United States Government Notes to the Financial Statements for the Years Ended September 30, 2005, and September 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

Material intragovernmental transactions are eliminated in consolidation, except as described in Note 17—Unreconciled Transactions Affecting the Change in Net Position. The financial reporting period ends September 30 and is the same as used for the annual budget.

B. Basis of Accounting and Revenue Recognition

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

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

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

C. Direct Loans and Loan Guarantees

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

the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees.

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

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

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

D. Accounts and Taxes Receivable

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

The category taxes receivable consists primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed the amounts are owed, or a court has determined the assessments are owed. The balance sheets do not include unpaid assessments when neither taxpayers nor a court have agreed that the amounts are owed (compliance assessments) or the Government does not expect further collections due to factors such as the taxpayer’s death, bankruptcy, or insolvency (writeoffs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible.

E. Inventories and Related Property

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

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

F. Property, Plant, and Equipment

Property, plant, and equipment used in Government operations are carried at cost. Depreciation and amortization expense applies to property, plant, and equipment reported on the balance sheets except for land, unlimited duration land rights and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and is depreciated.

G. Federal Employee and Veteran Benefits Payable

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

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

H. Environmental and Disposal Liabilities

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

I. Deferred Maintenance

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

J. Contingent Liabilities

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

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

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

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may have been incurred, are disclosed in Note 19—Contingencies.

K. Commitments

In the normal course of business, the Government has a number of unfulfilled commitments that may require the use of its financial resources. Note 20—Commitments describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

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

L. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Stewardship Information section on Stewardship Responsibilities, and Note 21—Dedicated Collections.

M. Related Party Transactions

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depositary and fiscal agent. They process Federal payments and deposits to Treasury's account and service Treasury securities. FRBs owned $732.7 billion and $698.0 billion of Treasury securities held by the public as of September 30, 2005, and 2004, respectively. FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled $19.3 billion and $19.7 billion for the years ended September 30, 2005, and 2004, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, as described in Note 15—Other Liabilities, the FRB holds certificates and special drawing rights certificates.

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

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

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30

(In billions of dollars)	2005	2004
Operating cash	28.3	31.0
Other cash-not restricted	10.1	9.3
Other cash-restricted	4.5	4.0
Total cash	42.9	44.3
International monetary assets	32.0	41.5
Gold	10.9	10.9
Domestic monetary assets	-	0.3
Total cash and other monetary assets	85.8	97.0

Cash

Total cash consists of:

- Operating cash of the Government representing balances from tax collections; customs duties; other revenues; Federal debt receipts; and other various receipts, net of checks outstanding, which are held in the FRBs and in Treasury tax and loan accounts.
- Other cash representing the balances of cash equivalents and other funds held in agencies' books, such as demand deposits, amounts held in trust, deposits in transit, imprest funds, undeposited collections, and amounts

representing the balances of petty cash. Restricted cash represents cash that is restricted due to the imposition on cash deposits by law, regulation, or agreement.

Operating cash and the other cash of the Government are either insured (for balances up to $100,000) by the Federal Deposit Insurance Corporation (FDIC), or collateralized by securities pledged by financial institutions.

International Monetary Assets

International monetary assets include the U.S. reserve position in the International Monetary Fund (IMF), U.S. holdings of Special Drawing Rights (SDRs), and official reserves of foreign currency and gold.

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

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

The balance available under the letter of credit totaled $40.4 billion and $35.0 billion for the years ended September 30, 2005, and 2004, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $13.2 billion and $19.4 billion for the years ended September 30, 2005, and 2004, respectively.

SDRs are international monetary reserves issued by the IMF. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling $8.2 billion and $12.8 billion equivalent for the years ended September 30, 2005, and 2004, respectively.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. The SDR Act of 1968 authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled $2.2 billion for the years ended September 30, 2005, and 2004, and are included in Note 15—Other Liabilities.

As of September 30, 2005, and 2004, other liabilities included $7.1 billion and $7.2 billion, respectively, of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations that occurred in 1970, 1971, 1972, 1979, 1980, and 1981.

Gold

Gold is valued at the statutory price of $42.2222 per fine troy ounce. The number of fine troy ounces was 258,713,310 as of September 30, 2005, and 2004. The market value of gold on the London Fixing as of the reporting date was $473 and $416 per fine troy ounce for the years ended September 30, 2005, and 2004, respectively. Gold totaling $10.9 billion for the years ending September 30, 2005, and 2004, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time. See Note 15—Other Liabilities.

Domestic Monetary Assets

Domestic monetary assets consist of liquid assets, other than cash, that are based on the U.S. dollar, including coins, silver bullion, and other coinage metals.

Note 3. Accounts and Taxes Receivable, Net

Accounts receivable includes related interest receivable of $4.8 billion and $6.2 billion for the years ended September 30, 2005, and 2004, respectively, and represents claims to cash or other assets from entities outside the Government. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection. Accounts receivable are net of an allowance for uncollectible accounts. The allowance amounts are $13.2 billion and $16.7 billion for the years ended September 30, 2005 and 2004, respectively.

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

Accounts and Taxes Receivable as of September 30

(In billions of dollars)	2005	2004
Department of Agriculture	9.4	2.5
Department of Defense	7.6	7.5
Social Security Administration	7.0	6.2
Department of Energy	4.0	4.0
Department of the Interior	2.7	1.3
Department of Health and Human Services	2.1	2.1
Pension Benefit Guaranty Corporation	1.7	2.5
Tennessee Valley Authority	1.1	1.0
Department of Labor	1.0	1.1
Office of Personnel Management	0.9	0.9
All other departments	6.2	6.0
Accounts receivable, net	43.7	35.1
Gross taxes receivable	90.7	91.4
Allowance for doubtful accounts	(68.3)	(70.1)
Taxes receivable, net	22.4	21.3
Total accounts and taxes receivable, net	66.1	56.4

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

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

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

Direct Loans and Loan Guarantees as of September 30

(In billions of dollars)	Face Value of Loans Outstanding 2005	Face Value of Loans Outstanding 2004	Long-term Cost of Loans and Guarantees Outstanding 2005	Long-term Cost of Loans and Guarantees Outstanding 2004	Net Loans Receivable 2005	Net Loans Receivable 2004	Amount Guaranteed by the Government 2005	Amount Guaranteed by the Government 2004	Subsidy Expense for the Fiscal Year Ended September 30 2005	Subsidy Expense for the Fiscal Year Ended September 30 2004
Direct Loan Programs:										
Federal Direct Student Loans	97.7	92.1	2.0	(1.6)	95.7	93.7			5.2	(0.6)
Electric loans-USDA	30.2	27.5	2.2	(2.2)	28.0	29.7			(0.1)	(0.1)
Rural Housing Service	26.8	26.5	6.0	6.8	20.8	19.7			(0.5)	0.2
Federal Family Education Loan	20.2	20.0	8.5	9.3	11.7	10.7			-	-
Water and Environmental Loans-USDA	8.3	6.0	0.8	0.7	7.5	5.3			-	-
Export Loans-USDA	11.7	15.8	4.7	7.7	7.0	8.1			(0.3)	(0.1)
Housing for the Elderly and Disabled	6.5	9.7	(0.1)	2.6	6.6	7.1			-	-
Farm Loans-USDA	6.9	7.4	0.6	0.5	6.3	6.9			0.1	(0.1)
Export-Import Bank Loans	8.4	13.2	2.9	5.5	5.5	7.7			-	-
U.S. Agency for International Development	7.7	8.7	2.6	2.5	5.1	6.2			-	-
Housing and Urban Development	4.0	13.2	(0.1)	9.3	4.1	3.9			0.4	-
Telecommunications Loans-USDA	4.1	4.4	0.1	0.1	4.0	4.3			-	-
All Other Direct Loan Programs	25.3	21.4	5.8	3.8	19.5	17.6			0.2	0.1
Total	257.8	265.9	36.0	45.0	221.8	220.9			5.0	(0.6)
Guaranteed Loan Programs:										
Federal Family Education Loans	289.2	245.3	30.4	23.3			288.1	240.6	9.8	9.0
Federal Housing Administration Loans, HUD	454.3	509.7	4.6	5.2			416.4	471.4	1.2	(2.9)
Veterans Housing Benefit Program	202.1	207.4	3.5	4.7			62.1	64.7	(1.5)	0.2
Export-Import Bank Guarantees	50.9	47.5	2.3	3.1			50.9	47.5	0.2	0.3
Small Business Loans	73.3	67.5	2.1	2.5			61.1	56.4	(0.3)	0.1
Israeli Loan Guarantee Program, AID	13.0	12.3	1.1	0.8			13.0	12.3	0.2	-
Overseas Private Investment Corporation Credit Program	3.6	3.7	0.6	0.7			3.6	3.7	-	-
Rural Housing Service	14.8	13.6	0.6	0.4			13.3	12.2	0.1	0.1
Air Transportation Stabilization Board	0.9	1.3	0.6	0.7			0.8	1.1	-	-
Federal Ship Financing Fund	3.1	3.4	0.4	0.4			3.1	3.4	-	-
Business and Industry Loans	4.2	4.2	0.4	0.3			3.1	3.1	0.1	-
Export Credit Guarantee Programs	4.2	5.0	0.3	0.2			4.1	4.8	(0.3)	0.1
All Other Guaranteed Loan Programs	20.2	16.2	0.8	0.8			18.6	15.2	(0.1)	0.7
Total	1,133.8	1,137.1	47.7	43.1			938.2	936.4	9.4	7.6

Net loans receivable includes related interest and foreclosed property, and is included in the assets section of the balance sheets.

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

Major Loan Programs

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

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

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

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

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

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

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

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

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

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

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

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

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

Other loan programs include the Small Business Administration general business loan guarantees and disaster loans; and the Farm Service Agency's farm ownership, emergency, and disaster loans.

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

Note 5. Inventories and Related Property, Net

Inventories and Related Property as of September 30

(In billions of dollars)	Defense 2005	All Others 2005	Total 2005	Defense 2004	All Others 2004	Total 2004
Inventory purchased for resale	80.0	0.6	80.6	76.0	0.7	76.7
Inventory held in reserve for future sale	-	-	-	-	0.1	0.1
Inventory and operating material and supplies held for repair	45.3	0.4	45.7	48.1	0.3	48.4
Inventory—excess, obsolete, and unserviceable	6.8	-	6.8	5.4	0.1	5.5
Operating materials and supplies held for use	126.3	5.2	131.5	127.8	4.8	132.6
Operating materials and supplies held in reserve for future use	-	0.2	0.2	-	0.2	0.2
Operating materials and supplies—excess, obsolete, and unserviceable	3.7	(0.3)	3.4	3.1	-	3.1
Stockpile materials	0.1	42.2	42.3	0.1	41.2	41.3
Stockpile materials held for sale	1.2	0.3	1.5	1.4	-	1.4
Other related property	0.9	1.2	2.1	1.1	1.8	2.9
Total allowance for inventories and related property	(41.7)	(0.4)	(42.1)	(49.8)	(0.9)	(50.7)
Total inventories and related property, net	222.6	49.4	272.0	213.2	48.3	261.5

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

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. DOD, which accounts for nearly all of the inventory purchased for resale in the Government, generally uses the Latest Acquisition Cost (LAC) method, which is revalued for holding gains and losses. DOD is transitioning their inventory to the moving average cost (MAC) method to be compliant with SFFAS No. 3 and approximately 35% of their inventory is now reported using MAC.

Inventory held in reserve for future sale is inventory not readily available, or inventory that will be needed in the future.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economic to repair than to dispose of (operating materials and supplies).

Inventory—excess, obsolete, and unserviceable:

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

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

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

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

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

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

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

Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, and stockpile materials that are authorized to be sold. The majority of the amount reported by the DOD is stockpile materials held for sale, and the amount reported in all others is stockpile materials held in reserve, with the majority of it being reported by the Department of Energy (DOE).

Other related property:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices.
- Seized monetary instruments are comprised of only monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the Government, such as real property and tangible personal property, is not included as a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.
- Other property not classified above.

Note 6. Property, Plant, and Equipment, Net

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

Property, Plant, and Equipment as of September 30, 2005

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions of dollars)	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	163.9	172.7	95.4	87.3	68.5	85.4
Furniture, fixtures, and equipment	1,266.4	121.7	908.8	71.1	357.6	50.6
Construction in progress	20.3	44.0	N/A	N/A	20.3	44.0
Land	10.5	10.7	N/A	N/A	10.5	10.7
Automated data processing software	7.9	7.4	4.4	2.7	3.5	4.7
Assets under capital lease	0.6	1.6	0.4	0.5	0.2	1.1
Leasehold improvements	0.3	4.0	0.1	2.3	0.2	1.7
Other property, plant, and equipment	0.2	49.3	-	30.1	0.2	19.2
Subtotal	1,470.1	411.4	1,009.1	194.0	461.0	217.4
Total property, plant, and equipment, net		1,881.5		1,203.1		678.4

Property, Plant, and Equipment as of September 30, 2004

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions of dollars)	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	159.4	165.1	91.5	80.1	67.9	85.0
Furniture, fixtures, and equipment	1,192.4	112.7	852.1	66.8	340.3	45.9
Construction in progress	19.6	40.0	N/A	N/A	19.6	40.0
Land	10.1	16.7	N/A	N/A	10.1	16.7
Automated data processing software	6.1	5.8	3.6	2.0	2.5	3.8
Assets under capital lease	0.6	1.7	0.4	0.5	0.2	1.2
Leasehold improvements	0.1	3.7	0.1	2.0	-	1.7
Other property, plant, and equipment	0.1	46.5	-	28.8	0.1	17.7
Subtotal	1,388.4	392.2	947.7	180.2	440.7	212.0
Total property, plant, and equipment, net		1,780.6		1,127.9		652.7

For physical quantity information related to the multiuse heritage assets, refer to agency supplemental stewardship reporting for heritage assets.

The National Aeronautics and Space Administration's (NASA) property, plant, and equipment has been reclassified for fiscal year 2004 in fiscal year 2005. They reclassified approximately $40.5 billion from furniture, fixtures, and equipment to other property, plant, and equipment ($38.0 billion) and to building, structures, and facilities ($2.5 billion) for its theme assets. The theme assets consist of property, plant, and equipment specifically designed for use in a NASA program and includes special tooling, special test equipment, the Space Shuttle, and other configurations of spacecraft: engines, unlaunched satellites, rockets, and other scientific components unique to the space program.

Note 7. Securities and Investments

Securities and Investments as of September 30

(In billions of dollars)	2005	2004
Securities and investments:		
Pension Benefit Guaranty Corporation	30.8	13.8
NRRIT[1]	26.1	24.6
Exchange Stabilization Fund	9.4	10.9
All other	9.0	7.8
Total securities and investments	75.3	57.1

[1] For more information, see Railroad Retirement in the Stewardship Information section (page 66).

These securities and investments do not include nonmarketable Treasury securities, which have been eliminated in consolidation. They are presented at cost, net of unamortized premiums and discounts. The Pension Benefit Guaranty Corporation (PBGC) invests primarily in fixed maturity and equity securities. As discussed in the Stewardship Information section of this report, the NRRIT manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program, a social insurance program. Treasury's Exchange Stabilization Fund invests primarily in foreign currency, bonds, and bills.

Note 8. Other Assets

Other Assets as of September 30

(In billions of dollars)	2005	2004
Advances and prepayments	32.8	27.0
Other	23.9	24.7
Total other assets	56.7	51.7

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

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

Note 9. Accounts Payable

Accounts Payable as of September 30

(In billions of dollars)	2005	2004
Department of Defense	28.6	28.4
Pension Benefit Guaranty Corporation	9.3	1.2
Department of Agriculture	4.3	3.4
Department of Homeland Security	3.3	2.8
Agency for International Development	3.2	2.0
U.S. Postal Service	2.3	2.5
General Services Administration	2.1	2.3
National Aeronautics and Space Administration	2.1	2.0
Department of Justice	1.9	2.1
Department of Energy	1.4	1.3
Department of State	1.3	1.2
Department of Labor	1.1	1.0
Department of the Interior	1.0	0.6
Department of Housing & Urban Development	0.8	0.8
Tennessee Valley Authority	0.8	0.9
All other departments	4.4	7.6
Total accounts payable	67.9	60.1

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

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

Definitions of Debt

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

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

Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2004	Net Change During Fiscal Year 2005	Balance September 30, 2005	Average Interest Rate 2005	Average Interest Rate 2004
Treasury Securities (Public):					
Marketable securities:					
Treasury bills	961.5	(51.2)	910.3	3.4%	1.6%
Treasury notes	2,109.6	218.6	2,328.2	3.7%	3.5%
Treasury bonds	551.9	(31.4)	520.5	7.9%	8.0%
Treasury inflation-protected securities (TIPS)	223.0	84.0	307.0	2.4%	2.8%
Total marketable Treasury securities	3,846.0	220.0	4,066.0		
Nonmarketable securities	461.5	73.7	535.2	4.9%	5.1%
Net unamortized premium/ (discounts)	(34.8)	(0.7)	(35.5)		
Total Treasury securities, net (public)	4,272.7	293.0	4,565.7		
Agency Securities:					
Tennessee Valley Authority	23.3	(0.4)	22.9		
All other agencies	0.7	(0.4)	0.3		
Total agency securities, net of unamortized premiums and discounts	24.0	(0.8)	23.2		
Accrued interest payable	32.7	2.6	35.3		
Total Federal debt securities held by the public and accrued interest	4,329.4	294.8	4,624.2		

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

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

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

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

Section 3111 of Title 31, United States Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government. There were no buyback operations in fiscal years 2005 and 2004.

As of September 30, 2005, and 2004, respectively, $7,871.0 billion and $7,333.4 billion of debt were subject to a statutory limit (31 U.S.C. § 3101). That limit was $8,184.0 billion as of September 30, 2005, and $7,384.0 billion as of September 30, 2004. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of Federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the table below).

Intragovernmental debt holdings represent the portion of the gross Federal debt held as investments by Government entities. This includes major trust funds. For more information on trust funds, see Note 21─Dedicated Collections. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

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

(In billions of dollars)	Balance 2004	Net Change During Fiscal Year 2005	Balance 2005
Social Security Administration, Federal Old-Age and Survivors Insurance	1,452.6	163.5	1,616.1
Office of Personnel Management, Civil Service Retirement and Disability	631.9	28.9	660.8
Department of Health and Human Services, Federal Hospital Insurance	264.4	12.9	277.3
Social Security Administration, Federal Disability Insurance	182.8	10.5	193.3
Department of Defense, Military Retirement Fund	177.3	-	177.3
Department of Labor, Unemployment	45.2	9.6	54.8
Department of Defense, Medicare-Eligible Retiree Health Care Fund	35.9	17.0	52.9
Federal Deposit Insurance Corporation Funds	47.0	1.2	48.2
Housing and Urban Development, Federal Housing	23.3	(0.7)	22.6
Office of Personnel Management, Employees' Life Insurance	28.1	1.4	29.5
Department of Energy, Nuclear Water Disposal	30.5	3.0	33.5
Department of Health and Human Services, Federal Supplementary Medical Insurance	17.4	(0.2)	17.2
Department of Treasury, Exchange Stabilization Fund	10.3	4.9	15.2
Department of State, Foreign Services Retirement and Disability Fund	12.9	0.5	13.4
Department of Veterans Affairs, National Service Life Insurance Fund[1]	10.9	(0.3)	10.6
Pension Benefit Guaranty Corporation Fund	13.2	(0.2)	13.0
Office of Personnel Management, Employees Health Benefits	10.7	1.8	12.5
Department of Transportation, Airport and Airway Trust Fund	9.9	0.1	10.0
Department of Transportation, Highway Trust Fund	10.2	(1.9)	8.3
All other programs and funds	57.2	7.8	65.0
Subtotal	3,071.7	259.8	3,331.5
Unamortized net (discounts)/premiums	(0.6)	15.3	14.7
Total intragovernmental debt holdings, net	3,071.1	275.1	3,346.2

[1] This line now only reflects activity for the National Service Life Insurance Fund. Other Department of Veterans Affairs funds that were included on this line in the fiscal year 2004 Report are now included in the all other programs funds line of this table.

Note 11. Federal Employee and Veteran Benefits Payable

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

The Federal Government administers more than 40 pension plans. OPM administers the largest civilian plan. DOD, meanwhile, administers the largest military plan. Other significant pension plans with more than $10 billion in accrued benefits payable include those of the Coast Guard and the Foreign Service. The changes in the accrued post-retirement pension and health benefit liability and components of related expense for the years ended September 30, 2005, and 2004, respectively, are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

	Civilian		Military		Total	
(In billions of dollars)	2005	2004	2005	2004	2005	2004
Pension and accrued benefits	1,273.8	1,230.2	895.4	837.7	2,169.2	2,067.9
Post-retirement health and accrued benefits	290.7	266.1	833.9	725.3	1,124.6	991.4
Veterans compensation and burial benefits	N/A	N/A	1,122.6	924.8	1,122.6	924.8
Liability for other benefits	48.5	54.4	26.9	23.6	75.4	78.0
Total Federal employee and veteran benefits payable	1,613.0	1,550.7	2,878.8	2,511.4	4,491.8	4,062.1

Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued pension liability as of September 30, 2004	1,230.2	837.7	2,067.9
Pension Expense:			
Normal costs	26.5	15.1	41.6
Plan amendment changes	-	25.8	25.8
Assumption changes	0.2	4.9	5.1
Interest on liability	75.5	51.4	126.9
Prior (and past) service cost	(0.2)	-	(0.2)
Actuarial (gains)/losses	(1.5)	(0.8)	(2.3)
Total pension expense	100.5	96.4	196.9
Less benefits paid	56.9	38.7	95.6
Actuarial accrued pension liability as of September 30, 2005	1,273.8	895.4	2,169.2

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

(In percentages)	Civilian 2005	Civilian 2004	Military 2005	Military 2004
Rate of interest	6.25%	6.25%	6.25%	6.25%
Rate of inflation	3.25%	3.25%	3.00%	3.00%
Projected salary increases	4.00%	4.00%	3.75%	3.75%

Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 2004	266.1	725.3	991.4
Post-Retirement Health Benefits Expense:			
Normal costs	15.0	18.3	33.3
Interest on liability	16.9	45.5	62.4
Assumption change liability	-	53.6	53.6
Other actuarial (gains)/losses	3.4	5.4	8.8
Total post-retirement health benefits expense	35.3	122.8	158.1
Less claims paid	10.7	14.2	24.9
Actuarial accrued post-retirement health benefits liability, as of September 30, 2005	290.7	833.9	1,124.6

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

(In percentages)	Civilian 2005	Civilian 2004	Military 2005	Military 2004
Rate of interest	6.25%	6.25%	6.25%	6.25%
Rate of health care cost inflation	7.00%	7.00%	6.25%	6.25%

Separate boards of actuaries for OPM and DOD determine the actuarial assumptions used in calculating the pension liability and the post-retirement health benefit liability for the civilian and military personnel. Both boards use generally accepted actuarial methodologies. The board for OPM uses a fixed rate of inflation and projected salary increases over all years for both the pension and post-retirement health benefit liabilities. These rates are shown in the tables above. The board for DOD uses a range of rates for the inflation and the projected salary increases, with an ultimate rate for the long term. The board for DOD also uses different health care cost inflation rates for inpatient, outpatient, and prescription drugs. The long-term ultimate rate is shown in the tables above.

The long-term ultimate rate for fiscal year 2005 of 6.25 percent is shown in the tables above. For disclosure and comparison purposes, DOD's estimate of a single equivalent fixed rate of health care cost inflation for fiscal year 2005 is 7.8 percent, which is an approximation of the single equivalent rate that would produce that same actuarial liability as the actual rates used.

Civilian Employees

Pensions

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

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the General Fund, and interest on investments in Treasury securities. See Note 21—Dedicated Collections.

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

Treasury securities held in the G-Fund are included and classified as Treasury securities held by the public. FERS employees may contribute up to 15 percent of base pay to the plan, which the Government matches up to 5 percent. CSRS employees may contribute up to 10 percent of base pay with no Government match.

The G-Fund held $63.5 billion and $56.4 billion in nonmarketable Treasury securities on September 30, 2005, and 2004, respectively. The Federal Government's related liability is included in total Federal debt securities held by the public and accrued interest in the balance sheets.

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

Health Benefits

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

Other Benefits

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

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The National Defense Authorization Act increased survivor benefits in fiscal year 2005 resulting in a $25.8 billion increase in pension liability.

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

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to the Departments of the Army, Navy, Air Force, and Marine Corps. This system includes nondisability retirement pay, disability retirement pay, and retirement pay for reserve service and survivor annuity programs.

Military personnel (Army, Navy, Marine Corps, and Air Force) who remain on active duty for 20 years or longer are eligible for retirement. There are three different retirement systems that are currently being used by the military: Final Pay, High-3 Year Average, and the Military Retirement Reform Act of 1986 (REDUX). The date each individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system.

Final Pay Retirement System: Final Pay applies to individuals who entered the Service before September 8, 1980. Each year of service is worth 2.5 percent towards the retirement multiplier. The longer an individual stays on active duty, the higher the multiplier and the higher the retirement income, up to the maximum of 75 percent. This multiplier is applied against the final basic pay of the individual's career. A cost of living adjustment (COLA) is given annually based on the increase in the CPI.

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

CSB/REDUX Retirement System: The REDUX applies to those who entered the Service on or after August 1, 1986, and who elected to receive the $30,000 CSB at their 15^{th} year of service. Under the CSB/REDUX retirement system, each of the first 20 years of service is worth 2 percent towards the retirement multiplier and each year after 20 years of service is worth 3.5 percent. The retirement multiplier under this retirement system is applied against the average basic pay for the highest 36 months of the individual's basic pay. A COLA is given annually based on the increase in the CPI minus 1 percent. Members retiring under CSB/REDUX receive a one-time catchup at age 62 that restores the retired pay to what it would have been at that point had the member retired under High-3 Year Average. Thereafter, CSB/REDUX members receive reduced (i.e., based on the increase in the CPI minus 1 percent) COLAs for life.

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

Health Benefits

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

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

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

In addition to the health care benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. VA recognizes the medical care expenses in the period the medical care services are provided. For the time period 2001-2005, the average medical cost per year was $24.1 billion.

Veterans Compensation and Burial Benefits

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

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

The liability for veteran's compensation and burial benefits payable increased by $197.8 billion in fiscal year 2005 and decreased by $30 billion in fiscal year 2004. The primary factors contributing to these fluctuations were changes in interest rates and other actuarial assumptions; various assumptions in the actuarial model, such as the number of veterans and dependents receiving payments; and life expectancy.

Veterans Compensation and Burial Benefits as of September 30

(In billions of dollars)	2005	2004
Veterans	925.4	775.3
Survivors	193.4	146.2
Burial benefits	3.8	3.3
Total compensation and burial benefits payable	1,122.6	924.8

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

(In percentages)	2005	2004
Rate of interest	3.93%	2.00%
Rate of inflation	3.60%	2.70%

Other Benefits

Veterans insurance includes the following programs:

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

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amounts of future payments for pension benefits as of September 30, 2005, and 2004 were $96.8 and $102.2 billion, respectively.

Note 12. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2005	2004
Department of Energy:		
Environmental management facilities	121.4	112.8
Active and surplus facilities	26.0	30.4
Long-term stewardship	17.5	17.5
High-level waste and spent nuclear fuel	15.1	14.9
All other Energy environmental liabilities	9.8	6.1
Total Department of Energy	189.8	181.7
Department of Defense:		
Environmental restoration	36.0	37.0
Disposal of Weapon Systems Program	23.2	22.3
Base realignment and closure	4.1	4.0
Other	1.7	1.0
Total Department of Defense	65.0	64.3
All other agencies	5.0	3.2
Total environmental and disposal liabilities	259.8	249.2

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

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

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

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

Estimated cleanup costs at sites for which there are no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. Significant projects not included are:

- Nuclear explosion test areas (e.g., Nevada test site).
- Large surface water bodies (e.g., Clinch and Columbia Rivers).
- Most ground water (even with treatment, future use will be restricted).

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental management program will depend on a number of fundamental technical and policy choices to be made in the future. The sites and facilities could be restored to a pristine condition suitable for any desirable use, or could be restored to a point where they pose no near-term health risks. Achieving pristine conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. DOE is also required to recognize closure and post closure costs for its general property, plant, and equipment and environmental corrective action costs for current operations.

The cleanup cost associated with general property, plant, and equipment that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. The DOE unrecognized portion of the cleanup cost associated with general property, plant, and equipment is $440 million and $357 million for fiscal years 2005 and 2004, respectively. The unrecognized portion of the cleanup cost is recognized over a predetermined period of time.

DOD is required to clean up contamination resulting from waste disposal practices, leaks, spills, and other activities that have created a public health or environmental risk. DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as defense sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines). DOD is responsible, as well, for training range and other nonrange unexploded ordnance cleanup.

DOD is required by law to adhere to CERCLA and the Superfund Amendment and Reauthorization Act to clean up contamination resulting from past waste disposal practices, leaks, spills, and other activities which have created a risk to public health or the environment. The Army is DOD's executive agent for cleaning up contamination at sites formerly used by DOD. CERCLA requires DOD to cleanup contamination in coordination with regulatory agencies, other responsible parties, and current property owners.

DOD is currently using two independently validated estimating models, in addition to engineering estimates, to report its environmental liabilities. The models are the Remedial Action Cost Engineering Requirements and the Department of Navy Cost-to-Complete module. These two methods of valuation are used in this note's table. Additionally, cost estimates are based on the following: (1) historic comparable project, (2) a specific bid or independent Government cost estimate for the project, (3) site level data, and (4) annual cost-to-complete estimate.

DOD has not identified any unrecognized portion of the estimated total cleanup cost associated with general property, plant, and equipment. DOD's financial management regulation requires the unrecognized cleanup cost associated with property, plant, and equipment to be disclosed. DOD is working to ensure the regulation is properly implemented.

Note 13. Benefits Due and Payable

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

Benefits Due and Payable as of September 30

(In billions of dollars)	2005	2004
Federal Old-Age and Survivors Insurance	39.3	37.1
Grants to States for Medicaid	20.1	19.3
Federal Disability Insurance	19.2	12.8
Federal Hospital Insurance (Medicare Part A)	16.8	15.0
Federal Supplementary Medical Insurance (Medicare Part B)	16.6	14.8
Supplemental Security Income	2.8	1.8
Unemployment Insurance	0.9	1.1
Other benefits due and payable	1.3	1.0
Total benefits due and payable	117.0	102.9

Note 14. Insurance Program Liabilities

Insurance Program Liabilities as of September 30

(In billions of dollars)	2005	2004
Insurance Program Liabilities:		
Pension Benefit Guaranty Corporation	69.8	60.8
National Flood Insurance Program –DHS	23.4	1.4
Total insurance program liabilities	93.2	62.2

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

PBGC insures pension benefits of participants in covered defined benefit pension plans. As a wholly owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government generally. As of September 30, 2005, PBGC had total liabilities of $80.7 billion, and its total liabilities exceeded its total assets by $23.1 billion. In addition, as discussed in Note 19—Contingencies, PBGC reported reasonably possible contingent losses of about $108 billion.

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

Note 15. Other Liabilities

Other Liabilities as of September 30

(In billions of dollars)	2005	2004
Other accrued liabilities	23.2	5.9
Nuclear Waste Fund	19.6	18.1
Accrued wages and benefits	16.0	38.2
Actuarial liabilities	11.6	10.4
Deposited funds and undeposited collections	11.2	8.5
Gold certificates	10.9	10.9
Accrued grant liability	10.4	10.2
Exchange Stabilization Fund	9.3	9.4
Other debt	8.8	9.1
Accrued annual leave	8.6	8.0
Deferred revenue	8.5	6.9
District of Columbia pension liabilities	8.5	8.4
Energy Employees Occupational Illness Compensation Act	7.4	2.8
Custodial liabilities	7.3	6.5
Contingent liabilities	6.6	2.2
Miscellaneous liabilities	45.3	42.6
Total other liabilities	213.2	198.1

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

- Other accrued liabilities include amounts accrued by the Department of Agriculture for the Tobacco Transition Program, Direct and Counter-Cyclical Program, Conservation Reserve Program, and other accrued liabilities.
- Nuclear Waste Fund (NWF) refers to revenues that are accrued by the Department of Energy based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities.
- Accrued wages and benefits consist of the estimated liability for civilian and military salaries and wages earned but unpaid.
- Actuarial liabilities includes the estimated liability for the future benefit payments of contracted employees at the DOE. These are not for employee related benefit payments and therefore are not reflected in the Federal Employee and Veteran Benefits Payable footnote.
- Deposit funds and undeposited collections are deposits held and maintained by the Government on behalf of a third party and include unclassified deposited funds that are amounts offsetting undeposited collections, as well as funds deposited in clearing accounts and suspense accounts that await disposition or reclassification.
- Gold certificates include monetized portions of gold and certificates deposited in FRBs.
- Accrued grant liability represents the accruals related to grant program funds provided primarily to State and local governments, as well as universities and nonprofit organizations.
- Exchange stabilization fund includes SDR certificates issued to the FRBs and allocations from the IMF.
- Other debt includes Government obligations, whether secured or unsecured, not included in public debt.
- Accrued annual leave represents the dollar value of annual leave accrued to employees for annual leave hours earned but not used, and that is expected to be paid from future years' appropriations. Annual leave is an expense which accrues as it is earned by employees.

- Deferred revenue refers to revenue received but not yet earned, such as payments received in advance from outside sources for future delivery of products or services.
- District of Columbia (D.C.) pension liability represents the amount payable to the Judicial Retirement Fund and the D.C. Federal Pension Fund by Treasury for the annual amortized payments that are required to be made from the General Fund of the U.S. Government to fund certain D.C. retirement plans.
- Miscellaneous liabilities include amounts accrued for other liabilities from DOD, VA, Treasury, DOI, PBGC, the United States Postal Service, and the Tennessee Valley Authority (TVA).

Note 16. Collections and Refunds of Federal Revenue

Collections of Federal Revenue for the Year Ended September 30, 2005

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2005	2004	2003	Prior Years
Individual income and tax withholdings	1,864.7	1,212.1	620.9	13.9	18.0
Corporation income taxes	306.9	209.4	83.1	1.2	13.2
Unemployment taxes	40.1	22.2	9.9	7.9	0.1
Excise taxes	72.4	52.8	19.0	0.1	0.6
Estate and gift taxes	25.6	0.1	16.6	1.3	7.6
Railroad retirement taxes	4.5	3.5	1.1	-	-
Federal Reserve earnings	19.3	14.2	5.1	-	-
Fines, penalties, interest, and other revenue	4.3	4.0	0.4	-	-
Custom duties	23.2	23.2	-	-	-
Subtotal	2,361.0	1,541.5	756.1	24.4	39.5
Less: Amounts collected for non-Federal entities	0.9				
Total	2,360.1				

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

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

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

Reconciliation of Collections to Revenue

(In billions of dollars)	2005	2004
Total revenue per the Statements of Operations and Changes in Net Position	2,185.5	1,912.7
Tax refunds	268.3	279.5
Earned Income Tax Credit and Child Tax Credit Imputed Revenue	(55.3)	(47.1)
Nontax related fines and penalties reported by agencies	(19.2)	(21.6)
Nontax related earned revenue	(19.2)	(13.8)
Collections of Federal revenue	2,360.1	2,109.7

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

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

Collections of Federal Revenue for the Year Ended September 30, 2004

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2004	2003	2002	Prior Years
Individual income and tax withholdings	1,695.3	1,128.1	541.0	13.2	13.0
Corporation income taxes	230.4	150.6	67.3	1.1	11.4
Unemployment taxes	36.9	20.7	9.0	7.2	-
Excise taxes	73.4[1]	54.3[1]	18.6	0.5	-
Estate and gift taxes	25.6	0.1	16.9	1.1	7.5
Railroad retirement taxes	4.5	3.4	1.1	-	-
Federal Reserve earnings	19.7	13.1	6.6	-	-
Fines, penalties, interest, and other revenue	3.7	3.6	0.1	-	-
Custom duties	21.0	21.0	-	-	-
Subtotal	2,110.5[1]	1,394.9[1]	660.6	23.1	31.9
Less: amounts collected for non-Federal entities	(0.8)[1]				
Total	2,109.7[1]				

[1] Restated.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2004

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2004	2003	2002	Prior Years
Individual income tax and tax withholdings	230.1	0.6	210.0	12.6	6.9
Corporation income taxes	46.6	1.5	8.9	6.7	29.5
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	0.9	0.3	0.3	0.1	0.2
Estate and gift taxes	0.8	-	0.2	0.3	0.3
Custom duties	1.0	1.0	-	-	-
Total	279.5	3.4	219.5	19.7	36.9

Note 17. Unreconciled Transactions Affecting the Change in Net Position

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

The unreconciled transactions needed to bring the change in net position into balance amounted to a net value of $4.3 billion and ($3.4) billion for the years ended September 30, 2005, and 2004, respectively.

The three primary factors affecting this out-of-balance situation are:

- Improper recording of intragovernmental transactions by agencies.
- Transactions affecting balance sheet assets and liabilities not identified properly by agencies as prior period adjustments.
- Timing differences and errors in reporting transactions.

The Federal financial community considers the identification and accurate reporting of these unreconciled transactions a priority.

Note 18. Change in Accounting Principle and Prior Period Adjustments

Change in Accounting Principle and Prior Period Adjustments to Fiscal Years 2005 and 2004

(In billions of dollars)	Increases to Net Position 2005	2004
Change in Accounting Principle:		
Department of Defense	3.6	-
Prior Period Adjustments:		
Department of Defense	7.3	-
Other agencies	0.2	-
Total change in accounting principle and prior period adjustments	11.1	-

For fiscal year 2005, DOD recorded $10.9 billion (net) in prior period adjustments to cumulative results of operations. $3.6 billion (net) of these adjustments were due to a change in accounting principle and $7.3 (net) was due to prior period adjustments. DODs adjustments were the result of the Air Force completing the conversion of its inventory valuation method from Latest Acquisition Cost to Moving Average Cost. This resulted in adjustments to eliminate allowance for gains and losses, establish an allowance for repair, and revalue the inventory. The total inventory revaluation was $11.3 billion. The revaluation was offset by the $0.4 billion reversal of erroneous gains and losses from prior years. Other agencies recorded $0.2 (net) as prior period adjustments.

Note 19. Contingencies

Financial Treatment of Loss Contingencies

Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements.

Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in this note. For an overview of the standards that provide criteria for how Federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability,[1] see the following table.

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

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

Insurance Contingencies

At the time that an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. For example, the estimated aggregate unfunded vested benefits exposure to PBGC for companies' single-employer and multi-employer defined pension plans is $108.4 billion and $96 billion for 2005 and 2004, respectively.

Legal Contingencies

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

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Federal Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $5 billion and $4.4 billion for 2005 and 2004, respectively, and are recorded in the balance sheet line items "Insurance Liabilities," or "Other Liabilities." A few of the major cases are summarized below:

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

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

- HHS has unasserted claims that resulted from processing errors where incorrect Medicare eligibility determinations were made. Estimated amounts payable to States to reimburse them for payments they paid on behalf of beneficiaries at an amount of $1.6 billion and $1.9 billion for 2005 and 2004, respectively.
- DOI's estimated potential liability for breach of contract case filed by lessees under Federal oil and gas leases on the offshore California Outer Continental Shelf that are not yet developed to production in the amount of $550 million.
- VA has recorded liabilities for pending legal claims related to medical malpractice and other tort claim exposure in the amounts of $522 million and $501 million for 2005 and 2204, respectively.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "probable" with an estimated range of losses. The best estimate or the minimum range is recorded in the balance sheet. The estimated potential losses for such claims and actions range from $814 million to $1.7 billion for September 2005, and from $843 million to $1.5 billion for September 2004. For example, DOI has numerous lawsuits and claims filed against the agency related to the Federal Tort Claims Act, personnel and employment-related matters, and various land and resource claims in the range of $587 million to $1.2 billion and $726 million to $1.3 billion for 2005 and 2004, respectively.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of possible liability or a range of possible liability. The estimated potential losses for such claims and actions range from $1.2 billion to $7.9 billion for September 2005, and from $2.3 billion to $3.7 billion for September 2004. Two of the major cases are summarized below:

- HHS reported as of September 30, 2005, $2.8 billion could be owed in payment adjustments to hospitals that serve a significantly disproportionate share of low-income patients.
- DHS has pending legal claims in the range of $319 million to $2.5 billion for refunds of user fees, harbor maintenance tax claims, and tariff claims as of September 30, 2005.

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

- Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed tens of billions of dollars.
- North American Free Trade Agreement (NAFTA) allows Canadian and Mexican investors to bring arbitration proceedings against the United States for breaches of certain NAFTA provisions. These cases raise allegations of expropriation as well as other claims of treatment inconsistent with international law or specific treaty commitments that provide investment protections. The United States has successfully defended itself against two claims submitted to arbitration under Chapter 11 of the NAFTA. The United States is currently defending itself against eight claims submitted to arbitration and nine claims not yet submitted under Chapter 11 of NAFTA. These claims total approximately $3.4 billion. The United States has also received notice of another claim not submitted in the amount of either $5.8 billion or $13.6 billion, depending on how one interprets the notice.

Environmental and Disposal Contingencies

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

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Federal Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $5.2 billion and $2.1 billion for 2005 and 2004, respectively, and are recorded in the balance sheet line items "Environmental Liabilities," or "Other Liabilities." For example, DOE is subject to Spent Nuclear Fuel litigation for damages suffered by all utilities as a result of the delay in beginning disposal of spent nuclear fuel. Significant claims for partial breach of contract have been filed with estimated liability amounts of $5 billion and $1.9 billion for 2005 and 2004, respectively.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as “reasonably possible” with an estimate of possible liability or a range of possible liability. The estimated potential losses for such claims are $927 million and $1.7 billion for 2005 and 2004, respectively. The Department of Commerce has estimated liabilities for a variety of cleanup costs, many of which are associated with the Second World War at various sites within the United States in the amounts of $832 million and $1.6 billion for 2005 and 2004, respectively.

Other Contingencies

DOT has large contingency amounts for “Advance Construction” projects and Full Funding Grant Agreements authorizing States to establish budgets and incur costs with their own funds in advance of annual appropriation from Congress totaling $42.9 billion and $38.9 billion for 2005 and 2004, respectively.

Note 20. Commitments

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

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

Commitments as of September 30

(In billions of dollars)	Capital Leases 2005	Operating Leases 2005	Capital Leases 2004	Operating Leases 2004
General Services Administration	0.3	22.9	0.3	22.1
U.S. Postal Service	-	9.6	0.6	9.6
Department of Homeland Security	0.1	1.4	0.1	0.5
Department of Health and Human Services	-	1.4	-	1.0
Securities and Exchange Commission	-	0.9	-	0.6
Other long-term leases	1.1	3.8	0.9	2.8
Total long-term leases	1.5	40.0	1.9	36.6

Undelivered Orders	2005	2004
Department of Defense	174.5	185.7
Department of Housing and Urban Development	68.4	71.6
Department of Transportation	68.1	68.1
Department of Health and Human Services	67.9	67.4
Department of Education	46.4	46.4
Department of the Treasury	44.4	39.1
Department of Homeland Security	23.3	16.7
Department of Agriculture	16.0	14.0
Agency for International Development	13.0	11.4
Department of Energy	10.3	10.1
Environmental Protection Agency	9.7	9.7
Department of Justice	9.1	9.9
Department of State	7.3	7.1
National Science Foundation	7.1	6.9
Department of Interior	6.4	5.6
Other undeliverable orders	25.4	26.6
Total undelivered orders	597.3	596.3

Other Commitments	2005	2004
Callable capital subscriptions for multi-lateral development banks	62.0	61.7
Department of Agriculture	23.0	52.0
Department of Energy	12.7	14.5
Department of Commerce	7.5	7.7
Tennessee Valley Authority	7.4	8.0
Department of Transportation	3.6	4.7
Department of the Treasury	-	8.5
Total other commitments	116.2	157.1

Other Commitments and Risks

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

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

Note 21. Dedicated Collections

Dedicated Collections as of September 30, 2005*

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

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

Dedicated Collections as of September 30, 2005*

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

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

Dedicated Collections as of September 30, 2005*

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

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

Dedicated Collections as of September 30, 2004*

(In millions of dollars)	Federal Old-Age & Survivors Insurance Trust Fund	Civil Service Retirement & Disability Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Military Retirement Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)
Assets:						
Fund balance	46.0	13.0	600.0	(14.0)	20.7	5.0
Investments	1,452,599.0	631,859.0	268,080.0	182,799.0	187,962.5	38,585.2
Other Federal assets	19,822.0	9,525.0	16,185.0	2,493.0	-	-
Non-Federal assets	1,850.0	258.0	750.0	2,105.0	25.2	8.0
Total assets	1,474,317.0	641,655.0	285,615.0	187,383.0	188,008.4	38,598.2
Liabilities:						
Liabilities due and payable to beneficiaries	37,055.0	4,114.0	15,043.0	16,048.0	-	-
Other liabilities	3,984.0	1,174,989.0	17,313.0	737.0	837,703.5	504,694.4
Total liabilities	41,039.0	1,179,103.0	32,356.0	16,785.0	837,703.5	504,694.4
Total net position	1,433,278.0	(537,448.0)	253,259.0	170,598.0	(649,695.1)	(466,096.2)
Total liabilities and net position	1,474,317.0	641,655.0	285,615.0	187,383.0	188,008.4	38,598.2
Change in Net Position:						
Beginning net position	1,294,528.0	(529,025.0)	241,670.0	158,005.0	(556,416.7)	(458,080.9)
Nonexchange revenue	557,167.0	-	168,775.0	90,110.0	-	-
Other financing sources	12.0	25,957.0	9,187.0	73.0	-	(2,843.3)
Other changes in fund balance	(5,656.0)	-	(45.0)	(2,317.0)	-	-
Exchange revenue	-	56,159.0	1,807.0	-	42,384.5	25,342.4
Program expenses	412,773.0	90,539.0	167,215.0	75,273.0	135,662.9	30,514.4
Other expenses	-	-	920.0	-	-	-
Ending net position	1,433,278.0	(537,448.0)	253,259.0	170,598.0	(649,695.1)	(466,096.2)

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

Dedicated Collections as of September 30, 2004*

(In millions of dollars)	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)	Railroad Retirement Trust Fund	Land and Water Conservation Fund	Foreign Service Retirement and Disability Fund
Assets:					
Fund balance	157.6	1,943.0	21.6	13,859.2	-
Investments	45,239.4	17,712.0	1,302.2	-	12,827.6
Other Federal assets	911.3	30,441.0	3,714.8	-	196.0
Non-Federal assets	1,638.6	1,251.0	24,681.7	-	2.5
Total assets	47,946.9	51,347.0	29,720.3	13,859.2	13,026.1
Liabilities:					
Liabilities due and payable to beneficiaries	1,128.5	14,832.0	770.7	-	44.1
Other liabilities	1,422.5	26,472.0	3,630.1	-	13,327.8
Total liabilities	2,551.0	41,304.0	4,400.8	-	13,371.9
Total net position	45,395.9	10,043.0	25,319.5	13,859.2	(345.8)
Total liabilities and net position	47,946.9	51,347.0	29,720.3	13,859.2	13,026.1
Change in Net Position:					
Beginning net position	47,577.2	14,100.0	23,374.5	13,443.8	(653.8)
Nonexchange revenue	41,744.4	1,602.0	4,892.7	-	-
Other financing sources	-	95,493.0	3,330.1	415.4	-
Other changes in fund balance	(3,028.1)	2,265.0	-	-	-
Exchange revenue	-	30,344.0	7,562.6	-	1,185.6
Program expenses	40,897.6	132,458.0	13,841.1	-	-
Other expenses	-	1,303.0	(0.7)	-	877.6
Ending net position	45,395.9	10,043.0	25,319.5	13,859.2	(345.8)

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

Dedicated Collections as of September 30, 2004*

(In millions of dollars)	National Service Life Insurance Fund	Airport and Airway Trust Fund	Highway Trust Fund	Hazardous Substance Superfund	Black Lung Disability Trust Fund
Assets:					
Fund balance	10.0	642.0	3,349.7	188.2	43.8
Investments	11,121.0	9,891.6	10,211.9	2,217.3	-
Other Federal assets	545.0	129.5	-	-	-
Non-Federal assets	-	-	-	-	10.7
Total assets	11,676.0	10,663.1	13,561.6	2,405.5	54.5
Liabilities:					
Liabilities due and payable to beneficiaries	142.0	-	-	-	25.3
Other liabilities	11,251.0	3,704.0	7,999.3	11.0	8,740.6
Total liabilities	11,393.0	3,704.0	7,999.3	11.0	8,765.9
Total net position	283.0	6,959.1	5,562.3	2,394.5	(8,711.4)
Total liabilities and net position	11,676.0	10,663.1	13,561.6	2,405.5	54.5
Change in Net Position:					
Beginning net position	309.0	8,123.5	11,799.7	2,517.0	(8,227.0)
Nonexchange revenue	-	9,674.5	34,710.8	77.8	566.3
Other financing sources	1.0	-	(398.0)	1,257.5	-
Other changes in fund balance	-	-	-	-	(55.7)
Exchange revenue	1,184.0	-	-	27.4	-
Program expenses	1,211.0	10,838.9	40,550.2	1,485.2	995.0
Other expenses	-	-	-	-	-
Ending net position	283.0	6,959.1	5,562.3	2,394.5	(8,711.4)

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

The tables above depict selected trust funds that have been chosen based on their financial activity. Additionally, the Federal Government has many other dedicated collections and trust funds.

In the Federal budget, the term “trust fund” means only that the law requires a particular fund be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund’s resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity.

The line item “investments,” listed under assets in the tables above, refers to investments in Federal debt securities, net of unamortized discounts and premiums. Total assets represent the unexpended balance from all sources of receipts and amounts due the trust funds, regardless of source, including related Governmental transactions. These are transactions between two different entities within the Government (for example, monies received by one entity of the Government from another entity of the Government).

Most of the trust fund assets are invested in intragovernmental debt holdings. These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof.

Depicted below is a description of all the funds included in the table Dedicated Collections as of September 30, which also includes the names of the Government agencies that administer each particular fund. For detailed information regarding trust funds, please refer to the financial statements of the corresponding administering agencies. For information on the actuarial and other liabilities associated with the funds in this report, see Note 11—Federal Employee and Veteran Benefits Payable and Note 13—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

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

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

Civil Service Retirement and Disability Fund

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

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

Federal Hospital Insurance Trust Fund (Medicare Part A)

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

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

Federal Disability Insurance Trust Fund

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

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

Military Retirement Fund

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

Medicare-Eligible Retiree Health Care Fund

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

Unemployment Trust Fund

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

Taxes on employers provide the primary funding source for the UTF. However, interest earned on investments in Treasury securities also provides income to the fund. Appropriations have supplemented the fund's income during periods of high and extended unemployment. The law establishing the UTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1104.

Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)

The Federal Supplementary Medical Insurance Trust Fund finances the Supplementary Medical Insurance Program (Medicare Part B) that provides supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A. HHS administers the program.

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

Railroad Retirement Trust Fund

The Railroad Retirement Trust Fund provides annuities and survivor benefits to eligible railroad employees and their survivors. The fund also pays disability annuities based on total or occupational disability. Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement Survivor Benefit program. The law establishing the Railroad Retirement Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 45 U.S.C. § 231n and 45 U.S.C. § 231n-1

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

Land and Water Conservation Fund

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

Foreign Service Retirement and Disability Fund

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

National Service Life Insurance Fund

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

Airport and Airway Trust Fund

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

- Taxes received from transportation of persons and property in the air, as well as fuel used in non-commercial aircraft.
- International departure taxes.
- Interest earned on investments in Treasury securities.

Highway Trust Fund

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides Federal grants to States for highway construction, certain transit programs, and related transportation purposes. DOT administers programs financed by the Highway Trust Fund. The law establishing the Highway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9503. Funding sources include earmarked taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles. Deposits not needed immediately for payments are invested by the Treasury's Bureau of Public Debt in noninterest bearing public debt securities. As funds are needed for payments, the Highway Trust Fund Corpus investments are liquidated and funds are transferred to the Federal Highway Administration for payment of obligations.

Hazardous Substance Superfund

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

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

Black Lung Disability Trust Fund

The BLDTF provides benefits to coal miners who are totally disabled due to pneumoconiosis (black lung disease). It also covers surviving dependents of miners who died due to pneumoconiosis.

Excise taxes on coal mine operators, based on the sale of coal, partially fund black lung disability payments as well as related administrative and interest costs. Intragovernmental advances to the BLDTF, which must be repaid with interest, fund the shortfall. DOL administers the BLDTF. The law establishing the BLDTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9501.

Note 22. Indian Trust Funds

The Indian Trust Funds differ from other dedicated collections reported in Note 21—Dedicated Collections. DOI has responsibility for the assets held in trust on behalf of American Indian tribes and individuals.

DOI, through the Office of the Special Trustee's (OST's) Office of Trust Funds Management, holds trust funds in accounts for Indian tribes. It maintains approximately 1,400 accounts for Tribal and Other Special Trust Funds (including the Alaska Native Escrow Fund). The OST was established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) and was created to improve the accountability and management of Indian funds held in trust by the Federal Government.

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

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

The tables below depict the U.S. Government as trustee for Indian Trust Funds Held for Indian Tribes and Other Special Trust Funds. The Other Special Trust Funds included in the table below ($277.3 billion and $266.4 billion for fiscal years 2005 and 2004, respectively, identified in DOI's financial statements) and trust funds considered Federal funds are included in DOI's financial statements.

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

(In millions of dollars)	2005	2004
Assets		
Current Assets:		
Cash and cash equivalents	501.6	490.4
Due from other Federal agencies[1]	-	7.8
Investments	2,380.2	2,477.0
Total assets	2,881.8	2,975.3[2]
Trust fund balances, held for Indian Tribes and by DOI	2,881.8	2,975.3

[1]This represents an amount that the Bureau of Indian Affairs (BIA) erroneously transferred from the trust funds' account at the U.S. Treasury into the BIA's account at the U.S. Treasury. This amount was transferred on September 30, 2004, and was returned to the proper U.S. Treasury account in October of 2004. The erroneous transfer, which was identified through OST's reconciliation and internal control process, did not impact the interest earnings to the trust funds.
[2]Details may not add to totals due to rounding.

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

(In millions of dollars)	2005	2004
Receipts	517.7	413.7
Disbursements	(611.2)	(318.5)
Increase (decrease) in trust fund balances, net	(93.5)	95.2
Trust fund balances, beginning of year	2,975.3	2,880.1
Trust fund balances, end of year	2,881.8	2,975.3

OST also maintains about 266,000 open Individual Indian Monies (IIM) accounts. The IIM fund is primarily a deposit fund for individuals who have a beneficial interest in the trust funds. The IIM account-holders realize receipts primarily from royalties on natural resource depletion, land use agreements, and enterprises that have a direct relationship to trust fund resources and investment income. Funds related to the IIM Trust Fund are included in the following tables.

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

(In millions of dollars)	2005	2004
Assets:		
Cash and cash equivalents	28.3	21.4
Investments	388.6	371.7
Accrued interest receivable	3.0	3.6
Total assets	419.9	396.7
Trust fund balances, held for individual Indians	419.9	396.7

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

(In millions of dollars)	2005	2004
Receipts	301.6	204.6
Disbursements	(278.4)	(221.0)
Increase (decrease) in trust fund balances, net	23.2	(16.4)
Trust fund balances, beginning of year	396.7	413.1
Trust fund balances, end of year	419.9	396.7

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

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