mission goals in Treasury's FY 2007 Strategic Plan and the gross costs and earned revenues for FY 2006 by the applicable mission goals in Treasury's FY 2006 Strategic Plan. As a result, the FY 2007 Consolidated Statement of Net Cost is not comparable to the FY 2006 Consolidated Statement of Net Cost.

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

FYE September 30, 2007 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Financial Program:							
Intra-governmental Gross Costs	$ 0	$ 76	$ 1,395	$ 0	$ 171	$ 3,967	$ 0
Less: Earned Revenue	0	(14)	(2,097)	0	(144)	(45)	0
Intra-governmental Net Costs	0	62	(702)	0	27	3,922	0
Gross Costs with the public	0	259	474	0	981	8,049	0
Less: Earned Revenue	0	(3)	0	0	0	(231)	0
Net Costs with the public	0	256	474	0	981	7,818	0
Net Cost: Financial Program	**0**	**318**	**(228)**	**0**	**1,008**	**11,740**	**0**
Economic Program:							
Intra-governmental Gross Costs	81	0	69	0	0	0	69
Less: Earned Revenue	(5)	0	(850)	0	0	0	(9)
Intra-governmental Net Costs	76	0	(781)	0	0	0	60
Gross Costs with the public	466	0	2,593	0	0	0	1,520
Less: Earned Revenue	(573)	0	(3,033)	0	0	0	(1,595)
Net Costs with the public	(107)	0	(440)	0	0	0	(75)
Net Cost: Economic Program	**(31)**	**0**	**(1,221)**	**0**	**0**	**0**	**(15)**
Security Program:							
Intra-governmental Gross Costs	0	0	135	51	0	0	0
Less: Earned Revenue	0	0	(13)	(1)	0	0	0
Intra-governmental Net Costs	0	0	122	50	0	0	0
Gross Costs with the public	0	0	126	57	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	126	57	0	0	0
Net Cost: Security Program	**0**	**0**	**248**	**107**	**0**	**0**	**0**
Management Program:							
Intra-governmental Gross Costs	0	0	167	0	0	0	0
Less: Earned Revenue	0	0	(720)	0	0	0	0
Intra-governmental Net Costs	0	0	(553)	0	0	0	0
Gross Costs with the public	0	0	770	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	770	0	0	0	0
Net Cost: Management Program	**0**	**0**	**217**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ (31)**	**$ 318**	**$ (984)**	**$ 107**	**$ 1,008**	**$ 11,740**	**$ (15)**

(continued)

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

FYE September 30, 2007 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2007 Consolidated
Financial Program:						
Intra-governmental Gross Costs	$ 0	$ 0	$ 14	$ 5,623	$ (1,441)	$ 4,182
Less: Earned Revenue	0	0	0	(2,300)	291	(2,009)
Intra-governmental Net Costs	0	0	14	3,323	(1,150)	2,173
Gross Costs with the public	0	0	35	9,798	0	9,798
Less: Earned Revenue	0	0	(2)	(236)	0	(236)
Net Costs with the public	0	0	33	9,562	0	9,562
Net Cost: Financial Program	**0**	**0**	**47**	**12,885**	**(1,150)**	**11,735**
Economic Program:						
Intra-governmental Gross Costs	89	30	13	351	(48)	303
Less: Earned Revenue	(27)	(16)	0	(907)	889	(18)
Intra-governmental Net Costs	62	14	13	(556)	841	285
Gross Costs with the public	548	195	35	5,357	0	5,357
Less: Earned Revenue	(669)	(227)	(1)	(6,098)	0	(6,098)
Net Costs with the public	(121)	(32)	34	(741)	0	(741)
Net Cost: Economic Program	**(59)**	**(18)**	**47**	**(1,297)**	**841**	**(456)**
Security Program:						
Intra-governmental Gross Costs	0	0	0	186	(67)	119
Less: Earned Revenue	0	0	0	(14)	12	(2)
Intra-governmental Net Costs	0	0	0	172	(55)	117
Gross Costs with the public	0	0	0	183	0	183
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	183	0	183
Net Cost: Security Program	**0**	**0**	**0**	**355**	**(55)**	**300**
Management Program:						
Intra-governmental Gross Costs	0	0	0	167	(54)	113
Less: Earned Revenue	0	0	0	(720)	277	(443)
Intra-governmental Net Costs	0	0	0	(553)	223	(330)
Gross Costs with the public	0	0	0	770	0	770
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	770	0	770
Net Cost: Management Program	**0**	**0**	**0**	**217**	**223**	**440**
Net Cost of Treasury Operations	**($59)**	**($18)**	**$94**	**$12,160**	**($141)**	**$12,019**

continued

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

FYE September 30, 2006 Program Costs:	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial Crimes Enforcement Network	Financial Management Service	Internal Revenue Service	U.S. Mint
Economic Program:							
Intra-governmental Gross Costs	$ 0	$ 0	$ 198	$ 0	$ 0	$ 0	$ 0
Less: Earned Revenue	0	0	(706)	0	0	0	0
Intra-governmental Net Costs	0	0	(508)	0	0	0	0
Gross Costs with the public	0	0	2,003	0	0	0	0
Less: Earned Revenue	0	0	(1,026)	0	0	0	0
Net Costs with the public	0	0	977	0	0	0	0
Net Cost: Economic Program	**0**	**0**	**469**	**0**	**0**	**0**	**0**
Financial Program:							
Intra-governmental Gross Costs	83	73	1,617	51	165	3,829	72
Less: Earned Revenue	(6)	(17)	(2,127)	(1)	(136)	(47)	(8)
Intra-governmental Net Costs	77	56	(510)	50	29	3,782	64
Gross Costs with the public	418	236	1,206	49	943	7,869	1,526
Less: Earned Revenue	(471)	(3)	0	0	0	(166)	(1,633)
Net Costs with the public	(53)	233	1,206	49	943	7,703	(107)
Net Cost: Financial Program	**24**	**289**	**696**	**99**	**972**	**11,485**	**(43)**
Management Program:							
Intra-governmental Gross Costs	0	0	158	0	0	0	0
Less: Earned Revenue	0	0	(818)	0	0	0	0
Intra-governmental Net Costs	0	0	(660)	0	0	0	0
Gross Costs with the public	0	0	881	0	0	0	0
Less: Earned Revenue	0	0	0	0	0	0	0
Net Costs with the public	0	0	881	0	0	0	0
Net Cost: Management Program	**0**	**0**	**221**	**0**	**0**	**0**	**0**
Net Cost of Treasury Operations	**$ 24**	**$ 289**	**$ 1,386**	**$ 99**	**$ 972**	**$ 11,485**	**$ (43)**

(continued)

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

FYE September 30, 2006 Program Costs:	Office of the Comptroller of the Currency	Office of the Thrift Supervision	Alcohol, Tobacco Tax and Trade Bureau	Combined Total	Eliminations and Adjustments	9/30/2006 Consolidated
Economic Program:						
Intra-governmental Gross Costs	$ 12	$ 3	$ 13	$ 226	$ (21)	$ 205
Less: Earned Revenue	(3)	(2)	0	(711)	705	(6)
Intra-governmental Net Costs	9	1	13	(485)	684	199
Gross Costs with the public	78	18	35	2,134	0	2,134
Less: Earned Revenue	(96)	(22)	(1)	(1,145)	0	(1,145)
Net Costs with the public	(18)	(4)	34	989	0	989
Net Cost: Economic Program	**(9)**	**(3)**	**47**	**504**	**684**	**1,188**
Financial Program:						
Intra-governmental Gross Costs	62	25	13	5,990	(1,359)	4,631
Less: Earned Revenue	(17)	(12)	0	(2,371)	280	(2,091)
Intra-governmental Net Costs	45	13	13	3,619	(1,079)	2,540
Gross Costs with the public	422	160	36	12,865	0	12,865
Less: Earned Revenue	(517)	(201)	(1)	(2,992)	0	(2,992)
Net Costs with the public	(95)	(41)	35	9,873	0	9,873
Net Cost: Financial Program	**(50)**	**(28)**	**48**	**13,492**	**(1,079)**	**12,413**
Management Program:						
Intra-governmental Gross Costs	0	0	0	158	(52)	106
Less: Earned Revenue	0	0	0	(818)	259	(559)
Intra-governmental Net Costs	0	0	0	(660)	207	(453)
Gross Costs with the public	0	0	0	881	0	881
Less: Earned Revenue	0	0	0	0	0	0
Net Costs with the public	0	0	0	881	0	881
Net Cost: Management Program	**0**	**0**	**0**	**221**	**207**	**428**
Net Cost of Treasury Operations	**$ (59)**	**$ (31)**	**$ 95**	**$ 14,217**	**$ (188)**	**$ 14,029**

20. Additional Information Related to the Combined Statements of Budgetary Resources

Federal agencies are required to disclose additional information related to the Combined Statements 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, 2007 and September 30, 2006 was as follows (in millions):

	2007	2006
Undelivered orders at the end of the period	$ 56,304	$ 51,382
Available borrowing and contract authority at the end of the period	$ 5,716	$ 5,720

Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

	2007	2006
Obligations Incurred		
Direct - Category A	$ 6,525	$ 8,832
Direct - Category B	14,197	13,652
Direct - Exempt from Apportionment	440,277	418,314
Total Direct	**460,999**	**440,798**
Reimbursable - Category B	3,344	3,739
Reimbursable - Exempt from Apportionment	1,187	1,014
Total Reimbursable	**4,531**	**4,753**
Total Direct and Reimbursable	**$ 465,530**	**$ 445,551**

Reconciliation of the President's Budget

The *Budget of the United States* (also known as the President's Budget), with actual numbers for FY 2007, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in January 2008. 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 2006 Performance and Accountability Report and the actual FY 2006 balances included in the FY 2008 President's Budget (PB).

Reconciliation of FY 2006 Combined Statement of Budgetary Resources To the FY 2008 President's Budget (in millions)

	Budgetary Resources	Outlays (net of offsetting collections)	Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources Amounts	$ 503,091	$ 429,595	$ (16,568)	$ 413,027	$ 445,551
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)	55,930	55,930	(25)	55,905	55,930
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	360	360		360	360
Non-Treasury offsetting receipts included in Treasury chapter of PB			188	188	
Treasury offsetting receipts considered to be "General Fund" transaction for reporting purposes (2)			(481)	(481)	
Continued dumping subsidy – U.S. Customs	476	226		226	226
Other	(2)		(31)	(31)	(129)
Subtotal	**56,764**	**56,516**	**(349)**	**56,167**	**56,387**
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)	(39,698)	(3,978)		(3,978)	(10,746)
Offsetting collections net of collections shown in PB	(9,225)		(192)	(192)	
Treasury offsetting receipts shown in other chapters of PB, part of which is in SBR			204	204	
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(1,024)				(40)
Exchange Stabilization Fund resources not shown in PB (4)	(25,732)				(245)
Treasury Financing Accounts (CDFI & ATSB)	(694)	(633)	118	(515)	(670)
IRS user fees and 50% Transfer Accounts and Capital Transfers to General Fund not included in PB	(77)				
Other	(28)	1	(1)		2
Subtotal	**(76,478)**	**(4,610)**	**129**	**(4,481)**	**(11,699)**
Trust Fund – Comptroller of the Currency (OCC) (5)		**111**		**111**	
President's Budget Amounts*	**$ 483,377**	**$ 481,612**	**$ (16,788)**	**$ 464,824**	**$ 490,239**

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 resources relate to Treasury's International Assistance Programs.
4. Exchange Stabilization Fund (ESF) is a self sustaining component that finances its operations with the buying and selling of foreign currencies to regulate the fluctuations of the dollar. Because of the nature of the activities of the component, it does not receive appropriations, and therefore is excluded from the PB.
5. Negative outlay for OCC included in both Analytical Perspectives and the Appendix.

*Per President's Budget for FY 2008 – 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.

21. 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, 2007 and September 30, 2006 (in millions):

	Tax Year				
	2007	**2006**	**2005**	**Pre-2005**	**2007 Collections**
Individual Income and FICA Taxes	$ 1,408,591	$ 750,587	$ 23,861	$ 18,425	$ 2,201,464
Corporate Income Taxes	253,376	116,342	2,938	22,664	395,320
Estate and Gift Taxes	45	16,162	1,571	9,200	26,978
Excise Taxes	49,660	17,807	90	209	67,766
Railroad Retirement Taxes	3,576	1,127	1	14	4,718
Unemployment Taxes	5,198	2,041	51	126	7,416
Federal Reserve Earnings	26,255	5,788	0	0	32,043
Fines, Penalties, Interest & Other Revenue	2,661	423	0	0	3,084
Subtotal	**1,749,362**	**910,277**	**28,512**	**50,638**	**2,738,789**
Less Amounts Collected for Non-Federal Entities					(486)
Total					**$ 2,738,303**

	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**

Amounts reported for Corporate Income Taxes collected in FY 2007 include corporate taxes of $10 billion for tax year 2008. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2006 include corporate taxes of $10 billion for tax year 2007.) Individual Income and FICA Taxes, includes $72 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 2006 are $71 billion in payroll taxes collected from other federal agencies and $12 billion paid by the employers.)

Amounts Provided to Fund the Federal Government

For the fiscal years ended September 30, 2007 and September 30, 2006, collections of custodial revenue transferred to other entities were as follows (in millions):

	2007	2006
Department of Interior	$ 288	$ 250
General Fund	2,445,331	2,283,170
Total	**$ 2,445,619**	**$ 2,283,420**

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, 2007 and September 30, 2006 (in millions):

	Tax Year				
	2007	**2006**	**2005**	**Pre-2005**	**2007 Refunds**
Individual Income and FICA Taxes	$ 1,823	$ 235,151	$ 17,839	$ 6,242	$ 261,055
Corporate Income Taxes	1,241	8,122	4,278	14,509	28,150
Estate and Gift Taxes	0	256	490	223	969
Excise Taxes	416	570	253	1,131	2,370
Railroad Retirement Taxes	0	5	1	7	13
Unemployment Taxes	0	75	16	36	127
Total	**$ 3,480**	**$ 244,179**	**$ 22,877**	**$ 22,148**	**$ 292,684**

	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**

Federal Tax Refunds Payable

As of September 30, 2007 and September 30, 2006, refunds payable to taxpayers consisted of the following (in millions):

	2007	**2006**
Alcohol, Tobacco Tax and Trade Bureau	$ 9	$ 6
Internal Revenue Service	1,675	1,695
Total	**$ 1,684**	**$ 1,701**

22. 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. SFFAS No. 27 "Identifying and Reporting Earmarked Funds" issued by the 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 ESF and the pension and retirement funds managed by the Office of DCP. In addition, several Treasury bureaus operate with "public enterprise revolving funds" and receive no appropriations from the Congress. These bureaus are the BEP, the U.S. Mint, the OCC, and the OTS. Other miscellaneous earmarked funds are managed by the BPD, the DO, the FMS/FMD, and the 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 – D.C. Judicial Retirement
DCP	20X1714	Federal payment – D.C. Federal Pension Fund
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	Gift 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	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
FMS	207/85445	Debt Collection Special Fund
IRS	20X5510	Private Collection Agent Program
TFF	20X5697	Treasury Forfeiture Fund

The ESF uses funds to purchase or sell foreign currencies, to hold U.S. foreign exchange and 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. Note 15 provides detailed information on various funds managed by the Office of DCP.

These Treasury's four non-appropriated bureaus, BEP, Mint, OCC, and OTS, operate "public enterprise funds" account for the revenue and expenses related to the production and sale of numismatic products and circulating bureaus coinage (Mint), the 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 a 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).

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2007

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	FY 2007 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 0	$ 0	$ 439	$ 265	$ 704		$ 704
Investments & Related Interest – Intra-governmental	16,439	3,856	1,124	482	21,901	$ 21,901	0
Cash, Foreign Currency & Other Monetary Assets	21,445	0	0	28	21,473		21,473
Investments & Related Interest	10,040	0	0	0	10,040		10,040
Other Assets	0	45	1,259	90	1,394	10	1,384
Total Assets	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 21,911**	**$ 33,601**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 24	$ 198	$ 222	$ 13	$ 209
Certificates Issued to Federal Reserve Banks	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,627	0	0	0	7,627		7,627
Other Liabilities	51	9,042	592	193	9,878		9,878
Total Liabilities	9,878	9,042	616	391	19,927	13	19,914
NET POSITION:							
Unexpended Appropriations	200	0	0	0	200		200
Cumulative Results of Operations	37,846	(5,141)	2,206	474	35,385		35,385
Total Liabilities and Net Position	**$ 47,924**	**$ 3,901**	**$ 2,822**	**$ 865**	**$ 55,512**	**$ 13**	**$ 55,499**
Statement of Net Cost							
Gross Cost	$ 703	$ 446	$ 2,997	$ 234	$ 4,380	$ 56	$ 4,324
Less Earned Revenue	(3,864)	(160)	(3,120)	0	(7,144)	(1,036)	(6,108)
Total Net Cost of Operations	**$ (3,161)**	**$ 286**	**$ (123)**	**$ 234**	**$ (2,764)**	**$ (980)**	**$ (1,784)**
Cumulative Results of Operations							
Beginning Balance	$34,685	($5,209)	$1,816	$322	$31,614	$0	$31,614
Budgetary Financing Sources	0	354	0	354	708	40	668
Other Financing Sources	0	0	267	32	299	(16)	315
Total Financing Sources	0	354	267	386	1,007	24	983
Net Cost of Operations	3,161	(286)	123	(234)	2,764	980	1,784
Net Change	3,161	68	390	152	3,771	1,004	2,767
Total Cumulative Results of Operations	**$37,846**	**($5,141)**	**$2,206**	**$474**	**$35,385**	**$1,004**	**$34,381**

*The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

Summary Information for Earmarked Funds as of and for the Year ended September 30, 2006

	Exchange Stabilization Fund	D.C. Pensions	Public Enterprise Revolving Funds	Other Earmarked Funds	Combined Earmarked Funds	Eliminations*	FY 2006 Totals
Balance Sheet							
ASSETS:							
Fund Balance	$ 0	$ 0	$ 400	$ 234	$ 634		$ 634
Investments & Related Interest – Intra-governmental	15,736	3,862	993	322	20,913	$ 20,913	0
Cash, Foreign Currency & Other Monetary Assets	19,351	0	0	19	19,370		19,370
Investments & Related Interest	9,278	0	0	0	9,278		9,278
Other Assets	0	48	1,132	61	1,241	7	1,234
Total Assets	**$ 44,365**	**$ 3,910**	**$ 2,525**	**$ 636**	**$ 51,436**	**$ 20,920**	**$ 30,516**
LIABILITIES:							
Intra-governmental Liabilities	$ 0	$ 0	$ 151	$ 178	$ 329	$ 15	$ 314
Certificates Issued to Federal Reserve Banks	2,200	0	0	0	2,200		2,200
Allocation of Special Drawing Rights	7,234	0	0	0	7,234		7,234
Other Liabilities	46	9,119	558	134	9,857		9,857
Total Liabilities	**9,480**	**9,119**	**709**	**312**	**19,620**	**15**	**$19,605**
NET POSITION:							
Unexpended Appropriations	200	0	0	2	202		202
Cumulative Results of Operations	34,685	(5,209)	1,816	322	31,614		31,614
Total Liabilities and Net Position	$ 44,365	$ 3,910	$ 2,525	$ 636	$ 51,436	$ 15	$ 51,421
Statement of Net Cost							
Gross Cost	$ 377	$ 1,069	$ 2,879	$ 184	$ 4,509	$ 46	$ 4,463
Less Earned Revenue	(1,710)	(163)	(2,988)	0	(4,861)	(882)	(3,979)
Total Net Cost of Operations	**$ (1,333)**	**$ 906**	**$ (109)**	**$ 184**	**$ (352)**	**$ (836)**	**$ 484**
Cumulative Results of Operations							
Beginning Balance	$ 33,352	$ (4,596)	$ 1,729	$ 332	$ 30,817	$ 0	$ 30,817
Budgetary Financing Sources	0	293	(11)	159	441	28	413
Other Financing Sources	0	0	(11)	15	4	(21)	25
Total Financing Sources	0	293	(22)	174	445	7	438
Net Cost of Operations	1,333	(906)	109	(184)	352	835	(483)
Net Change	1,333	(613)	87	(10)	797	842	(45)
Total Cumulative Results of Operations	**$ 34,685**	**$ (5,209)**	**$ 1,816**	**$ 322**	**$ 31,614**	**$ 842**	**$ 30,772**

*The eliminations reported above include both inter and intra eliminations for the Earmarked Funds. The total eliminations amount will not agree with the eliminations reported in the Statement of Changes in Net Position, which include eliminations for Other Funds.

23. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations. In previous years this reconciliation was accomplished by presenting the Statement of Financing as a basic financial statement. Effective for fiscal year 2007, the Office of Management and Budget (OMB) and the Chief Financial Officers Council, decided that this reconciliation would be better placed and understood as a footnote rather than a basic statement. For FY 2007, OMB did not prescribe a format for this reconciliation in OMB Circular A-136, *"Financial Reporting Requirements,"* as amended, so that preparers might develop a more robust presentation tailored to their agency. As of September 30, 2007 and September 30, 2006, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2007	2006
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred	$ 465,530	$ 445,551
Less: Spending Authority from Offsetting Collections and Recoveries	(10,237)	(9,683)
Obligations Net of Offsetting Collections and Recoveries	455,293	435,868
Less: Offsetting Receipts	(16,040)	(16,568)
Net Obligations	**439,253**	**419,300**
Other Resources:		
Donations and Forfeiture of Property	73	61
Financing Sources for Accrued & Discount on the Debt	7,632	8,991
Transfers In/Out Without Reimbursement	(24)	(24)
Imputed Financing from Cost Absorbed by Others	740	732
Transfers to the General Fund and Other (Note 18)	(12,293)	(13,879)
Net Other Resources Used to Finance Activities	(3,872)	(4,119)
Total Resources Used to Finance Activities	**435,381**	**415,181**
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	4,788	6,690
Credit Program Collections that Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(94)	(37)
Adjustment to Accrued Interest & Discount on the Debt	4,385	10,496
Other (primarily non-exchange portion of offsetting receipts)	(14,089)	(14,711)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(5,010)	2,438
Total Resources Used to Finance the Net Cost of Operations	**440,391**	**412,743**
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	(18)	564
Total Components of Net Cost of Operations that will not Require or Generate Resources	948	528
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**930**	**1,092**
Net Cost of Operations	**$ 441,321**	**$ 413,835**

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 $21.4 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 $8.8 billion and by appeals is $5.9 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.

Federal Tax Receivable, Net

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, 2007 were as follows (in millions):

Total Unpaid Assessments	$	263,000
Less: Compliance Assessments		(65,000)
Write Offs		(100,000)
Gross Federal Taxes Receivable	**$**	**98,000**
Less: Allowance for Doubtful Accounts		(72,000)
Federal Taxes Receivables, Net	**$**	**26,000**

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling $6 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.

FY 2007 Statement of Budgetary Resources Disaggregated by Sub-organization Accounts (in Millions):

	Bureau of Engraving & Printing	Bureau of the Public Debt	Departmental Offices	Financial 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	9/30/2007 Combined Total
Budgetary Resources											
Unobligated balance brought forward	$ 96	$ 12	$ 55,802	$ 13	$ 249	$ 551	$ (21)	$ 598	$ 238	$ 2	$ 57,540
Recoveries of prior year unpaid obligations		9	124	1	9	182	144		2	3	474
Budget Authority:											
Appropriations		437,706	5,499	73	11,056	10,775				91	465,200
Borrowing authority			11								11
Spending authority from offsetting collections:											
Earned:											
Collected	572	16	6,222	1	198	111	1,863	708	243	3	9,937
Change in receivable from federal sources	6		(18)			1	(55)				(66)
Change in unfilled customer order:											
Advance received	1		13	1			2				17
Without advance from federal sources			(133)		2	6					(125)
Anticipated for rest of year, without advances											
Subtotal	579	437,722	11,594	75	11,256	10,893	1,810	708	243	94	474,974
Non-expenditure transfers, net		(2)	22			5					25
Temporarily not available pursuant to Public Law		(5)	(34)				129				90
Permanently not available		(7,412)	(1,270)		(1,197)	(72)	(172)				(10,123)
Total Budgetary Resources	**$ 675**	**$ 430,324**	**$ 66,238**	**$ 89**	**$ 10,317**	**$ 11,559**	**$ 1,890**	**$ 1,306**	**$ 483**	**$ 99**	**$ 522,980**
Status of Budgetary Resources											
Obligations incurred											
Direct		$ 430,291	$ 9,875	$ 76	$ 9,857	$ 10,807				$ 93	$ 460,999
Reimbursable	$ 563	17	960	2	202	90	$ 1,837	$ 638	$ 219	3	4,531
Subtotal	563	430,308	10,835	78	10,059	10,897	1,837	638	219	96	465,530
Unobligated Balance											
Apportioned	112	4	12,971	8	206	171	53				13,525
Exempt from apportionment		4	31,964		30			668	264		32,930
Subtotal	112	8	44,935	8	236	171	53	668	264		46,455
Unobligated balance not available		8	10,468	3	22	491				3	10,995
Total Status of Budgetary Resources	**$ 675**	**$ 430,324**	**$ 66,238**	**$ 89**	**$ 10,317**	**$ 11,559**	**$ 1,890**	**$ 1,306**	**$ 483**	**$ 99**	**$ 522,980**
Relationship of Obligations to Outlays											
Obligated balance, net											
Unpaid obligations brought forward	$ 101	$ 62	$ 50,598	$ 20	$ 257	$ 1,532	$ 309	$ 118	$ 40	$ 20	$ 53,057
Uncollected customer payments from Federal sources brought forward	(33)	(1)	(456)		(37)	(15)	(62)	(4)		(1)	(609)
Total unpaid obligated balance, net	68	61	50,142	20	220	1,517	247	114	40	19	52,448
Obligations incurred, net	563	430,308	10,835	78	10,059	10,897	1,837	638	219	96	465,530
Gross Outlays	(561)	(430,303)	(5,872)	(80)	(9,974)	(10,806)	(1,792)	(605)	(216)	(93)	(460,302)
Recoveries of prior year unpaid obligations, actual		(9)	(124)	(1)	(9)	(182)	(144)		(2)	(3)	(474)
Change in uncollected customer payments from federal sources	(6)	(1)	152	(1)	(2)	(7)	56				191
Obligated balance net, end of period											
Unpaid obligations	102	57	55,442	16	332	1,440	209	152	42	19	57,811
Uncollected customer payments from federal sources	(39)	(1)	(307)		(39)	(22)	(6)	(4)			(418)
Total unpaid obligated balance, net, end of period	63	56	55,135	16	293	1,418	203	148	42	19	57,393
Net Outlays											
Gross outlays	561	430,303	5,872	80	9,974	10,806	1,792	605	216	93	460,302
Offsetting collections	(572)	(16)	(4,475)	(1)	(198)	(111)	(1,865)	(708)	(243)	(3)	(8,192)
Distributed offsetting receipts		(13,773)	(565)		(1,545)	(157)					(16,040)
Net Outlays	**$ (11)**	**$ 416,514**	**$ 832**	**$ 79**	**$ 8,231**	**$ 10,538**	**$ (73)**	**$ (103)**	**$ (27)**	**$ 90**	**$ 436,070**

* The difference between U.S. Mint's balances reported above and U.S. Mint's Statement of Budgetary Resources is due to immaterial year-end adjustments by the U.S. Mint.

Deferred Maintenance

In FY 2007, the Department had no material amounts of deferred maintenance to report on vehicles, buildings, and structures owned by the Department.

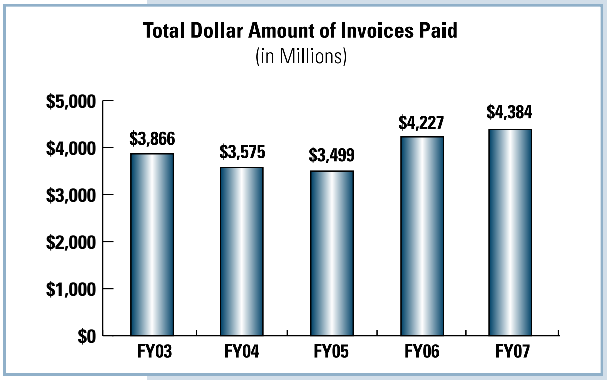
Treasury bureaus use a specific methodology in determining deferred maintenance. Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, building, and other structure logistics reports can be used under these methodologies.

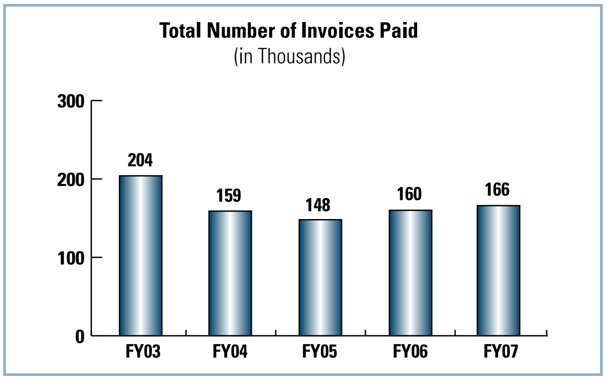
Other Accompanying Information (Unaudited)

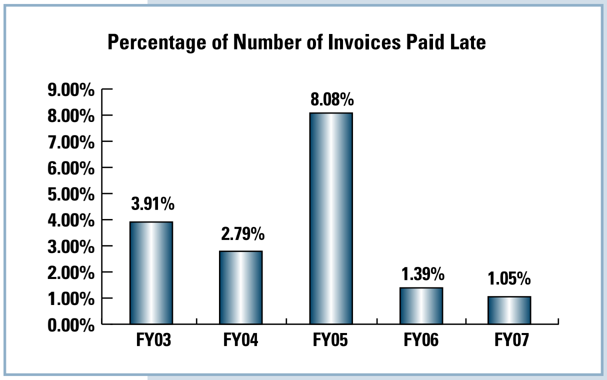
This section provides Other Accompanying Information as prescribed by OMB Circular A-136, *"Financial Reporting. Requirements"*

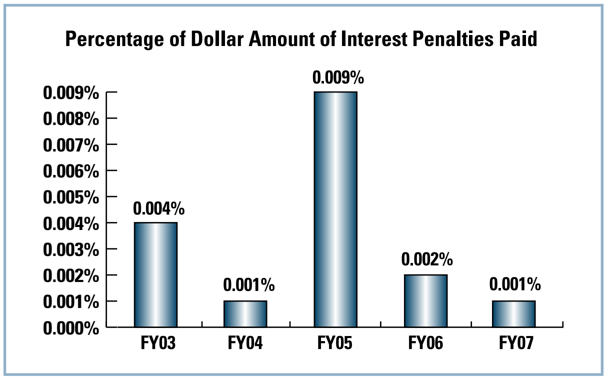
Prompt Payment

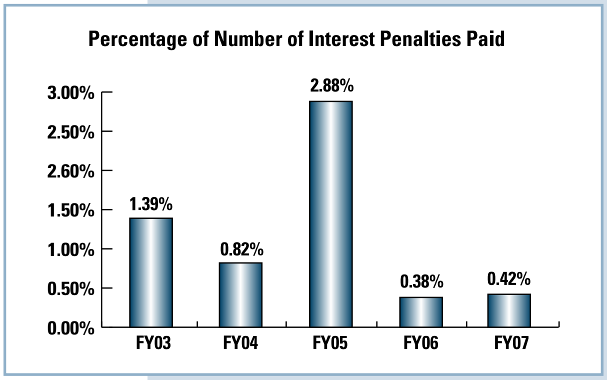
The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a monthly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems. The amount of interest penalties decreased in FY 2007.











Tax Gap

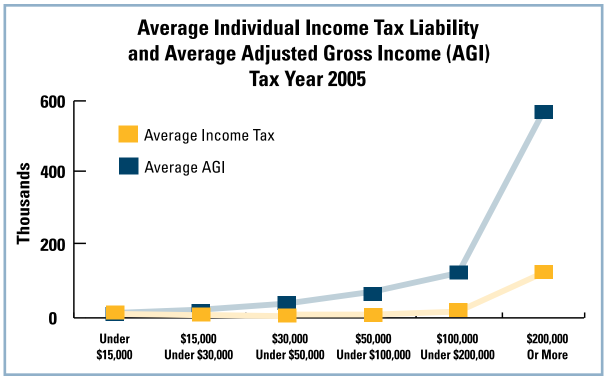
Reducing the tax gap is at the heart of IRS' enforcement programs. The tax gap is the difference between what taxpayers should pay and what they actually pay due to not filing tax returns, not paying their reported tax liability on time, or failing to report their correct tax liability. The tax gap, about $345 billion based on updated FY 2007 estimates, represents the amount of noncompliance with the tax laws. Underreporting tax liability accounts for 82% of the gap, with the remainder almost evenly divided between non-filing (8%) and underpaying (10%). 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.

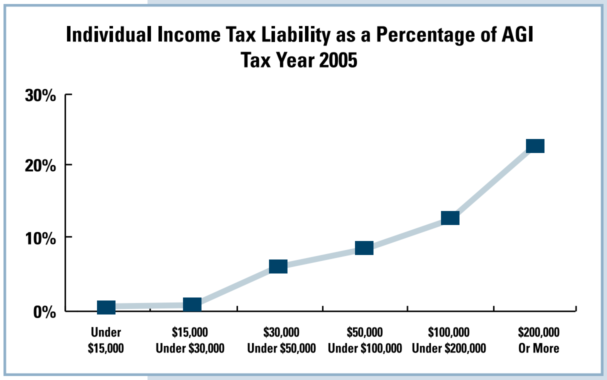
The tax gap is the aggregate amount of tax (i.e., excluding interest and penalties) that is imposed by the tax laws for any given tax year but is not paid voluntarily and timely. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the non-filing 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 IRS 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 IRS' 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.

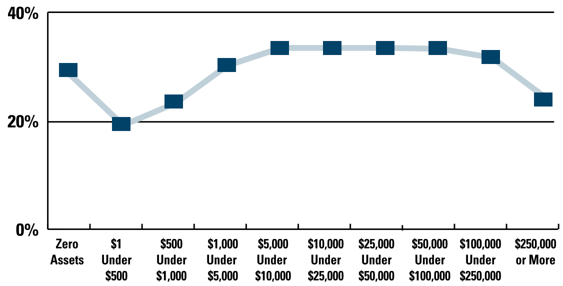




Individual Income Tax Liability
Tax Year 2005

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000	36,889	$ 197,723	$ 3,239	$ 5,360	$ 88	1.6%
$15,000 under $30,000	29,739	655,562	23,308	22,044	784	3.6%
$30,000 under $50,000	24,596	961,071	60,187	39,075	2,447	6.3%
$50,000 under $100,000	28,867	2,033,408	179,382	70,441	6,214	8.8%
$100,000 under $200,000	10,831	1,434,585	190,599	132,452	17,598	13.3%
$200,000 or more	3,541	2,081,299	471,549	587,772	133,168	22.7%
Total	**134,463**	**$ 7,363,648**	**$ 928,264**			

Corporation Tax Liability as a Percentage of Taxable Income
Tax Year 2004



Corporation Tax Liability
Tax Year 2004

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	$ 15,385	$ 4,076	26.5%
$1 under $500	8,436	1,536	18.2%
$500 under $1,000	4,081	960	23.5%
$1,000 under $5,000	12,215	3,519	28.8%
$5,000 under $10,000	7,562	2,446	32.3%
$10,000 under $25,000	10,694	3,511	32.8%
$25,000 under $50,000	10,076	3,282	32.6%
$50,000 under $100,000	12,037	3,918	32.5%
$100,000 under $250,000	23,779	7,529	31.7%
$250,000 or more	753,124	193,658	25.7%
Total	**$ 857,389**	**$ 224,435**	**26.2%**