

# United States Government Notes to the Financial Statements for the Years Ended September 30, 2008, and September 30, 2007

## 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 Representatives report on a cash basis), and the judicial branch (which also reports on a cash basis) of the Government. The judicial branch reports on a limited basis primarily related to budget activity because it is not required by law to submit financial statement information to the Department of the Treasury (Treasury). The Appendix section of this report contains a list of significant Government entities included and excluded in the *Financial Report*. Certain entities are excluded from the *Financial Report* because they are Government sponsored enterprises (GSE), such as the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), or their activities are not included in the Federal budget, such as the Thrift Savings Fund and the Board of Governors of the Federal Reserve System.

In September 2008, the Government began a number of emergency economic measures relating to the economy which involved various financing programs. Key initiatives effective for fiscal year 2008 involved programs concerning two GSEs, provision of a credit facility for GSE and Federal Home Loan Banks, purchase of Mortgage Backed Securities (MBS), and setup of a Money Market Insurance Program (see Notes 8 and 25).

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

### B. Basis of Accounting and Revenue Recognition

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

- Expenses are generally recognized when incurred.
- Nonexchange 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 represent 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. Accounts receivable are reported net of an allowance for uncollectible accounts. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the Government and is usually based on past collection experience and is re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection.

Taxes receivable consist 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. The allowance for doubtful accounts is based on projections of collectibility from a statistical sample of unpaid tax assessments.

## 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.

Related property 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 consists of tangible assets including equipment, buildings, construction in progress, internal use software, and other assets used to provide goods and services.

Property, plant, and equipment used in Government operations are carried at acquisition cost, with the exception of Department of Defense (DOD) military equipment (e.g., ships, aircraft, combat vehicles, and weapons). DOD uses an estimation methodology for military equipment based on internal DOD records to calculate a value for military equipment. DOD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, and program acquisitions and disposals to create a baseline. The equipment baseline is updated using expenditure information and information related to acquisition and logistics to identify acquisitions and disposals.

All property, plant, and equipment is capitalized if the acquisition costs (or estimated acquisition cost for DOD) are in excess of capitalization thresholds that vary considerably between the Federal entities. Depreciation and amortization expense applies to property, plant, and equipment reported on the balance sheets except for land, unlimited duration land rights and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. All property, plant, and equipment are assigned useful lives depending on their category and vary considerably between the Federal entities. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general property, plant, and equipment and is depreciated. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software internally developed.

## **G. Federal Employee and Veteran Benefits Payable**

Generally, Federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation and burial benefits, post-retirement health benefits, life insurance benefits, and Federal Employee and Compensation Act 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 veterans' pension benefits is disclosed but is not included in the Federal employee and veteran benefits payable line. These benefits are expensed when services are provided.

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

## H. Environmental and Disposal Liabilities

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

## I. Insurance Program Liabilities

Insurance programs provide protection to individuals or entities against specified risks except for those specifically covered by Federal employee and veteran benefits. Insurance program funds are commonly held in revolving funds in the 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. The values of insurance program liabilities are particularly sensitive to changes in underlying estimates and assumptions, which are subject to change.

## J. 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.

## K. Contingent Liabilities

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

- A past transaction or event has occurred, and
- 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, is disclosed in Note 19—Contingencies.

## L. 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 also included in the Commitments section.

## M. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Supplemental Information—Social Insurance section, and Note 23—Social Insurance.

## N. Related Party Transactions

Federal Reserve banks (FRBs) and private banks, which are not part of the reporting entity, serve as the Government's depository and fiscal agents. They process Federal payments and deposits to Treasury's account and service Treasury securities. As of September 30, 2008, FRBs owned \$221.3 billion, net of \$255.3 billion in securities lent to dealers, for total holdings of \$476.6 billion. As of September 30, 2007, the FRBs owned \$774.5 billion, net of \$5.1 billion in securities lent to dealers, for total holdings of \$779.6 billion. These securities are held in the FRBs System Open Market Account (SOMA) for the purpose of conducting monetary policy. Additionally, under the Supplementary Financing Program (SFP), the Government had on deposit \$300 billion with the Federal Reserve as of September 30, 2008, to support Federal Reserve initiatives (see Note 2). FRBs earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as nonexchange revenue. Those earnings totaled \$33.6 billion and \$32.0 billion for the years ended September 30, 2008, and 2007, respectively. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs. Also, as described in Note 16—Other Liabilities, the FRBs hold certificates and special drawing rights certificates. The FRBs also was a key player in actions taken in fiscal year 2008 to stabilize the housing and financial markets (see Note 8).

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 generally does not guarantee payment of the liabilities of Government-sponsored enterprises such as Fannie Mae, Freddie Mac, or the Federal Home Loan Banks, which are privately owned. Fannie Mae and Freddie Mac have been placed under conservatorship as of September 7, 2008, and the Government now guarantees, up to \$200 billion, to provide additional capital to the extent that liabilities exceeds assets (see Note 8). These enterprises also are excluded from the reporting entity.

## O. Unmatched Transactions and Balances

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

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

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

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

## P. Reclassifications and Restatements

Certain fiscal year 2007 amounts have been reclassified to conform to the fiscal year 2008 presentation. See Note 21 for Restatements.

## Q. Use of Estimates

The Government has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities that are used to prepare these financial statements. Actual results could differ from these estimates. Major items subject to estimates include loan receivables (including MBS); investments in non-Federal securities (including Freddie Mac and Fannie Mae); taxes receivables; depreciation; money market insurance liability; liability for liquidity commitment (Freddie Mac and Fannie Mae); imputed costs; actuarial liabilities; cost and earned revenue allocations; contingent legal liabilities; and credit reform subsidy costs.

The Government recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses continual review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. Two of the emergency economic programs that the Government implemented in the latter part of September 2008, the purchase program for MBS and the GSE credit facility, both operate under the provisions of credit reform and the use of estimates as dictated by the Federal Credit Reform Act. Further, the assumptions underlying the estimated future liquidity payments to the GSE are subject to a high level of market volatility, so that actual future payments may differ significantly from current estimates due to changing circumstances. The Troubled Asset Relief Program described further in Note 25 will also require the use of sophisticated estimates.

The Government used the following methodologies for valuation of the investment in GSE:

- **Common Stock Warrants:** The Black-Scholes Option Model (1973) was used to affirm that the value of the warrants is insensitive to the usual option input variables, including time to expiration and stock volatility, and the value per warrant share is nominally less than the trading price at September 30, 2008.
- **Senior Preferred Stock:** These shares were valued based on an interpolation of market prices during the five trading days prior to the announcement of the senior preferred stock purchase agreement for (i) Fannie Mae and Freddie Mac subordinated debt, as adjusted for the tax advantage of stock dividends compared with taxable interest, and (ii) Fannie Mae and Freddie Mac preferred stock.

## Note 2. Cash and Other Monetary Assets

(In billions of dollars)	2008	2007
<b>Cash and Other Monetary Assets as of September 30</b>		
Unrestricted cash:		
Cash held by Treasury for Governmentwide Operations .....	64.3	69.7
Other .....	6.5	6.4
Restricted cash:		
Cash held by Treasury for Governmentwide Operations .....	300.0	-
Other .....	14.0	13.5
Total cash.....	<u>384.8</u>	<u>89.6</u>
International monetary assets .....	14.3	13.9
Gold .....	11.0	11.0
Foreign currency.....	14.4	13.5
Total cash and other monetary assets.....	<u>424.5</u>	<u>128.0</u>

Unrestricted cash includes cash held by Treasury for Governmentwide operations (Operating Cash) and all other unrestricted cash held by the Federal agencies. Operating Cash represents balances from tax collections, other revenue, Federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments. Operating Cash includes balances invested with commercial depositories in Treasury Tax and Loan Accounts (including funds invested through the Term Investment Option program and the Repo Pilot program). Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by agencies, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, imprest funds, and amounts representing the balances of petty cash.

Restricted cash is restricted due to the imposition on cash deposits by law, regulation, or agreement. Restricted cash includes the SFP and cash held by the Foreign Military Sales programs. On September 18, 2008, Treasury began issuing specific cash management bills to fund the SFP. The SFP is a temporary program that deposits cash with the Federal Reserve to support Federal Reserve initiatives aimed at addressing the ongoing crisis in financial markets. As of September 30, 2008, there was a total of eight cash management bills outstanding related to SFP that totaled \$300 billion. The issuing of these cash management bills leads to the large amount in the restricted cash balance as of September 30, 2008. The Foreign Military Sales program included \$13.3 billion and \$12.4 billion as of September 30, 2008, and 2007, respectively. This year, \$12.4 billion was reclassified from unrestricted to restricted cash for this program. All cash held by depository institutions is either insured (for balances up to \$100,000 and temporarily increased to \$250,000 per Note 25) by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities pledged by the depository institution or through securities held under reverse repurchase agreements. See Note 25—Subsequent Events for a discussion on the change in insured limits.

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

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

Only a portion of the U.S. financial subscriptions to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit from the United States to the IMF. The balance available under the letter of credit totaled \$53.0 billion and \$53.2 billion as of September 30, 2008, and 2007, respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of \$4.8 billion and \$4.5 billion as of September 30, 2008, and 2007, respectively.

SDRs are in international monetary reserves issued by the IMF. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling \$9.5 billion and \$9.4 billion equivalent as of September 30, 2008, and 2007, 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 as of September 30, 2008, and 2007, and are included in Note 16—Other Liabilities.

As of September 30, 2008, and 2007, other liabilities included \$7.6 billion 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 is valued at the statutory price of \$42.2222 per fine troy ounce. The number of fine troy ounces was 261,498,900 as of September 30, 2008, and 2007. The market value of gold on the London Fixing was \$885 and \$743 per fine troy ounce as of September 30, 2008, and 2007, respectively. Gold totaling \$11.0 billion as of September 30, 2008, and 2007, 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. The liabilities for the gold certificates issued are included in Note 16—Other Liabilities.

Foreign currency is translated into U.S. dollars at the exchange rate at fiscal yearend. The foreign currency is maintained by various U.S. Federal agencies and foreign banks.

## Note 3. Accounts and Taxes Receivable, Net

### Accounts and Taxes Receivable as of September 30

(In billions of dollars)

	2008	2007
<b>Accounts Receivable:</b>		
Department of Agriculture.....	10.1	8.9
Social Security Administration.....	8.9	8.0
Pension Benefit Guaranty Corporation.....	8.4	5.8
Department of Defense.....	7.8	7.5
Department of Health and Human Services.....	7.4	13.0
Department of Energy.....	4.0	3.9
Tennessee Valley Authority.....	3.0	1.7
Department of the Treasury.....	1.9	1.7
Department of Veterans Affairs.....	1.8	1.3
Department of the Interior.....	1.6	1.9
Office of Personnel Management.....	1.2	1.0
All other departments.....	5.8	5.2
Accounts receivable, net.....	<u>61.9</u>	<u>59.9</u>
<b>Taxes Receivable:</b>		
Gross taxes receivable.....	115.5	101.5
Allowance for doubtful accounts.....	(84.4)	(73.6)
Taxes receivable, net.....	<u>31.1</u>	<u>27.9</u>
<b>Total accounts and taxes receivable, net.....</b>	<u><u>93.0</u></u>	<u><u>87.8</u></u>

Accounts receivable includes related interest receivable of \$6.4 billion and \$6.3 billion as of September 30, 2008, and 2007, respectively. Accounts receivable are net of an allowance for uncollectible accounts. The allowance amounts are \$15.2 billion and \$14.3 billion as of September 30, 2008, and 2007, respectively.

Accounts receivable for Health and Human Services (HHS) decreased by \$5.6 billion primarily due to the Medicare Prescription Drug Program for the year ending September 30, 2008.

## Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

### Direct Loan and Defaulted Guaranteed Loan Programs as of September 30

	Face Value of Loans Outstanding		Long-term Cost of Direct Loans and Defaulted Guaranteed Loans Outstanding		Loans Receivable, Net		Subsidy Expense for the Fiscal Year	
	2008	2007	2008	2007	2008	2007	2008	2007
(In billions of dollars)								
Federal Direct Student Loans - Education .....	124.4	108.0	14.2	8.7	110.2	99.3	5.2	(0.5)
Electric Loans - USDA .....	37.5	36.0	2.0	1.2	35.5	34.8	0.5	-
Federal Family Education Loans - Education .....	32.7	23.7	8.2	7.2	24.5	16.5	(0.2)	-
Rural Housing Services - USDA .....	27.6	27.1	7.0	6.9	20.6	20.2	0.3	0.1
Water and Environmental Loans - USDA .....	9.9	9.3	0.9	0.7	9.0	8.6	0.2	-
Disaster Loan Programs - SBA .....	8.6	9.0	1.5	1.5	7.1	7.5	-	-
Farm Loans - USDA .....	6.7	6.6	(0.4)	0.3	7.1	6.3	(0.4)	-
Housing and Urban Development Loans .....	4.9	3.9	(0.8)	(0.9)	5.7	4.8	1.1	(0.2)
Telecommunications Loans - USDA .....	4.0	4.0	(0.1)	(0.3)	4.1	4.3	0.2	(0.1)
U.S. Agency for International Development Loans .....	6.3	6.7	2.3	2.3	4.0	4.4	-	5.9
Food Aid - USDA .....	6.7	7.6	2.8	3.5	3.9	4.1	(0.3)	-
Housing for the Elderly and Disabled - HUD .....	3.9	4.6	-	-	3.9	4.6	-	-
Export-Import Bank Loans .....	6.4	7.3	2.6	2.9	3.8	4.4	-	-
GSE Mortgage Backed Securities Purchase Program - Treasury .....	3.3	-	(0.1)	-	3.4	-	(0.1)	-
All Other Programs .....	25.1	16.0	4.5	3.9	20.6	12.1	0.4	0.4
<b>Total Direct Loans and Defaulted Guaranteed Loans .....</b>	<b>308.0</b>	<b>269.8</b>	<b>44.6</b>	<b>37.9</b>	<b>263.4</b>	<b>231.9</b>	<b>6.9</b>	<b>5.6</b>

**Loan Guarantees as of September 30**

	Principal Amount of Loans under Guarantee		Principal Amount Guaranteed by the United States		Loan Guarantee Liabilities		Subsidy Expense for the Fiscal Year	
	2008	2007	2008	2007	2008	2007	2008	2007
(In billions of dollars)								
Federal Housing Administration Loans - HUD.....	576.4	438.8	534.9	400.0	19.6	7.4	(1.0)	(1.0)
Federal Family Education Loans - Education.....	414.6	363.3	405.2	359.2	43.2	50.8	(2.7)	4.9
Small Business Loans - SBA.....	75.1	71.5	61.7	58.4	1.8	1.7	0.4	-
Export-Import Bank Guarantees.....	51.8	50.2	51.8	50.2	1.4	1.3	-	0.1
Veterans Housing Benefit Programs - VA.....	220.8	207.6	36.1	24.9	3.5	3.8	(0.6)	0.1
Rural Housing Services - USDA.....	22.5	17.9	20.3	16.1	0.8	0.7	0.1	-
Israeli Loan Guarantee Program - AID ...	12.5	12.7	12.5	12.7	1.2	1.4	-	-
Overseas Private Investment Corporation Credit Program.....	4.7	4.1	4.7	4.1	0.1	0.5	-	-
Export Credit Guaranteed Programs - USDA.....	3.9	2.4	3.8	2.3	0.2	0.2	-	(0.3)
Business and Industry Loans - USDA.....	3.8	3.7	2.8	2.7	0.3	0.3	-	0.1
Federal Ship Financing Fund (Title XI) - DOT.....	2.4	2.7	2.4	2.9	0.3	0.3	(0.1)	-
All Other Guaranteed Loan Programs.....	14.2	18.5	13.0	16.6	0.5	0.7	-	(0.1)
<b>Total Loan Guarantees.....</b>	<b>1,402.7</b>	<b>1,193.4</b>	<b>1,149.2</b>	<b>950.1</b>	<b>72.9</b>	<b>69.1</b>	<b>(3.9)</b>	<b>3.8</b>

Direct loans and loan guarantee programs are used to promote the Nation's welfare by making financing available 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 September 30. 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 September 30. 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.

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

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

## Major Loan Programs

The Department of Education (Education) has two major education loan programs. The first 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 program, the Federal Family Education Loan Program, established in fiscal year 1965, is a guaranteed loan program. Like the Federal Direct Student Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans.

The Department of Agriculture (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 temporarily unable to obtain private, commercial credit and through this supervised credit, the goal is to graduate its borrowers to commercial credit. The CCC offers both credit guarantee 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 rural 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.
- Multi-family 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's, Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA predominantly 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. Borrowers obtain an FHA insured mortgage and pay an upfront premium and an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and holding costs, property management fees, property sales, and other associated costs. FHA continues to be a financially conservative and stabilizing presence for credit markets in times of economic disruption.

The Small Business Administration's (SBA's) Disaster Assistance Loan Program makes direct loans to disaster victims for the following:

- Loans for homes and personal property.
- Physical disaster loans to business of any size.
- Economic injury loans to small businesses without credit available elsewhere.
- Economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves.

The maximum interest rate is 4 percent for applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

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. The average repayment term for these loans is 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 SBA's general business loan guarantees, the FSA's farm ownership, emergency and disaster loans, and loans and guarantees made by the DOD under its Military Housing Privatization and Armament Retooling and Manufacturing Support Initiative.

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

### **MBS Purchase Program**

Congress granted Treasury authority to purchase MBS issued by GSE in the Housing and Economic Recovery Act of 2008. The authority expires on December 31, 2009. To promote stability in the mortgage market, Treasury makes MBS purchases in the open market. GSE MBS are credit-guaranteed by the GSE and Treasury plans to hold its portfolio of MBS to maturity unless, based on mortgage market conditions, sales are necessary. This program was implemented to help improve the availability of mortgage credit to American homebuyers and mitigate pressures on mortgage rates. By purchasing these securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners, as well as to promote market stability. The scale of the program will be based on developments in the capital markets and housing markets.

The MBS program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cashflows from the purchases of MBS. Factors that impact these cashflows and the subsidy rate include the interest coupons on the securities, the discount or premium paid at the time of purchase, the speed of mortgage prepayments, and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The fiscal year 2008 GSE MBS subsidy rate was negative, indicating Treasury expects to earn a return on its investments in these securities. As of September 30, 2008, the Treasury agent responsible for MBS purchases was in receipt of \$1.7 billion that was recorded as an advance. This amount was to purchase MBS but had not been purchased at yearend and was not made until after September 30, 2008.

### **GSE Credit Facility Program**

Congress granted Treasury authority to make credit available to GSE in the Housing and Economic Recovery Act of 2008. The GSE credit facility program (GSECF) will offer liquidity if needed until December 31, 2009. This will ensure credit availability to GSE and provide secured funding on an as needed basis under terms and conditions established by the Secretary of Treasury to protect taxpayers. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks are eligible to borrow under this program if needed. Funding will be provided directly by Treasury in exchange for eligible collateral from the GSE which will be limited to guaranteed MBS issued by Freddie Mac and Fannie Mae, as well as advances made by the Federal Home Loan Banks. All such assets pledged against loans will be accepted with appropriate collateral margins as determined by Treasury. Loan requests will require approval from Treasury and verification that adequate collateral has been pledged.

The GSECF program is accounted for under the provisions of the Federal Credit Reform Act, section 13201 of the Omnibus Budget Reconciliation Act of 1990, P.L. No. 101-508, dated November 5, 1990. Treasury develops subsidy estimates, re-estimates, and rates based on anticipated cashflows from the credit facility. Factors that impact these cashflows and the subsidy rate include the interest rate on loans and the probability of GSE failure. A positive subsidy reflects the cost to the Government of the program and a negative subsidy reflects earnings on the program. The GSECF was not utilized in fiscal year 2008 and no loans were made.

## Note 5. Inventories and Related Property, Net

<b>Inventories and Related Property as of September 30</b>						
(In billions of dollars)	<b>All</b>			<b>All</b>		
	<b>Defense</b>	<b>Others</b>	<b>Total</b>	<b>Defense</b>	<b>Others</b>	<b>Total</b>
	<b>2008</b>			<b>2007</b>		
Inventory purchased for resale .....	101.1	0.8	101.9	86.5	0.7	87.2
Inventory and operating material and supplies held for repair .....	44.1	0.6	44.7	48.5	0.6	49.1
Inventory—excess, obsolete, and unserviceable .....	7.8	-	7.8	7.3	-	7.3
Operating materials and supplies held for use.....	131.7	4.9	136.6	124.0	5.8	129.8
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 .....	3.6	0.2	3.8	2.4	0.2	2.6
Stockpile materials .....	-	46.1	46.1	-	43.9	43.9
Stockpile materials held for sale .....	0.7	0.2	0.9	0.9	0.3	1.2
Other related property .....	0.7	1.0	1.7	0.6	1.0	1.6
Allowance for loss .....	(53.7)	(0.4)	(54.1)	(45.3)	(0.5)	(45.8)
<b>Total inventories and related property, net ..</b>	<b>236.0</b>	<b>53.6</b>	<b>289.6</b>	<b>224.9</b>	<b>52.2</b>	<b>277.1</b>

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

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. DOD values approximately 65 percent of its resale inventory using the moving average cost (MAC) method. An additional 15 percent (fuel inventory) is reported using the first-in-first-out method. DOD reports the remaining 20 percent of resale inventories at an approximation of historical cost using latest acquisition cost (LAC) adjusted for holding gains and losses.

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

Inventory—excess, obsolete, and unserviceable consists of:

- Excess inventory is inventory that 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 inventory that is no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory is inventory damaged beyond economic repair.

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

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

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

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

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

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

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

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

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

Other related property consists of:

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

## Note 6. Property, Plant, and Equipment, Net

### Property, Plant, and Equipment as of September 30, 2008

(In billions of dollars)	<u>Cost</u>		<u>Accumulated Depreciation/ Amortization</u>		<u>Net</u>	
	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>	<u>Defense</u>	<u>All Others</u>
Buildings, structures, and facilities.....	180.2	193.3	105.3	99.6	74.9	93.7
Furniture, fixtures, and equipment.....	789.5	156.5	386.7	91.5	402.8	65.0
Construction in progress.....	22.5	39.0	N/A	N/A	22.5	39.0
Land.....	10.5	11.7	N/A	N/A	10.5	11.7
Internal use software.....	8.9	12.8	5.5	5.9	3.4	6.9
Assets under capital lease.....	1.0	2.0	0.5	0.8	0.5	1.2
Leasehold improvements.....	0.6	4.9	0.4	2.6	0.2	2.3
Other property, plant, and equipment.....	0.1	8.6	-	5.6	0.1	3.0
Subtotal.....	<u>1,013.3</u>	<u>428.8</u>	<u>498.4</u>	<u>206.0</u>	<u>514.9</u>	<u>222.8</u>
Total property, plant, and equipment, net.....		<u>1,442.1</u>		<u>704.4</u>		<u>737.7</u>

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

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

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

DOD comprises approximately 70 percent of the Government's reported property, plant, and equipment as of September 30, 2008. Refer to the individual financial statements of DOD, DOE, the Tennessee Valley Authority (TVA), the United States Postal Service (USPS), NASA, and GSA for significant detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 86 percent of the Government's total reported net property, plant, and equipment of \$737.7 billion as of September 30, 2008.

## Note 7. Securities and Investments

### Securities and Investments as of September 30, 2008

#### By Category

	Held-To-Maturity			Trading Securities			Total
	Cost Basis	Unamortized Premium/Discount	Net Investment	Cost Basis	Unrealized Gain/Loss	Net Investment	
(In billions of dollars)							
<b>Fixed/debt securities:</b>							
Non-U.S. Government .....	10.8	-	10.8	2.9	(0.3)	2.6	13.4
Commercial .....	-	-	-	(0.2)	-	(0.2)	(0.2)
Mortgage/asset backed.....	0.2	-	0.2	3.8	(0.4)	3.4	3.6
Corporate and other bonds .....	-	-	-	13.4	(2.3)	11.1	11.1
All other fixed debt securities ....	-	-	-	0.2	(0.1)	0.1	0.1
<b>Equity securities:</b>							
Common stocks .....	-	-	-	3.6	(0.7)	2.9	2.9
Unit trust.....	-	-	-	6.2	3.4	9.6	9.6
All other equity securities .....	-	-	-	1.1	(0.1)	1.0	1.0
Other .....	2.1	-	2.1	36.0	-	36.0	38.1
Total Securities and Investments.....	<u>13.1</u>	<u>-</u>	<u>13.1</u>	<u>67.0</u>	<u>(0.5)</u>	<u>66.5</u>	<u>79.6</u>

**Securities and Investments as of September 30, 2007****By Category**

	Held-To-Maturity			Trading Securities			Total
	Cost Basis	Unamortized Premium/Discount	Net Investment	Cost Basis	Unrealized Gain/Loss	Net Investment	
(In billions of dollars)							
<b>Fixed/debt securities:</b>							
Non-U.S. Government .....	10.2	0.1	10.3	2.2	-	2.2	12.5
Commercial .....	-	-	-	1.2	-	1.2	1.2
Mortgage/asset backed.....	0.2	-	0.2	4.6	-	4.6	4.8
Corporate and other bonds .....	-	-	-	11.4	(0.2)	11.2	11.2
All other fixed debt securities ....	-	-	-	4.4	0.2	4.6	4.6
<b>Equity securities:</b>							
Common stocks .....	-	-	-	3.8	0.6	4.4	4.4
Unit trust.....	-	-	-	6.3	6.2	12.5	12.5
All other equity securities .....	-	-	-	1.2	-	1.2	1.2
Other .....	1.7	-	1.7	45.7	-	45.7	47.4
Total Securities and Investments.....	<u>12.1</u>	<u>0.1</u>	<u>12.2</u>	<u>80.8</u>	<u>6.8</u>	<u>87.6</u>	<u>99.8</u>

**Securities and Investments as of September 30****By Agency**

(In billions of dollars)

	2008	2007
<b>Securities and Investments:</b>		
Pension Benefit Guaranty Corporation .....	33.6	45.9
Railroad Retirement Board .....	24.9	32.0
Exchange Stabilization Fund .....	10.6	10.0
Tennessee Valley Authority .....	7.9	9.6
All other .....	2.6	2.3
Total Securities and Investments .....	<u>79.6</u>	<u>99.8</u>

These securities and investments do not include nonmarketable Treasury securities, which have been eliminated in consolidation. Held-to-maturity securities and investments are presented at cost, net of unamortized premiums and discounts. Trading securities and investments are presented at fair market value. The Pension Benefit Guaranty Corporation (PBGC) and the Tennessee Valley Authority invest primarily in fixed maturity and equity securities, all classified as trading. The National Railroad Retirement Investment Trust (NRRIT), on behalf of the Railroad Retirement Board, 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. The NRRIT's investments are all classified as other trading equity securities. Treasury's Exchange Stabilization Fund invests primarily in foreign currency, bonds, and bills and are all classified as held-to-maturity. The TVA balance includes \$6.9 billion and \$8.4 billion as of September 30, 2008, and 2007, respectively, for the Tennessee Valley Authority Retirement System (TVARS). Please refer to the individual financial statements of PBGC, the NRRIT, the Department of the Treasury-Exchange Stabilization Fund, the Tennessee Valley Authority and the TVARS for more detailed information related to securities and investments. These agencies comprise 96.0 percent of the total reported securities and investments of \$79.6 billion as of September 30, 2008.

## Note 8. Financial and Housing Market Stabilization

### Steps Taken to Ensure Financial Stability of GSE

Fannie Mae and Freddie Mac are stockholder-owned GSE. Congress established the GSE to increase stability and housing in the secondary mortgage market. A key Fannie Mae and Freddie Mac business function is to guarantee mortgage-backed securities. These securities are subsequently sold to investors. Proceeds from these sales are used to buy additional mortgages and keep money flowing through the mortgage markets. Fannie Mae and Freddie Mac debt and guaranteed MBS outstanding totaled approximately \$5 trillion at September 30, 2008.

Increasingly difficult conditions in the housing market challenged the soundness and profitability of Fannie Mae and Freddie Mac, thereby undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act of 2008 in July 2008 (HERA). This Act created the new Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the GSE, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSE, if necessary.

Due to deteriorating conditions in the housing mortgage markets and the resulting negative financial impact on the GSE, FHFA placed them under conservatorship on September 7, 2008. This action was taken to preserve GSE assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to current market instability.

Pursuant to the authorities provided to the Secretary of the Treasury under the HERA, the Treasury Department, also on September 7, 2008, took three additional steps discussed below to help ensure the solvency and liquidity of the GSE while they are working to resolve their financial difficulties.

#### Senior Preferred Stock Purchase Agreements

The first step was entering into senior preferred stock purchase agreements with each GSE. In exchange for entering into these agreements, Treasury initially received from each GSE: (1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of \$1,000 per share and (2) a non-transferrable warrant for the purchase at a nominal cost of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. The GSE preferred stock and warrants for common stock were valued as of the initial date at about \$7 billion and also valued at September 30, 2008, at about \$12 billion. Treasury recorded the investment using the appraisal value (\$7 billion) at the date of purchase, September 8, 2008, and then subsequently used the valuation (\$12 billion) at the reporting date to determine that no permanent impairment had occurred; therefore, the recorded amount remained at the historical appraised value. Other revenue of about \$7 billion was recognized from the acquisition of preferred stock and warrants. As of September 30, 2008, GSE investments consisted of the following items:

<b>GSE Investment</b>	<b>Appraisal Value At Purchase Date</b>	<b>Unamortized (Premium) Discount</b>	<b>Net Investment</b>	<b>Interest Receivable</b>	<b>9/30/08 Investment Balance</b>	<b>Appraisal Value At Reporting Date</b>
<i>(In billions of dollars)</i>						
Fannie Mae Senior Preferred Stock .....	.8	-	.8	-	.8	.7
Freddie Mac Senior Preferred Stock .....	.8	-	.8	-	.8	.7
Fannie Mae Warrants Common Stock .....	3.1	-	3.1	-	3.1	6.5
Freddie Mac Warrants Common Stock .....	2.3	-	2.3	-	2.3	4.4
<b>Total GSE Investment .....</b>	<b>7.0</b>	<b>-</b>	<b>7.0</b>	<b>-</b>	<b>7.0</b>	<b>12.3</b>

The senior preferred stock accrues dividends at 10 percent per year, payable quarterly. This rate shall increase to 12 percent if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid. In addition, beginning on March 31, 2010, the GSE will pay the Treasury Department a periodic commitment fee on a quarterly basis. This commitment fee will compensate the Treasury Department for the explicit support provided by the preferred stock agreements. This fee will be initially set by December 31, 2009, based on mutual agreement between the Treasury Department and each GSE (in practice, the FHFA while the GSE are in conservatorship), in consultation with the Chairman of the Federal Reserve Board. The fee shall be established for 5-year periods, and may be waived by Treasury for one year at a time if warranted by adverse mortgage market conditions. It may be paid in cash or may be added to the liquidation preference.

These agreements, which have no expiration date, provide that Treasury will increase its investment in the senior preferred stock if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement is \$100 billion. Treasury determined that the net present value of this potential liability cannot be measured with sufficient reliability for fiscal year 2008. Accordingly, the estimated future liability, which would take into account increases in preferred stock liquidation preference, associated dividends, and future commitment fees, is not recorded in the financial statements. Treasury will attempt to make this determination on at least an annual basis going forward.

The actual recorded liability arising from the reported excess of Freddie Mac liabilities over assets (there was no payment anticipated or accrued for Fannie Mae) as of September 30, 2008, is \$13.8 billion. This amount is also recorded as an expense for fiscal year 2008. The payment of this liability in fiscal year 2009 will result in an increase to the investment in GSE preferred stock. The carrying value of the investment will be evaluated on at least an annual basis.

### **GSE Credit Facility (GSECF)**

The second step was the establishment of the GSECF to ensure credit availability to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. This lending facility will provide secured funding on an as needed basis under terms and conditions established by the Secretary of the Treasury to protect taxpayers. The GSECF provides liquidity, if needed, until December 31, 2009.

Funding will be provided directly by Treasury from its account held at the Federal Reserve Bank of New York (FRBNY) in exchange for eligible collateral, which will be limited to guaranteed mortgage backed securities issued by the GSE as well as advances made by the Federal Home Loan Banks. Loan requests will require approval from Treasury and verification by the FRBNY that adequate collateral has been pledged. Loans will be for short-term durations and are in general expected to be for less than one month but no shorter than one week. Loans will not be made with a maturity date beyond December 31, 2009. The rate on a loan request ordinarily will be based on the daily London Interbank Borrowing Rate for a similar term loan plus 50 basis points. The rate is set at the discretion of the Treasury Secretary with the objective of protecting the taxpayer, and is subject to change.

There is no stated limitation on loans provided through the GSECF. However, loans are limited to the amounts of available collateral.

There were no loans made through the GSECF in fiscal year 2008 (see Note 4).

### **GSE Mortgage-Backed Securities Purchase Program**

The third step was the initiation of a temporary program to further support the availability of mortgage financing for millions of Americans and to mitigate pressures on mortgage rates. Under this program, Treasury purchases GSE MBS in the open market. By purchasing these credit-guaranteed securities, Treasury seeks to broaden access to mortgage funding for current and prospective homeowners and to promote stability in the mortgage market.

The size and timing of the MBS purchases is subject to the discretion of the Secretary of the Treasury. The scale of the program will be based on developments in the capital and housing markets. Initial purchases of \$3.3 billion were made during September 2008. Purchases continued into fiscal year 2009, and additional purchases will be made as deemed appropriate through the expiration of this authority on December 31, 2009.

As these securities are backed by individual mortgages, they are accounted for under the Credit Reform Act of 1990 and are included in Note 4.

### **Temporary Guarantee Program for Money Market Funds**

Treasury has established a Temporary Guarantee Program (Program) for Money Market Funds. Under this Program the Treasury Department will guarantee to investors that they will receive the stable share price (SSP) for shares held in participating money market funds as of the close of business on September 19, 2008. President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available, as necessary, the assets of the ESF to support the Program. If a participating fund's market-based net asset value (NAV) falls below 99.5 percent of the SSP and is not cured, a Guarantee Event will be deemed to occur. If outlays become necessary, they would be paid out initially from the ESF, and then under the provisions of Section 131 of the Emergency Economic Stabilization Act of 2008, such outlays would be reimbursed from funds available under the Troubled Asset Relief Program (Note 25).

Eligible funds must be regulated under Rule 2a-7 of the Investment Company Act of 1940, must maintain a SSP, must have had a market-based NAV of at least 99.5 percent of the SSP as of September 19, 2008, and must be publicly offered and registered with the Securities and Exchange Commission. The program was to be in effect until December 18, 2008, but was subsequently extended to April 30, 2009, with an option to extend until September 18, 2009, at the discretion of the Secretary of the Treasury.

To participate in the Program, eligible money market funds must submit an application and pay a premium of 1 basis point if the fund's NAV is greater than or equal to 99.75 percent of the SSP, or 1.5 basis points of the SSP if the fund's NAV is less than 99.75 percent of the SSP but greater than or equal to 99.50 percent of the SSP. With the extension of the program beyond December 18, 2008, new premium charges apply and funds have the option to renew their coverage.

As of September 30, 2008, Treasury collected \$39.7 million in program participation premiums. As of October 10, 2008, Treasury collected an additional \$298.1 million in premiums. These premiums represent the payments for the first three months of coverage which began September 19, 2008. All premium payments were invested into U.S. Government securities. The program currently covers over \$3 trillion of assets. Program participation payments from funds that are not accepted into the Program will be returned. Of the total \$337.8 million collected, \$45.0 million was recognized as earned revenue, while \$292.8 million remained as unearned revenue at September 30, 2008.

The Government's exposure under the Program, when a guarantee event occurs, is the difference between the SSP and the NAV at liquidation of the money market fund. The Government believes the risk of loss under the Program is negligible, and no future liability is recorded at September 30, 2008.

## Note 9. Other Assets

### Other Assets as of September 30

(In billions of dollars)	2008	2007
Advances and prepayments .....	43.9	30.5
Other .....	36.0	34.9
Total other assets .....	<u>79.9</u>	<u>65.4</u>

Advances and prepayments are assets that 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 (pending disposition on behalf of Office of Personnel Management (OPM)), and receivables from bank and thrift resolutions.

With regard to regulatory assets, the Department of Energy's Power Marketing Authorities (PMAs) and the Tennessee Valley Authority (TVA) record certain amounts as assets in accordance with SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If the PMAs' or TVA's rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the deferred costs under that standard would be expensed. As of September 30, 2008, and 2007, DOE and TVA total regulatory assets are \$12.0 billion and \$10.7 billion, respectively.

## Note 10. Accounts Payable

### Accounts Payable as of September 30

(In billions of dollars)

	2008	2007
Department of Defense.....	32.1	29.7
Department of Veterans Affairs.....	6.2	3.9
Department of the Treasury.....	3.8	2.5
Tennessee Valley Authority.....	3.2	2.7
Department of Homeland Security.....	2.9	3.0
Department of State.....	2.8	2.0
Federal Deposit Insurance Corporation.....	2.6	-
Department of Justice.....	2.1	2.8
General Services Administration.....	2.1	1.8
Agency for International Development.....	1.9	2.4
U.S. Postal Service.....	1.7	2.0
Department of Energy.....	1.6	1.4
National Aeronautics and Space Administration.....	1.4	1.0
Department of Education.....	1.3	0.9
Department of the Interior.....	1.0	1.1
All other.....	6.6	9.0
Total accounts payable.....	<u>73.3</u>	<u>66.2</u>

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

## Note 11. Federal Debt Securities Held by the Public and Accrued Interest

### Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2007	Net Change During Fiscal Year 2008	Balance September 30, 2008	Average Interest Rate	
				2008	2007
<b>Treasury securities (public):</b>					
Marketable securities:					
Treasury bills .....	954.6	529.7	1,484.3	1.6%	4.6%
Treasury notes .....	2,456.1	167.3	2,623.4	4.1%	4.4%
Treasury bonds .....	560.9	17.6	578.5	7.1%	7.4%
Treasury inflation-protected securities (TIPS) .....	456.8	67.2	524.0	2.0%	2.3%
Total marketable Treasury securities .....	4,428.4	781.8	5,210.2		
Nonmarketable securities .....	620.9	(22.4)	598.5	4.1%	4.9%
Net unamortized premium/ (discounts) .....	(39.4)	3.3	(36.1)		
Total Treasury securities, net (public) .....	5,009.9	762.7	5,772.6		
<b>Agency securities:</b>					
Tennessee Valley Authority .....	22.6	-	22.6		
All other agencies .....	0.4	-	0.4		
Total agency securities, net of unamortized premiums and discounts .....	23.0	-	23.0		
<b>Accrued interest payable</b> .....	44.8	(4.2)	40.6		
<b>Total Federal debt securities held by the public and accrued interest</b> .....	<u>5,077.7</u>	<u>758.5</u>	<u>5,836.2</u>		

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.

Federal debt securities held by the public outside the Government are held by individuals, corporations, State or local governments, Federal Reserve banks, foreign governments, and central banks. The above table details Government borrowing primarily 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 2008 and 2007.

Over the course of fiscal year 2008, changes in economic conditions, financial markets, and fiscal policy as well as a reduction in nonmarketable debt issuance have caused an increase in the Government's marketable borrowing needs. Financial market strains have impacted the real economy, and the nation has experienced lower economic growth, lower receipts, and increased outlays. The Government has responded to the increase in marketable borrowing requirements by increasing issuance sizes of regular bills, the frequency, terms, and issuance sizes of cash management bills, and the issuance sizes of nominal coupon security offerings.

As of September 30, 2008, and 2007, respectively, \$9,959.9 billion and \$8,921.3 billion of debt were subject to a statutory limit (31 U.S.C. § 3101). That limit was \$10,615.0 billion as of September 30, 2008, and \$9,815.0 billion as of September 30, 2007. 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 following table).

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

(In billions of dollars)	Balance 2007	Net Change During Fiscal Year 2008	Balance 2008
Social Security Administration, Federal Old-Age and Survivors Insurance .....	1,968.3	182.4	2,150.7
Office of Personnel Management, Civil Service Retirement and Disability .....	701.7	27.1	728.8
Department of Health and Human Services, Federal Hospital Insurance .....	319.4	(0.7)	318.7
Social Security Administration, Federal Disability Insurance .....	213.8	2.7	216.5
Department of Defense, Military Retirement Fund.....	190.2	25.7	215.9
Department of Defense, Medicare-Eligible Retiree Health Care Fund .....	92.2	20.5	112.7
Department of Labor, Unemployment Trust Fund .....	74.9	(2.5)	72.4
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund.....	39.2	19.9	59.1
Department of Energy, Nuclear Waste Disposal Fund.....	39.4	3.2	42.6
Office of Personnel Management, Employees' Life Insurance .....	33.0	1.4	34.4
Federal Deposit Insurance Corporation Funds .....	50.7	(17.4)	33.3
Office of Personnel Management, Postal Service Retiree Health Benefits Fund .....	25.5	6.8	32.3
Pension Benefit Guaranty Corporation Fund .....	35.8	(13.4)	22.4
Housing and Urban Development, Federal Housing Administration (FHA) - Liquidating Account.....	22.4	(3.3)	19.1
Department of the Treasury, Exchange Stabilization Fund.....	16.4	0.4	16.8
Office of Personnel Management, Employees' Health Benefits .....	15.9	(0.3)	15.6
Department of State, Foreign Service Retirement and Disability Fund .....	14.4	0.5	14.9
Department of Transportation, Highway Trust Fund.....	12.2	0.6	12.8
All other programs and funds .....	93.0	4.0	97.0
Subtotal .....	<u>3,958.4</u>	<u>257.6</u>	<u>4,216.0</u>
Unamortized net (discounts)/premiums .....	3.7	28.9	32.6
Total intragovernmental debt holdings, net.....	<u>3,962.1</u>	<u>286.5</u>	<u>4,248.6</u>

Intragovernmental debt holdings represent the portion of the gross Federal debt held as investments by Government entities such as trust funds, revolving funds, and special funds. This includes trust funds that are earmarked funds. For more information on earmarked funds, see Note 21—Earmarked Funds. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

## Note 12. Federal Employee and Veteran Benefits Payable

### Federal Employee and Veteran Benefits Payable as of September 30

(In billions of dollars)	Civilian		Military		Total	
	2008	2007	2008	2007	2008	2007
Pension and accrued benefits .....	1,454.8	1,386.3	1,154.1	1,028.8	2,608.9	2,415.1
Post-retirement health and accrued benefits .....	341.8	311.6	820.6	835.9	1,162.4	1,147.5
Veterans compensation and burial benefits .....	N/A	N/A	1,466.7	1,127.7	1,466.7	1,127.7
Life insurance and accrued benefits .....	37.5	35.9	12.6	13.1	50.1	49.0
FECA benefits .....	16.6	15.9	8.8	8.7	25.4	24.6
Liability for other benefits .....	0.4	0.5	5.0	4.7	5.4	5.2
Total Federal employee and veteran benefits payable .....	<u>1,851.1</u>	<u>1,750.2</u>	<u>3,467.8</u>	<u>3,018.9</u>	<u>5,318.9</u>	<u>4,769.1</u>

### Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued pension liability as of September 30, 2007 .....	1,386.3	1,028.8	2,415.1
<b>Pension Expense:</b>			
Prior (and past) service costs from plan amendments .....	-	8.1	8.1
Assumption changes .....	0.2	60.1	60.3
Normal costs .....	28.0	18.7	46.7
Interest on pension liability during the period .....	84.8	60.8	145.6
Actuarial (gains)/losses .....	21.6	23.3	44.9
Total pension expense .....	134.6	171.0	305.6
Less benefits paid .....	66.1	45.7	111.8
Actuarial accrued pension liability as of September 30, 2008 .....	<u>1,454.8</u>	<u>1,154.1</u>	<u>2,608.9</u>

### Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
<b>Actuarial accrued post-retirement health benefits liability, as of September 30, 2007</b> .....	311.6	833.8	1,145.4
Reclassification from liability for other benefits .....	-	2.1	2.1
Corrected beginning post-retirement health benefits liability .....	311.6	835.9	1,147.5
<b>Post-Retirement Health Benefits Expense:</b>			
Normal costs .....	12.4	20.8	33.2
Interest on liability .....	19.9	50.8	70.7
Change in medical inflation rate assumption (gains)/losses .....	-	(58.1)	(58.1)
Other actuarial (gains)/losses .....	10.6	(10.0)	0.6
Total post-retirement health benefits expense .....	42.9	3.5	46.4
Less claims paid .....	12.7	18.8	31.5
Actuarial accrued post-retirement health benefits liability, as of September 30, 2008 .....	<u>341.8</u>	<u>820.6</u>	<u>1,162.4</u>

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

OPM administers the largest civilian plan. DOD 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.

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

	Civilian		Military	
	2008	2007	2008	2007
Rate of interest .....	6.25%	6.25%	5.75%	6.00%
Rate of inflation .....	3.50%	3.50%	3.00%	3.00%
Projected salary increases .....	4.25%	4.25%	3.75%	3.75%

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

	Civilian		Military	
	2008	2007	2008	2007
Rate of interest .....	6.25%	6.25%	5.75%	6.00%
Rate of health care cost increases .....	7.00%	7.00%	6.25%	6.25%

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

The long-term ultimate rate for fiscal year 2008 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 2008 is 6.5 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—Earmarked Funds.

The Federal Retirement Thrift Investment Board administers the Thrift Savings Plan (TSP) Fund. The TSP Fund investment options include two fixed income funds (the G and F Funds), three stock funds (the C, S, and I Funds) and five lifecycle funds (L 2040, L 2030, L 2020, L 2010, and L Income). 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. These financial statements exclude the TSP because the CSRS and FERS employees own its assets.

Treasury securities held in the G-Fund are included in total Federal debt securities held by the public and accrued interest in the balance sheets. The G-Fund held \$101.5 billion and \$81.4 billion in nonmarketable Treasury securities as of September 30, 2008, and 2007, respectively (Note 11).

### Post-Retirement 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 insurance premiums under the Federal Employees Health Benefits Program, these premiums cover only a portion of the costs. The OPM actuary applies economic assumptions to historical cost information to estimate the liability, which is then reduced by certain operating costs and premiums received during the year.

### Life Insurance Benefits

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

## Workers' Compensation Benefits

The Department of Labor (DOL) determines both civilian and military agencies' liabilities for future workers' compensation benefits for civilian Federal employees, as mandated by the Federal Employees Compensation Act (FECA) for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred, but not reported, claims. The FECA liability is determined annually using historical benefit payment patterns related to a specific incurred period to predict the final payment related to the period. These estimated payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. For 2008, a 4.37 percent interest rate was assumed and 4.77 percent was assumed for year two and thereafter.

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

Fiscal Year	COLA	CPIM
2009	3.87%	4.01%
2010	2.73%	3.86%
2011	2.20%	3.87%
2012	2.23%	3.93%
2013+	2.30%	3.93%

## Military Employees (Including Veterans)

### Pensions

The DOD Military Retirement Fund (MRF) finances military retirement and survivor benefit programs. The increase in Military Retirement Pension is due to interest on the pension liability, assumption and benefit changes, and experience. The increase due to interest is proportionate to the size of the liability. Liabilities in the future will depend on future benefit changes, assumption changes, and actuarial experience.

Projected revenues into the MRF come from three sources: interest earnings on MRF assets, monthly DOD contributions, and annual contributions from Treasury. In 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.

Pension and accrued benefits increased in fiscal year 2008 primarily due to changes in assumptions, benefits and actuarial experience. The key assumption changes were a 0.25 percent interest rate reduction that increased the liability \$41.7 billion and changes in retiree and mortality rates which led to an \$18.4 billion increase. Actuarial experience, including military pay and cost of living adjustments, led to a \$23.3 billion increase, and benefit improvements, primarily an allowance for certain reservists to retire early, led to a \$8.1 billion increase. The remaining increase results primarily from an expected increase in the actuarial liability of \$34.0 billion (growth due to normal cost, interest cost, and liability released through benefit payments).

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of the Army, Navy, Air Force, and Marine Corps). This system includes nondisability retirement pay, disability retirement pay, and survivor annuity programs. Military personnel who remain on active duty for 20 years or longer are eligible for retirement. There are three different retirement benefit formulas that are currently being used by the military: Final Pay, High-3 Year Average, and Career Status Bonus/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. For more information on these benefits, see DOD's websites (<http://www.dfas.mil/army2/bonuses/redux.html>, and <http://www.defenselink.mil/militarypay/retirement/index.html>).

## Post-Retirement Health Benefits

Military retirees and their dependents are entitled to health care in military medical facilities if a facility can provide the needed care. Prior to becoming Medicare eligible, military retirees and their dependents also are entitled to participate in TRICARE, which reimburses (net of beneficiary copay and deductible requirements) for the cost of health care from civilian providers. TRICARE options are available in indemnity, preferred provider organization (PPO), and health maintenance organization (HMO) designs.

Since fiscal year 2002, TRICARE as second payer to Medicare, covers military retirees and their dependents after they become Medicare eligible. This TRICARE coverage for Medicare eligible beneficiaries requires that the beneficiary enroll in Medicare Part B and is referred to as TRICARE for Life (TFL). Health care under TFL can be obtained from military medical facilities on an “as available” basis or from civilian providers. Military retiree health care actuarial liability figures include costs incurred in military medical facilities, as well as claims paid to civilian providers and certain administrative costs. Costs paid to civilian providers are net of Medicare’s portion of the cost.

Chapter 56 of Title 10, U.S.C. created the DOD Medicare-Eligible Retiree Health Care Fund, which became operative on October 1, 2002 (the fund was created in 2000). The purpose of this fund is to account for the health benefits of Medicare-eligible members and former retirees of the Uniformed Services and their eligible dependents who are Medicare eligible. The Fund receives contributions from the Uniformed Services and Treasury, as well as interest earnings on its investments and pays costs incurred in military medical facilities, as well as claims for care provided by civilian providers under TFL, administration costs associated with processing the TFL claims, and premium costs for HMO coverage provided by U.S. Family Health Plans.

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 2004 through 2008, the average medical cost per year was \$30.0 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 on 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 veterans compensation and burial benefits payable increased by \$339.0 billion in fiscal year 2008 and decreased by \$26.1 billion in fiscal year 2007. Actuarial assumption changes were the primary reason behind a more than six-fold increase in VA’s costs during fiscal year 2008, compared with a relatively meager decrease in fiscal year 2007. The fiscal year 2008 actuarial cost increase was the largest by far at VA in recent years and accounted for approximately 50 percent of the change in total cost across the Government. The major components of this significant change include changes in discount rates, pay adjustments, and estimates of veteran eligibility.

### Veterans Compensation and Burial Benefits Payable as of September 30

(In billions of dollars)	2008	2007
Veterans.....	1,231.9	944.0
Survivors.....	230.1	179.9
Burial benefits.....	4.7	3.8
Total veterans compensation and burial benefits payable.....	<u>1,466.7</u>	<u>1,127.7</u>

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

	2008	2007
Rate of interest.....	3.97%	4.67%
Rate of inflation.....	2.45%	2.31%

### Life Insurance Benefits

The largest veterans' life insurance programs consist of the following:

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

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

### Veteran Life Insurance Liability as of September 30

(In billions of dollars)	2008	2007
<b>Insurance death benefits:</b>		
NSLI.....	7.8	8.2
VSLI.....	1.6	1.6
VRI.....	0.3	0.3
Other.....	0.4	0.5
Total death benefits.....	<u>10.1</u>	<u>10.6</u>
Death benefit annuities.....	0.1	0.1
Disability income and waiver.....	0.5	0.5
Insurance dividends payable.....	1.9	1.9
Total veterans life insurance liability.....	<u>12.6</u>	<u>13.1</u>

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

The VA supervises service members' Group Life Insurance and Veterans' Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services and veterans who served during the Vietnam era or thereafter. The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial

present value of the future liability for pension benefits is a nonexchange transaction and is not required to be recorded on the balance sheet. The projected amounts of future payments for pension benefits as of September 30, 2008, and 2007, were \$97.3 billion and \$81.4 billion, respectively.

## Note 13. Environmental and Disposal Liabilities

### Environmental and Disposal Liabilities as of September 30

(In billions of dollars)	2008	2007
<b>Department of Energy:</b>		
Environmental management program .....	185.4	188.6
Legacy environmental liabilities - other .....	51.2	45.8
Active and Surplus Facilities .....	29.4	29.2
Total Department of Energy.....	<u>266.0</u>	<u>263.6</u>
<b>Department of Defense:</b>		
Environmental restoration .....	32.0	33.1
Disposal of weapon systems program .....	28.8	31.4
Base realignment and closure.....	5.2	5.1
Environmental corrective other.....	4.5	2.9
Total Department of Defense.....	<u>70.5</u>	<u>72.5</u>
<b>All other agencies</b> .....	<u>6.3</u>	<u>5.9</u>
Total environmental and disposal liabilities .....	<u><u>342.8</u></u>	<u><u>342.0</u></u>

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

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

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

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

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

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

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

DOE is also required to recognize closure and post-closure costs for its active and surplus facilities and environmental corrective action costs for current operations. The cleanup cost associated with active and surplus facilities that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. The DOE unrecognized portion of the cleanup cost associated with active and surplus facilities is \$698.0 million and \$760.0 million for fiscal years 2008 and 2007, respectively. The unrecognized portion of the cleanup cost is recognized over a predetermined period of time.

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

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

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

DOD is currently using two independently validated estimating models, in addition to engineering estimates, to report its environmental liabilities. The models are the Remedial Action Cost Engineering Requirements (RACER) and the Department of Navy Normalization of Data System (NORM). DOD uses the models to estimate cost during the preliminary assessment and initial site investigation phases of restoration projects. Engineering estimates are generally used to estimate cost from the remedial investigation/feasibility phase of the project forward. DOD is also required to recognize closure and post-closure costs for its general property, plant, and equipment and environmental corrective action costs for current operations. The cleanup cost associated with general property, plant, and equipment that is allocated to operating periods beyond the balance sheet date is identified as the unrecognized portion. The DOD unrecognized portion of the cleanup cost associated with general property, plant, and equipment is \$1,953.9 million and \$1,589.1 million for fiscal years 2008 and 2007, respectively. The unrecognized portion of the cleanup costs is recognized over a predetermined period of time.

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

## Note 14. Benefits Due and Payable

### Benefits Due and Payable as of September 30

(In billions of dollars)	2008	2007
Federal old-age and survivors insurance .....	46.4	44.1
Federal supplementary medical insurance (Medicare Parts B and D).....	24.0	22.2
Federal disability insurance .....	22.2	21.7
Federal hospital insurance (Medicare Part A) .....	21.0	19.4
Grants to states for Medicaid.....	20.4	19.4
Supplemental security income.....	4.5	4.2
Unemployment insurance .....	1.6	1.3
All other benefit programs.....	4.3	1.4
Total benefits due and payable .....	<u>144.4</u>	<u>133.7</u>

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. For a description of the programs, see the Supplemental Information—Social Insurance section.

## Note 15. Insurance Program Liabilities

### Insurance Program Liabilities as of September 30

(In billions of dollars)

	2008	2007
<b>Insurance program liabilities:</b>		
Pension Benefit Guaranty Corporation - Benefit Pension Plans.....	60.0	69.2
Federal Deposit Insurance Corporation .....	12.1	1.8
Department of Homeland Security - National Flood Insurance Program .....	5.5	1.5
All other insurance programs .....	0.2	0.2
Total insurance program liabilities .....	<u>77.8</u>	<u>72.7</u>

Pension Benefit Guaranty Corporation (PBGC) insures pension benefits for participants in covered defined benefit pension plans. As a wholly owned corporation of the U.S. Government, PBGC's financial activity and balances are included in the consolidated financial statements of the U.S. Government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund of the Treasury or assets of the Government in general. As of September 30, 2008, PBGC had total liabilities of \$74.1 billion, and its total liabilities exceeded its total assets by \$11.2 billion. In addition, as discussed in Note 19—Contingencies, PBGC reported reasonably possible contingent losses of about \$46.8 billion.

Of the total FDIC amount, \$11.7 billion represents the recorded contingent liability and loss provision for Depositor Insured Fund institutions that are likely to fail within one year. The remaining amounts represent pending depositor claims and contingent liabilities for litigation.

The Federal Emergency Management Agency (FEMA) of DHS administers the National Flood Insurance Program (NFIP) 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.

In addition, see Note 8 for information regarding Treasury's Temporary Guarantee Program for Money Market Funds. The Government believes the risk of loss under the program is negligible, and no liability is recorded as of September 30, 2008.

## Note 16. Other Liabilities

<b>Other Liabilities as of September 30</b>	<b>2008</b>	<b>2007</b>
(In billions of dollars)		
<b>Unearned revenue and assets held for others:</b>		
DOE's unearned fees for nuclear waste disposal and other unearned revenue .....	53.3	33.6
Assets held on behalf of others .....	46.2	38.7
Subtotal .....	<u>99.5</u>	<u>72.3</u>
<b>Employee-related liabilities:</b>		
Accrued Federal employees wages and benefits .....	35.1	31.2
Selected DOE contractors' and D.C. employees' pension benefits .....	29.2	28.8
Subtotal .....	<u>64.3</u>	<u>60.0</u>
<b>Subsidies and grants:</b>		
Farm and other subsidies .....	21.4	17.9
Grant payments due to State and local governments and others .....	14.6	13.1
Subtotal .....	<u>36.0</u>	<u>31.0</u>
<b>International monetary liabilities and gold certificates (Note 2) .....</b>	<b>18.7</b>	<b>20.8</b>
<b>Miscellaneous liabilities:</b>		
Legal and other contingencies .....	26.6	24.7
Bonneville Power Administration non-Federal power projects and capital lease liabilities, and disposal liabilities .....	10.2	12.5
Other miscellaneous .....	42.8	35.1
Subtotal .....	<u>79.6</u>	<u>72.3</u>
Total other liabilities .....	<u><u>298.1</u></u>	<u><u>256.4</u></u>

Other liabilities represent liabilities that are not separately identified on the balance sheet and are presented on a comparative basis by major category.

## Unearned Revenue and Assets Held for Others

The Government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The Government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste is about \$25.5 billion and \$24.8 billion as of September 30, 2008, and 2007, respectively. The Federal Communications Commission includes deferred revenue of \$17.1 billion as of September 30, 2008, for proceeds received from its competitive bidding system for the recovered analog spectrum relating to licenses that have not been granted. Other unearned revenue includes U.S. Postal Service income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance and undelivered defense articles. The Foreign Military Sales program holds \$36.0 billion and \$29.0 billion as of September 30, 2008, and 2007, respectively for articles and services for future delivery to foreign governments.

## Employee-Related Liabilities

This category includes amounts owed to employees at yearend and actuarial liabilities for certain non-Federal employees. Actuarial liabilities for Federal employees and veteran benefits are included in Note 12 and are reported on another line on the balance sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to Federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors such as the University of California, which operates the Lawrence Livermore National Laboratory, for contractor employee pension and postretirement benefits, which is about \$12.3 billion as of September 30, 2008, and 2007. Also, the Government owed about \$8.8 billion and \$9.0 billion as of September 30, 2008, and 2007, respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

## Subsidies and Grants

The Government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. Department of Agriculture programs such as the Conservation Reserve, Tobacco Transition Payment, and Direct and Counter-Cyclical Payment programs account for the majority of the subsidies due, about \$12.2 billion, and \$11.5 billion as of September 30, 2008, and 2007, respectively.

The Government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to State governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2008, and 2007, the Department of Transportation (DOT), Department of Education (Education), and HHS collectively owed their grantees about \$11.9 billion and \$11.6 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

## Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 19—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables due to derivative contracts and the purchases of securities. In addition, many Federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise described.

## Note 17. Collections and Refunds of Federal Revenue

### Collections of Federal Revenue for the Year Ended September 30, 2008

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate			
		2008	2007	2006	Prior Years
Individual income and tax withholdings .....	2,294.3	1,455.0	799.2	23.5	16.6
Corporation income taxes .....	354.0	222.0	114.0	2.0	16.0
Unemployment taxes .....	39.5	21.9	10.1	7.4	0.1
Excise taxes .....	68.4	50.2	17.9	0.1	0.2
Estate and gift taxes .....	29.8	-	19.2	1.3	9.3
Railroad retirement taxes .....	4.9	3.7	1.2	-	-
Federal Reserve earnings .....	33.6	25.9	7.7	-	-
Fines, penalties, interest, and other revenue .....	6.6	6.1	0.4	0.1	-
Customs duties .....	28.6	28.6	-	-	-
Subtotal .....	<u>2,859.7</u>	<u>1,813.4</u>	<u>969.7</u>	<u>34.4</u>	<u>42.2</u>
Less: amounts collected for non-Federal entities .....	<u>(0.9)</u>				
Total .....	<u><u>2,858.8</u></u>				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income tax and tax withholdings consist of Federal Insurance Contributions Act (FICA)/Self-Employment Contributions Act (SECA) and other taxes.

### Federal Tax Refunds Disbursed for the Year Ended September 30, 2008

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2008	2007	2006	Prior Years
Individual income and tax withholdings .....	369.3	0.9	342.1	19.2	7.1
Corporation income taxes .....	54.3	2.2	19.6	10.4	22.1
Unemployment taxes .....	0.1	-	0.1	-	-
Excise taxes .....	1.3	0.5	0.5	0.1	0.2
Estate and gift taxes .....	1.0	-	0.3	0.4	0.3
Customs duties .....	1.3	0.7	0.2	0.1	0.3
Total.....	<u>427.3</u>	<u>4.3</u>	<u>362.8</u>	<u>30.2</u>	<u>30.0</u>

### Reconciliation of Revenue to Collections for the Year Ended September 30

(In billions of dollars)	2008	2007
Consolidated revenue per the Statements of Operations and Changes in Net Position .....	2,661.4	2,627.3
Tax refunds .....	427.3	299.7
Stimulus Act Recovery Rebate Payments .....	(94.3)	-
Earned income tax credit and child tax credit imputed revenue .....	(59.2)	(58.4)
Nontax-related fines and penalties reported by agencies .....	(40.7)	(33.8)
Nontax-related earned revenue .....	<u>(35.7)</u>	<u>(29.7)</u>
Collections of Federal revenue .....	<u>2,858.8</u>	<u>2,805.1</u>

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

On the other hand, collections of Federal revenue 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, 2007**

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

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

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

## Note 18. Prior Period Adjustments

<b>Prior Period Adjustments for the Year Ended September 30</b>		
(In billions of dollars)	<b>Changes to Net Position</b>	
	<b>2008</b>	<b>2007</b>
<b>Prior Period Adjustments</b>		
Department of Agriculture .....	11.5	-
National Aeronautics and Space Administration.....	-	(12.7)
Other prior period adjustments .....	(0.1)	(1.2)
Total prior period adjustments.....	<u>11.4</u>	<u>(13.9)</u>

DHS deposits 30 percent of customs duties collected into an unavailable receipt account. USDA receives an amount annually from this account in accordance with 7 USC 612c to encourage exportation and domestic consumption of agricultural products. Treasury and OMB decided that Agriculture should be assigned responsibility for the unavailable receipt account to improve Governmentwide reporting. Consequently, the cumulative effect of this change on prior periods increased the beginning balance of Net Position by \$13.6 billion. Additionally, USDA implemented a reclassification of its road prism assets from general plant, property, and equipment to Stewardship plant, property, and equipment. This change removes a net book value of \$2.1 billion from the beginning balance of Net Position. The net value of these two numbers increased USDA's beginning balance of Net Position by \$11.5 billion.

In fiscal year 2007, NASA recorded prior period adjustments for \$12.7 billion (net decrease), primarily to reflect a change in accounting principle for property, plant, and equipment to reclassify costs previously categorized as general property, plant, and equipment to R&D expenses. After a detailed review of all items previously categorized as property, plant, and equipment, NASA concluded certain projects are more properly classified as R&D, and should not be classified, in their entirety, as capital assets under the classification of property, plant, and equipment. Accordingly, NASA applied the provisions of SFAS No. 2, Accounting for R&D Costs, to account for its R&D projects. NASA believes the recognition and measurement requirements of SFAS No. 2 result in reporting financial information that is more relevant and accurate.

## 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. The following table provides criteria for how Federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.<sup>1</sup>

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.
<b>Probable.</b> Future confirming event(s) are more likely to occur than not. <sup>2</sup>	Accrue the liability. Reported on Balance Sheet and Statement of Net Cost.	Accrue liability using 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.
<b>Reasonably possible.</b> 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.
<b>Remote.</b> Possibility of future event(s) occurring is slight.	No disclosure.	No disclosure.	No disclosure.

<sup>1</sup> In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

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

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

### **Insurance Contingencies**

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. The Government has insurance contingencies that are reasonably possible in the amount of \$64.0 billion as of September 30, 2008, and \$67.8 billion as of September 30, 2007. The major programs are identified below:

- PBGC reported \$46.8 billion and \$65.7 billion as of September 30, 2008 and 2007, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined pension plans that is classified as a reasonably possible exposure to loss.
- FDIC reported \$17.2 billion and \$0.9 billion as of September 30, 2008 and 2007, respectively, for identified additional risk in the financial services industry that could result in additional loss to the Deposit Insurance Fund should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

### **Insurance in Force**

Insurance in Force is the accumulation of policy limits for all policies issued and outstanding at a point in time. The Government has Insurance in Force in the amount of \$1,660.1 billion as of September 30, 2008, and \$1,157.3 billion as of September 30, 2007. These amounts represent estimated maximum exposure to insurance claims and guarantee programs. The major programs are identified below:

- The Department of Homeland Security reported \$1,600.0 billion and \$1,100.0 billion as of September 30, 2008, and 2007, respectively, for the National Flood Insurance Program.
- The Export-Import Bank of the United States reported \$39.9 billion and \$39.1 billion as of September 30, 2008, and 2007, respectively, for Export Credit Insurance.

### **Deposit Insurance**

Deposit insurance covers all types of deposit accounts such as checking, NOW and savings accounts, money market deposit accounts, and certificates of deposit (CDs) received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial institution's closing. As a result, the Government has an aggregated insured deposit exposure estimated at approximately \$5,063.7 billion as of September 30, 2008, and \$4,800.2 billion as of September 30, 2007, which represent the total face amount of insurance in force. However, these amounts represent maximum possible losses assuming all the FDIC and NCUA member depository institutions were to fail (i.e., the likelihood of this occurring is remote) and the acquired assets provided no recovery of funds. Actual losses have generally been a very small fraction of the aggregate estimated insured deposits. The breakdown by agency is identified below:

- FDIC has estimated insured deposits of \$4,462.0 billion as of September 30, 2008, and \$4,239.0 billion as of September 30, 2007, for the Deposit Insurance Fund.
- NCUA has estimated insured deposits of \$601.6 billion as of September 30, 2008, and \$561.2 billion as of September 30, 2007, for the National Credit Union Share Insurance Fund.

**Legal and Other Contingencies**

Legal and other contingencies as of September 30, 2008, and 2007, are summarized in the table below:

(In billions of dollars)	Accrued Liabilities <sup>1</sup>	2008 Estimated Range of Loss for Certain Cases <sup>2</sup>		Accrued Liabilities <sup>1</sup>	2007 Estimated Range of Loss for Certain Cases <sup>2</sup>	
		Lower End	Upper End		Lower End	Upper End
Legal and other contingencies						
Probable.....	6.6	5.8	7.8	6.4	6.4	8.0
Reasonably possible .....		8.0	21.4		3.6	6.6

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

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

Management and legal counsel have determined that it is “probable” that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are \$6.6 billion and \$6.4 billion as of September 30, 2008, and 2007, respectively, and are reflected in the balance sheet as “Insurance Liabilities” or “Other Liabilities.” A few of the major cases are summarized below:

- HHS has accrued \$3.8 billion for contingent liabilities related to administrative proceedings, legal actions, and tort claims as of September 30, 2008. HHS Centers for Medicare and Medicaid Services has accrued \$3.5 billion for Medicaid, which consists of Medicaid and audit and program disallowances of \$0.7 billion and \$2.8 billion for reimbursements of State Plan amendments. Contingent liabilities have been established as a result of Medicaid audit and program disallowances that are currently being appealed by the States. HHS will be required to pay these amounts if the appeals are decided in favor of the States.
- DOI has accrued \$1.2 billion for contingent liabilities, consisting of numerous claims and lawsuits that are awaiting adjudication. These actions typically relate to administrative and judicial claims, contract related actions, tribal and Indian trust-related matters, personnel and employment related matters, and various land and resource related claims and adjudications.

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 potential loss or a range of potential loss. The estimated potential losses for such claims and actions range from \$8.0 billion to \$21.4 billion as of September 30, 2008, and from \$3.6 billion to \$6.6 billion as of September 30, 2007. Two of the major cases are summarized below:

- DHS has received and has pending administrative claims and 30 Class Action lawsuits. The claims and lawsuits are related to claims against FEMA for personal injuries allegedly resulting from exposure to formaldehyde in temporary housing units; i.e., travel trailers, and mobile homes, issued by FEMA in response to Hurricanes Katrina and Rita.
- USDA has pending class action discrimination suits.

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

- Native Americans allege that DOI and Treasury have breached trust obligations with respect to the management of the plaintiffs' individual Indian monies. The plaintiffs have not made claims for specific dollar amounts in the Federal district court proceedings, but in public statements have asserted that the class is owed tens of billions of dollars.
- DOI is involved in two related cases in connection with Indian mineral lease amendments containing increased royalty rates negotiated by the Navajo Nation and the Hopi Tribe. The tribes assert that the United States breached fiduciary duties to the tribes when the Secretary approved the tribally-negotiated amendments.
- Threatened or pending DOD litigation cases include claims asserted under the Federal Tort Claims Act (FTCA), patent infringement and damage claims, and contract litigation involving cost accounting standards.
- Numerous complaints have arisen as a result of Hurricane Katrina. These New Orleans FTCA cases allege personal injury, wrongful death, and property damages as a result of massive flooding caused by the hurricane. There are over 507,000 administrative claims filed in relation to Hurricane Katrina and 1,000 related suits in Federal district courts. Additional suits are expected.

### Environmental and Disposal Contingencies

Environmental and disposal contingencies as of September 30, 2008, and 2007, are summarized in the table below:

	Accrued Liabilities <sup>1</sup>	2008 Estimated Range of Loss for Certain Cases <sup>2</sup>		Accrued Liabilities <sup>1</sup>	2007 Estimated Range of Loss for Certain Cases <sup>2</sup>	
		Lower End	Upper End		Lower End	Upper End
(In billions of dollars)						
Environmental and disposal contingencies						
Probable .....	12.7	12.7	13.0	11.2	11.2	11.3
Reasonably possible ....		0.4	0.4		0.3	0.8

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

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

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are \$12.7 billion and \$11.2 billion as of September 30, 2008, and 2007, respectively, and are reflected on the balance sheet as "Other Liabilities." DOE is subject to Spent Nuclear Fuel litigation for damages suffered by all utilities as a result of the delay in beginning disposal of spent nuclear fuel and also damages for alleged exposures to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of \$12.4 billion and \$11.1 billion as of September 30, 2008, and 2007, respectively.

## Other Contingencies

DOT reported the following other contingencies:

- The Federal Highway Administration (FHWA) reimburses states for construction costs on projects related to the Federal Highway System of roads. FHWA has pre-authorized \$46.2 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2008, and 2007. Congress has not provided appropriations for these projects and no liability is accrued in the consolidated financial statements.
- The Federal Transit Administration (FTA) provides grants to state and local transit authorities and agencies. FTA executes Full Funding Grant Agreements authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. Under these agreements, FTA has committed approximately \$1.7 billion and \$3.9 billion for fiscal years ending September 30, 2008, and 2007. Congress has not provided appropriations for these commitments and no liability is reflected in the consolidated financial statements.

## Note 20. Commitments

### Long-Term Operating Leases as of September 30

(In billions of dollars)

	2008	2007
General Services Administration.....	23.9	23.1
U.S. Postal Service .....	8.3	8.4
Department of Justice .....	4.3	3.1
Department of Homeland Security.....	2.3	0.9
Department of Health and Human Services ..	1.5	1.6
Department of State .....	1.0	1.8
Department of Agriculture .....	0.8	0.8
Other operating leases.....	4.6	4.8
Total long-term operating leases.....	<u>46.7</u>	<u>44.5</u>

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. 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 (MDBs), 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.

### Undelivered Orders and Other Commitments as of September 30

(In billions of dollars)

	2008	2007
<b>Undelivered Orders:</b>		
Department of Defense .....	316.1	246.0
EOP Foreign Military Sales Program .....	77.6	63.8
Department of Transportation .....	71.7	72.2
Department of Health and Human Services .....	69.3	72.1
Department of the Treasury .....	57.1	55.8
Department of Housing and Urban Development ..	56.8	65.2
Department of Education .....	47.2	48.2
Department of Agriculture .....	37.8	34.9
Department of Homeland Security .....	33.6	29.9
Department of Energy .....	13.6	12.2
Department of State .....	13.6	11.3
Agency for International Development .....	11.6	12.0
Department of Justice .....	8.9	9.0
National Science Foundation .....	8.0	7.7
Environmental Protection Agency .....	7.8	8.0
Department of Veterans Affairs .....	7.4	4.6
All other agencies .....	32.0	32.2
Total undelivered orders.....	<u>870.1</u>	<u>785.1</u>
<b>Other Commitments:</b>		
Senior GSE Preferred Stock Purchase Agreement .....	186.2	-
Callable capital subscriptions for multilateral development banks.....	62.3	62.2
Sales of surplus power .....	32.8	21.2
Power purchase obligations .....	7.2	4.8
Long-term satellite and systems.....	4.8	7.7
Fuel purchase obligations .....	4.2	3.1
Agriculture direct loans and guarantees.....	3.8	2.7
Contract Options and Negotiations .....	3.7	-
All other commitments.....	4.7	8.1
Total other commitments .....	<u>309.7</u>	<u>109.8</u>

## 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.

On September 7, 2008, the Secretary of the Treasury announced a program designed to protect the U.S. markets and the taxpayers from the systemic risk posed by the financial condition of the GSE. Treasury entered into a senior preferred stock purchase contract with Freddie Mac and Fannie Mae. They are indefinite in duration and have a capacity of \$100 billion each, an amount chosen to demonstrate a strong commitment to the GSE creditors and mortgage-backed security holders. Treasury also established a new secured lending credit facility which will be available to Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. Funding will be provided directly by Treasury from its general fund held at the FRBNY in exchange for eligible collateral from the GSE which will be limited to guaranteed mortgage-backed securities issued by the GSE. See Note 8 for further information.

In addition, the U. S. 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. Earmarked Funds

### Earmarked Funds as of September 30, 2008 <sup>1</sup>

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement and Disability Fund	Medicare-Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Civil Service Health Benefits Program Trust Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	-	-	-	-	-
Fund balance with Treasury ....	(0.3)	-	-	-	0.2	0.9
Investments in U.S. Treasury securities .....	2,150.7	250.3	728.9	132.8	318.7	47.8
Other Federal assets.....	26.4	2.7	10.1	1.5	26.8	1.1
Non-Federal assets.....	2.5	-	0.3	-	1.1	0.9
Total assets.....	<u>2,179.3</u>	<u>253.0</u>	<u>739.3</u>	<u>134.3</u>	<u>346.8</u>	<u>50.7</u>
<b>Liabilities:</b>						
Liabilities due and payable to beneficiaries .....	46.4	3.4	5.0	0.6	21.0	4.1
Other Federal liabilities.....	4.2	-	0.1	0.1	22.5	0.3
Other non-Federal liabilities ....	-	1,150.7	1,387.8	500.3	0.4	331.8
Total liabilities.....	50.6	1,154.1	1,392.9	501.0	43.9	336.2
Total net position .....	2,128.7	(901.1)	(653.6)	(366.7)	302.9	(285.5)
Total liabilities and net position .....	<u>2,179.3</u>	<u>253.0</u>	<u>739.3</u>	<u>134.3</u>	<u>346.8</u>	<u>50.7</u>
<b>Change in net position:</b>						
Beginning net position .....	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)
Prior period adjustment .....	-	-	-	-	-	-
Beginning net position, adjusted.....	1,946.7	(810.6)	(613.6)	(407.9)	295.0	(262.8)
Investment revenue.....	104.1	15.5	37.3	8.2	16.6	1.9
Individual income taxes .....	573.8	-	-	-	197.2	-
Unemployment and excise taxes .....	-	-	-	-	-	-
Other taxes and receipts .....	-	-	-	-	0.6	-
Miscellaneous earned revenues .....	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers) .....	10.0	65.1	30.9	24.4	11.2	8.7
Non-program expenses.....	-	-	-	-	-	-
Program net cost.....	505.9	171.1	108.2	(8.6)	217.7	33.3
Ending net position.....	<u>2,128.7</u>	<u>(901.1)</u>	<u>(653.6)</u>	<u>(366.7)</u>	<u>302.9</u>	<u>(285.5)</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

**Earmarked Funds as of September 30, 2008 <sup>1</sup>**

(In billions of dollars)	Federal Disability Insurance Trust Fund	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Earmarked Funds	Intra- Earmarked Fund Eliminations	Total Earmarked Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	-	0.3	22.3	-	22.6
Fund balance with Treasury ..	(0.4)	(0.1)	12.3	77.5	-	90.1
Investments in U.S.						
Treasury securities .....	216.5	72.4	59.1	177.6	-	4,154.8
Other Federal assets .....	2.7	1.2	26.5	18.3	(53.5)	63.8
Non-Federal assets .....	3.0	1.5	5.0	116.2	-	130.5
Total assets .....	<u>221.8</u>	<u>75.0</u>	<u>103.2</u>	<u>411.9</u>	<u>(53.5)</u>	<u>4,461.8</u>
<b>Liabilities:</b>						
Liabilities due and payable to beneficiaries .....	24.1	1.6	24.0	2.0	-	132.2
Other Federal liabilities .....	1.0	1.3	26.9	61.9	(53.5)	64.8
Other non-Federal liabilities ...	-	-	0.3	188.9	-	3,560.2
Total liabilities .....	<u>25.1</u>	<u>2.9</u>	<u>51.2</u>	<u>252.8</u>	<u>(53.5)</u>	<u>3,757.2</u>
Total net position .....	<u>196.7</u>	<u>72.1</u>	<u>52.0</u>	<u>159.1</u>	<u>-</u>	<u>704.6</u>
Total liabilities and net position .....	<u>221.8</u>	<u>75.0</u>	<u>103.2</u>	<u>411.9</u>	<u>(53.5)</u>	<u>4,461.8</u>
<b>Change in net position:</b>						
Beginning net position .....	193.9	75.0	43.9	160.6	-	620.2
Prior period adjustment .....	-	-	-	-	-	-
Beginning net position, adjusted .....	193.9	75.0	43.9	160.6	-	620.2
Investment revenue .....	11.0	3.6	2.5	0.3	-	201.0
Individual income taxes .....	97.4	-	-	-	-	868.4
Unemployment and excise taxes .....	-	39.4	-	51.8	-	91.2
Other taxes and receipts .....	0.1	-	3.3	30.7	(0.4)	34.3
Miscellaneous earned revenues .....	-	-	-	5.8	-	5.8
Other changes in fund balance (e.g., appropriations, transfers) ..	(1.5)	(3.7)	179.6	13.3	-	338.0
Non-program expenses .....	-	-	-	1.9	-	1.9
Program net cost .....	<u>104.2</u>	<u>42.2</u>	<u>177.3</u>	<u>101.5</u>	<u>(0.4)</u>	<u>1,452.4</u>
Ending net position .....	<u>196.7</u>	<u>72.1</u>	<u>52.0</u>	<u>159.1</u>	<u>-</u>	<u>704.6</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

### Earmarked Funds as of September 30, 2007<sup>1</sup> (Restated)

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Military Retirement Fund	Civil Service Retirement and Disability Fund	Medicare- Eligible Retiree Health Care Fund (MERHCF)	Federal Hospital Insurance Trust Fund (Medicare Part A)	Civil Service Health Benefits Program Trust Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	-	-	-	-	-
Fund balance with Treasury .....	(0.9)	-	-	-	-	0.9
Investments in U.S. Treasury Securities .....	1,968.3	215.4	701.7	108.4	319.4	41.3
Other Federal assets .....	25.0	2.8	9.8	1.1	25.4	0.9
Non-Federal assets .....	2.3	-	0.3	-	1.0	0.7
Total assets .....	<u>1,994.7</u>	<u>218.2</u>	<u>711.8</u>	<u>109.5</u>	<u>345.8</u>	<u>43.8</u>
<b>Liabilities and net position:</b>						
Liabilities due and payable to beneficiaries .....	44.1	3.5	4.8	0.6	19.4	3.8
Other Federal liabilities .....	3.9	-	0.1	0.1	29.5	0.3
Other non-Federal liabilities .....	-	1,025.3	1,320.5	516.7	1.9	302.5
Total liabilities .....	48.0	1,028.8	1,325.4	517.4	50.8	306.6
Total net position .....	<u>1,946.7</u>	<u>(810.6)</u>	<u>(613.6)</u>	<u>(407.9)</u>	<u>295.0</u>	<u>(262.8)</u>
Total liabilities and net position .....	<u>1,994.7</u>	<u>218.2</u>	<u>711.8</u>	<u>109.5</u>	<u>345.8</u>	<u>43.8</u>
<b>Change in net position:</b>						
Beginning net position .....	1,771.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)
Prior period adjustment .....	(5.0)	-	-	-	-	-
Beginning net position, adjusted .....	1,766.9	(758.7)	(591.6)	(453.5)	287.9	(273.5)
Investment revenue .....	97.4	10.3	37.2	4.4	16.3	1.0
Individual income taxes .....	553.4	-	-	-	188.0	-
Unemployment and excise taxes .....	-	-	-	-	-	-
Other taxes and receipts .....	-	-	-	-	-	-
Miscellaneous earned revenue .....	-	-	-	-	-	-
Other changes in fund balance (e.g., appropriations, transfers) .....	10.6	43.1	13.8	27.3	11.4	25.6
Non-program expenses .....	-	-	-	-	-	-
Program net cost .....	481.6	105.3	73.0	(13.9)	208.6	15.9
Ending net position .....	<u>1,946.7</u>	<u>(810.6)</u>	<u>(613.6)</u>	<u>(407.9)</u>	<u>295.0</u>	<u>(262.8)</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

**Earmarked Funds as of September 30, 2007<sup>1</sup> (Restated)**

(In billions of dollars)	Federal Disability Insurance Trust Fund	Unemployment Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Earmarked Funds	Intra- Earmarked Fund Eliminations	Total Earmarked Funds
<b>Assets:</b>						
Cash and other monetary assets .....	-	-	0.1	21.8	-	21.9
Fund balance with Treasury .....	(0.4)	0.1	8.8	70.7	-	79.2
Investments in U.S. Treasury Securities .....	213.8	74.9	39.2	169.4	-	3,851.8
Other Federal assets .....	2.7	1.2	32.9	17.4	(58.3)	60.9
Non-Federal assets .....	2.8	1.5	10.8	93.5	-	112.9
Total assets .....	<u>218.9</u>	<u>77.7</u>	<u>91.8</u>	<u>372.8</u>	<u>(58.3)</u>	<u>4,126.7</u>
<b>Liabilities and net position:</b>						
Liabilities due and payable to beneficiaries .....	21.7	1.3	22.2	2.0	-	123.4
Other Federal liabilities .....	1.0	1.4	24.8	62.0	(58.3)	64.8
Other non-Federal liabilities ..	2.3	-	0.9	148.2	-	3,318.3
Total liabilities .....	<u>25.0</u>	<u>2.7</u>	<u>47.9</u>	<u>212.2</u>	<u>(58.3)</u>	<u>3,506.5</u>
Total net position .....	<u>193.9</u>	<u>75.0</u>	<u>43.9</u>	<u>160.6</u>	<u>-</u>	<u>620.2</u>
Total liabilities and net position .....	<u>218.9</u>	<u>77.7</u>	<u>91.8</u>	<u>372.8</u>	<u>(58.3)</u>	<u>4,126.7</u>
<b>Change in net position:</b>						
Beginning net position .....	183.0	66.4	41.6	150.8	-	424.3
Prior period adjustment .....	5.0	-	0.1	1.0	-	1.1
Beginning net position, adjusted .....	188.0	66.4	41.7	151.8	-	425.4
Investment revenue .....	11.0	3.3	2.1	9.7	-	192.7
Individual income taxes .....	94.0	-	-	-	-	835.4
Unemployment and excise taxes .....	-	39.3	-	53.6	-	92.9
Other taxes and receipts .....	0.1	1.6	-	34.0	(0.5)	35.2
Miscellaneous earned revenue .....	-	-	-	4.4	-	4.4
Other changes in fund balance (e.g., appropriations, transfers) ..	(1.6)	(3.5)	159.0	4.9	-	290.6
Non-program expenses .....	-	-	-	3.0	-	3.0
Program net cost .....	97.6	32.1	158.9	94.8	(0.5)	1,253.4
Ending net position .....	<u>193.9</u>	<u>75.0</u>	<u>43.9</u>	<u>160.6</u>	<u>-</u>	<u>620.2</u>

<sup>1</sup> By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Government's general revenues. Earmarked funds generally include trust funds, public enterprise revolving funds (not including credit reform financing funds) and special funds.

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

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

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

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

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

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

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

Most of the earmarked fund assets are invested in intragovernmental debt holdings. The Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to Federal agencies as evidence of its receipts. Treasury securities are an asset to the Federal agencies and a liability to the U.S. Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report of the U.S. Government*. These securities require redemption if a fund's disbursements exceeds its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 11—Federal Debt Securities Held by the Public and Accrued Interest for further information related to the investments in Federal debt securities.

Depicted below is a description of the major earmarked funds shown in the above tables, which also includes the names of the Government agencies that administer each particular fund. For detailed information regarding these earmarked funds, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain earmarked funds, see Note 14—Benefits Due and Payable.

## Federal Old-Age and Survivors Insurance Trust Fund

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

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

## **Military Retirement Fund**

The Military Retirement Fund, administered by DOD, 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 earnings on Treasury securities. The laws establishing the Military Retirement Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 10 U.S.C. § 1461-1467.

## **Civil Service Retirement and Disability Fund**

The Civil Service Retirement and Disability Fund (CSRDF) covers two Federal civilian retirement systems: the Civil Service Retirement System (CSRS)—for employees hired before 1984, and the Federal Employees' Retirement System (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 earnings on Treasury securities.

## **Medicare-Eligible Retiree Health Care Fund**

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

## **Federal Hospital Insurance Trust Fund (Medicare Part A)**

The Federal Hospital Insurance Trust Fund, administered by HHS, 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.

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.

## **Civil Service Health Benefits Program Trust Funds**

The Civil Service Health Benefits Program (HBP) provides health benefits to Federal employees and dependents as well as to Federal retirees, including USPS retirees, and survivor annuitants. The program is operated through two revolving trust funds. The HBP administers a wide variety of health and wellness plans including Fee-For-Service and Health Maintenance Organization plans. Retired employees can choose to continue coverage upon separation from the Government. OPM administers the HBP.

The law establishing the first HBP trust fund, the Federal Employees Health Benefits (FEHB) Fund, and authorizing the depositing of amounts to the credit of the trust fund is set forth in 5 U.S.C. § 8909. The FEHB fund is funded on a “pay-as-you-go” basis and funding sources include:

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

The *Postal Accountability and Enhancement Act of 2006* (Postal Act of 2006) (P.L. No 109-435, Title VIII), made significant changes in the funding of retiree health benefits for employees of the USPS, including the requirement for the USPS to make scheduled payments to the second HBP trust fund, the newly created Postal Service Retiree Health Benefits (PSRHB) Fund.

The laws establishing the PSRHB Fund and authorizing the depositing of amounts to the credit of the trust fund are set forth in 5 U.S.C. § 8909a. The Postal Act of 2006 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from \$5.4 billion to \$5.8 billion per year from fiscal year 2007 through fiscal year 2016. Thereafter, the USPS will make annual payments in the amount of the normal cost payment. The PSRHB Fund is also funded by interest earnings on Treasury securities.

## Federal Disability Insurance Trust Fund

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

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

## Unemployment Trust Fund

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

Employer taxes provide the primary funding source for the UTF and constitute all the earmarked unemployment tax revenues as shown on the consolidated Statement of Operations and Changes in Net Position. For the years ending September 30, 2008, and 2007, UTF unemployment tax revenues were \$39.4 billion and \$39.3 billion, respectively. However, interest earnings on Treasury securities also provide income to the fund. Appropriations have supplemented the fund’s income during periods of high and extended unemployment. The law establishing the UTF and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1104.

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

The Federal Supplementary Medical Insurance Trust Fund, administered by HHS, finances the Supplementary Medical Insurance Program (Medicare Part B) and the Medicare Prescription Drug Benefit Program (Medicare Part D). These programs provide supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. Medicare Part B financing is not based on payroll taxes; it is based on monthly premiums, income from the General Fund of the Treasury, and interest earnings on Treasury securities. The law establishing the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 42 U.S.C. § 1395t.

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

## All Other Earmarked Funds

The Government is responsible for the management of numerous earmarked funds that serve a wide variety of purposes. The earmarked funds presented on an individual basis in the table above represent the majority of the Government's net position attributable to earmarked funds. All other earmarked activity is aggregated in accordance with SFFAS No. 27. For the years ending September 30, 2008 and 2007, there were approximately 537 and 521 earmarked funds, respectively. The earmarked funds within the "all other" aggregate, along with the agencies that administer them, include the following:

- Exchange Stabilization Fund—administered by Treasury.
- Railroad Retirement Trust Fund—administered by RRB.
- Universal Service Fund—administered by FCC.
- Federal Crop Insurance Corporation Fund and Funds for Strengthening Markets, Income, and Supply—administered by USDA.
- Superfund (Hazardous Substance) and Leaking Underground Storage Tanks—administered by EPA.
- U.S. Patent and Trademark Office—administered by DOC.
- Land and Water Conservation Fund, Historical Preservation Fund and Reclamation Fund—administered by DOI.
- Medical Care—administered by VA.
- Customs User Fees, Immigration Examination Fees and the National Flood Insurance Program—administered by DHS.
- Government National Mortgage Association (Ginnie Mae)—administered by HUD.

## Excise Taxes

In addition, there are 10 other earmarked funds within the "all other" aggregate that contribute to all of the earmarked excise tax revenue shown on the consolidated Statement of Operations and Changes in Net Position. Two of these earmarked funds, the Highway Trust Fund and the Airport and Airway Trust Fund, provide more than 90 percent of the total earmarked excise tax revenues. Both of these earmarked funds are administered by the DOT and, for more detailed information regarding them, please refer to DOT's financial statements.

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. The law establishing the Highway Trust Fund and authorizing the depositing of amounts to the credit of the trust fund is set forth in 26 U.S.C. § 9503. Funding sources include earmarked excise taxes on gasoline and other fuels, certain tires, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For the years ending September 30, 2008, and 2007, Highway Trust Fund excise tax revenues were \$36.4 billion and \$39.2 billion, respectively. As funds are needed for payments, the Highway Trust Fund Corpus investments are liquidated and funds are transferred to the Federal Highway Administration, the Federal Transit Administration, or other DOT entity, for payment of obligations.

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

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

For the years ending September 30, 2008, and 2007, Airport and Airway Trust Fund excise tax revenues were \$11.8 billion and \$12.4 billion, respectively. These revenue amounts do not reflect any transfers from the Highway Trust Fund to the Airport and Airway Trust Fund for fuel which was used in aviation, but which was taxed at highway rates under P.L. 109-59 (SAFETEA-LU).

## Intra-Earmarked Fund Eliminations

The intra-earmarked fund eliminations represent the activity between earmarked funds that are administered by different Federal agencies and which are eliminated to produce consolidated earmarked revenues and net costs as shown on the Statement of Operations and Changes in Net Position. Significant examples of such intra-earmarked fund activity include the financial interchanges and transactions between the Railroad Retirement Trust Fund, the Social Security Trust Funds, and the Medicare Trust Funds, which are administered by the Railroad Retirement Board (RRB), SSA and HHS, respectively. The financial interchanges and transactions between RRB's Railroad Retirement Trust Fund, SSA's Federal Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund, and HHS' Federal Hospital Insurance Trust Fund are intended to put the latter three trust funds in the same position they would have been had railroad employment been covered under the Social Security Act. For further information, see the Railroad Retirement program description within Note 23—Social Insurance.

## Restatements

The Balance Sheet and Statement of Operations and Changes in Net Position as of September 30, 2007, were restated for the changes discussed below.

Due to a correction during the current year in the computation of the fiscal year 2007 asset and liability elimination amount, the previously reported asset and liability elimination amount was increased by \$4.4 billion, thereby decreasing the previously reported amounts for total assets, total liabilities, and total liabilities and net position by \$4.4 billion. In addition, as of September 30, 2007, there was one Federal Agency that, in fiscal year 2008, restated some of its fiscal year 2007 balances and transactions from non-earmarked funds to earmarked funds. This resulted in an increase in beginning and ending net position attributable to earmarked funds of \$5.1 billion and \$6.1 billion, respectively. This Federal Agency also had \$1.0 billion of exchange revenues in excess of gross cost, resulting in a \$1 billion decrease in total program net cost attributable to earmarked funds. As a result of this restatement, the previously reported amounts for total assets and for total liabilities and net position increased by \$6.1 billion.

As of September 30, 2007, \$4.4 billion of Other Taxes and Receipts for All Other Earmarked Funds were restated to Miscellaneous Earned Revenues to correct their presentation. These amounts relate to royalties retained by various earmarked funds within DOI.

In addition, various other restatements were made to certain line items to correct their presentation. As of September 30, 2007, the following restatements were made:

- Individual income and payroll taxes and net intragovernmental transfers were decreased and increased, respectively, by \$11.8 billion to correct the amount of FICA/SECA taxes collected in fiscal year 2007 by HHS' Hospital Insurance Trust Fund.
- Excise taxes increased by \$1.4 billion to correct their being included erroneously in other taxes and receipts.
- Other taxes and receipts increased by a net \$13.5 billion. The increase was primarily due to \$7.4 billion, \$5.4 billion and \$5.2 billion that had been erroneously included in program net cost, net intragovernmental transfers, and non-program expenses, respectively.
- Intragovernmental transfers decreased by a net \$37.0 billion, primarily due to \$42.1 billion of exchange revenue that should have been included in program net cost.

**September 30, 2007 Restatements**

(In billions of dollars)

<b>Note Line Item</b>	<b>As Published</b>	<b>Agency Restatement</b>	<b>Change in Eliminations</b>	<b>All Other Changes</b>	<b>Total</b>
<b>Assets and Liabilities:</b>					
Fund Balance with					
Treasury .....	73.3	5.9	-	-	79.2
Other Federal Assets .....	65.3	-	(4.4)	-	60.9
Other Non-Federal Assets.....	112.7	0.2	-	-	112.9
Total Assets .....	4,125.0	6.1	(4.4)	-	4,126.7
Other Federal Liabilities .....	69.2	-	(4.4)	-	64.8
Total Liabilities .....	3,510.9	-	(4.4)	-	3,506.5
Net Position .....	614.1	6.1	-	-	620.2
Total Liabilities and Net Position.....	4,125.0	6.1	(4.4)	-	4,126.7
<b>Changes in Net Position:</b>					
Beginning Net Position .....	419.2	5.1	-	-	424.3
Beginning Net Position, Adjusted .....	420.3	5.1	-	-	425.4
Individual Income Taxes* .....	847.2	-	-	(11.8)	835.4
Unemployment and Excise Taxes* .....	91.5	-	-	1.4	92.9
Other Taxes and Receipts* ..	21.7	-	-	13.5	35.2
Miscellaneous Earned Revenue .....	-	-	-	4.4	4.4
Other Changes in Fund Balance .....	327.6	-	-	(37.0)	290.6
Non-Program Expenses .....	(2.2)	-	-	5.2	3.0
Program Net Cost.....	1,289.1	(1.0)	-	(34.7)	1,253.4
Ending Net Position.....	614.1	6.1	-	-	620.2

\* These line items were collectively labeled "Revenue from the public" in the published fiscal year 2007 earmarked funds note disclosure. However, these line items were individually published, as shown, in the fiscal year 2007 Statement of Operations and Changes in Net Position.

The restatements related to Changes in Net Position also affected the same line items in the Statement of Operations and Changes in Net Position by the same amounts. In addition, on the Balance Sheet, the previously reported amounts for net position – non-earmarked funds and for net position – earmarked funds decreased and increased, respectively, by \$6.1 billion.

These restatements, including the restatements related to the above Federal Agency restatement and to miscellaneous earned revenues, did not affect total Governmentwide consolidated revenues and expenses or consolidated ending net position for the year ended September 30, 2007.

## Note 22. Indian Trust Funds

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

(In millions of dollars)	2008	2007
<b>Assets:</b>		
Cash and cash equivalents .....	519.4	602.5
Investments .....	<u>2,483.8</u>	<u>2,278.2</u>
Total Assets .....	<u>3,003.2</u>	<u>2,880.7</u>
Trust fund balances, held for Indian Tribes and by DOI .....	<u>3,003.2</u>	<u>2,880.7</u>

### Tribal and Other Trust Funds Statement of Changes in Trust Fund Balances – Cash Basis for the Fiscal Years Ended September 30

(In millions of dollars)	2008	2007
Receipts .....	371.2	339.2
Interest received.....	133.1	139.3
Gain (loss) on disposition of investments, net .....	1.6	0.6
Disbursements .....	<u>(383.3)</u>	<u>(519.6)</u>
Increase (decrease) in trust fund balances, net.....	122.6	(40.5)
Trust fund balances, beginning of year.....	<u>2,880.6</u>	<u>2,921.2</u>
Trust fund balances, end of year.....	<u>3,003.2</u>	<u>2,880.7</u>

DOI has responsibility for the assets held in trust on behalf of American Indian tribes and individual Indian monies. DOI, through the Office of the Special Trustee (OST), holds trust funds in accounts for Indian tribes. It maintains over 2,700 accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund). The OST was established by the American Indian Trust Fund Management Reform Act of 1994 (Public Law 103-412) and was created to improve the accountability and management of Indian funds held in trust by the Government.

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

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

The tables above depict the U.S. Government as trustee for Indian Trust Funds Held for Indian Tribes and Other Trust Funds. The Other Trust Funds included in the tables (\$299.9 million and \$289.9 million as of September 30, 2008, and 2007, respectively, identified in DOI’s financial statements) and trust funds considered Federal funds are included in DOI’s financial statements, and other DOI special reports.

OST also maintains about 378,000 open Individual Indian Monies (IIM) accounts. The IIM fund is primarily funds on deposit 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.

<b>U.S. Government as Trustee for Indian Trust Funds Held for Individual Indian Monies Trust Funds – Modified Cash Basis</b>		
<b>Statement of Assets and Trust Fund Balances as of September 30</b>		
(In millions of dollars)	<b>2008</b>	<b>2007</b>
<b>Assets:</b>		
Cash and Cash Equivalents .....	49.3	48.3
Investments .....	391.8	372.6
Accrued interest receivable .....	3.1	2.8
Total Assets .....	<u>444.2</u>	<u>423.7</u>
Trust fund balances, held for individual Indians.....	<u>444.2</u>	<u>423.7</u>

<b>Individual Indian Monies Trust Funds</b>		
<b>Statement of Changes in Trust Fund Balances – Modified Cash Basis</b>		
<b>for the Fiscal Years Ended September 30</b>		
(In millions of dollars)	<b>2008</b>	<b>2007</b>
Receipts .....	437.9	303.7
Interest received.....	21.6	20.8
Gain (loss) on disposition of investments, net .....	0.3	0.4
Disbursements .....	<u>(439.3)</u>	<u>(319.5)</u>
Increase (decrease) in trust fund balances, net.....	20.5	5.4
Trust fund balances, beginning of year.....	<u>423.7</u>	<u>418.3</u>
Trust fund balances, end of year.....	<u>444.2</u>	<u>423.7</u>

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

## Note 23. Social Insurance

<b>Social Insurance Programs Trust Fund Balances</b>					
*****UNAUDITED*****					
(In billions of dollars)	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Social Security.....	2,238	2,048	1,859	1,687	1,531
Medicare:					
HI .....	312	300	285	268	256
SMI Part B .....	53	38	23	19	24
SMI Part D .....	3	1	-	-	-
Railroad Retirement .....	33	32	30	28	26
Black Lung.....	(10)	(10)	(10)	(9)	(8)

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

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

Actuarial present values of estimated future revenue (excluding interest) and estimated future expenditures for the Social Security, Medicare, and Railroad Retirement social insurance programs are presented for three different groups of participants: (1) current participants who have attained eligibility age, (2) current participants who have not attained eligibility age, and (3) future participants who are new entrants expected to become participants in the future. Current participants in the Social Security and Medicare programs form the "closed group" of taxpayers and/or beneficiaries who are at least age 15 at the start of the projection period. For the 2007 Medicare projections, current participants are at least 18 years of age at the beginning of the projection period. Since the projection period for the Social Security, Medicare, and Railroad Retirement social insurance programs consists of 75 years, the period covers virtually all of the current participants' working and retirement years, a period that could be greater than 75 years in a relatively small number of instances. Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 (below age 18 for the Medicare programs for 2007) as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of January 1 of the valuation year.

The present values of future expenditures in excess of future revenue are the current amounts of funds needed to cover projected shortfalls, excluding the starting trust fund balances, over the projection period. They are calculated by subtracting the actuarial present values of future scheduled contributions and dedicated tax income by and on behalf of current and future participants from the actuarial present value of the future scheduled benefit payments to them or on their behalf.

The trust fund balances as of the valuation date for the respective programs, including interest earned, are in the table shown above. Substantially all of the Social Security (OASDI) and Medicare Hospital Insurance (HI), and Supplementary Medical Insurance (SMI) trust fund balances consist of investments in special non-marketable U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. Government.

## Social Security

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

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

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

## Medicare

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

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

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

### **SMI Part B Physician Update Factor**

The projected Part B expenditure growth reflected in the accompanying 2008 Statement of Social Insurance is significantly reduced as a result of the structure of physician payment updates under current law. In the absence of legislation, this structure would result in multiple years of significant reductions in physician payments, totaling an estimated 41 percent over the next 9 years. Reductions of this magnitude are not feasible and are very unlikely to occur fully in practice. For example, Congress has overridden scheduled negative updates for each of the last 6 years in practice. However, since these reductions are required in the future under the current-law payment system, they are reflected in the accompanying 2008 Statement of Social Insurance as required under GAAP. Consequently, the projected actuarial present values of Part B expenditure shown in the accompanying 2008 Statement of Social Insurance, is likely understated.

The potential magnitude of the understatement of Part B expenditures due to the physician payment mechanism can be illustrated using two hypothetical examples of changes to current law. These examples were developed by management for illustrative purposes only; the calculations have not been audited, and the examples do not attempt to portray likely or recommended future outcomes. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation on physician payments under Medicare and of the broad range of uncertainty associated with such impacts. Under current law, the projected 75-year present value of future Part B expenditures is \$21.2 trillion. An alternative scenario indicated that if Congress were to set future physician payment updates at zero percent per year, then absent other provisions to offset these costs, the projected present value would increase to \$23.4 trillion. Similarly, if Congress were to set future physician payment updates equal to the Medicare Economic Index (projected to be 2 to 2.5 percent per year), the present value would be \$25.4 trillion.

The extent to which actual future Part B costs could exceed the projected current-law amounts due to physician payments depends on both the level of physician payment updates that might be legislated and on whether Congress would pass further provisions to help offset such costs (as it did, for example, in the Deficit Reduction Act in 2005 and the Medicare Improvements for Patients and Providers Act of 2008). As noted, these examples only reflect hypothetical changes to physician payments. It is likely that in the coming years, Congress will consider and pass numerous other legislative proposals affecting Medicare. Many of these would likely be designed to reduce costs in an effort to make the program more affordable. In practice, it is not possible to anticipate what actions Congress might take, either in the near term or over longer periods.

### **Medicare Improvements for Patients and Providers Act of 2008**

On July 15, 2008, the Medicare Improvements for Patients and Providers Act (MIPPA) of 2008 was enacted. There were many provisions in MIPPA that affected the Medicare program. These include beneficiary improvements, such as expanded access to care, enrollment assistance and increased coverage. There were also provisions affecting payments to providers, such as physicians and managed care plans. The net overall impact of all MIPPA provisions over the 10-year period from fiscal years 2009-2018 is roughly \$25 billion (unaudited) in increased Medicare spending. This represents less than 0.5 percent of total Medicare spending during the same time period.

The long-range financial projections underlying the Medicare projections in the 2008 Statement of Social Insurance are drawn from the Annual Report of the Medicare Board of Trustees to Congress, which was issued on March 25, 2008. These projections are based on an assumption that the Medicare laws, regulations, and policies in effect on that date will continue indefinitely without modification. In practice, the subsequent enactment of MIPPA will have an effect on Medicare expenditures and revenues. Due to the timing, complexity, and scope of the legislation, it is not possible to incorporate the impact of MIPPA into the long-range SOSI projections. The short-range estimates of the Medicare costs and savings under MIPPA, summarized above, provided an indication of the relative financial effect of the legislation. As stated above, the impact these provisions would have on the projections presented in the SOSI are relatively minor.

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## **Social Security and Medicare – Demographic and Economic Assumptions**

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

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

**Table 1A**  
**Social Security – Demographic and Economic Assumptions**

Demographic Assumptions					
Year	Total Fertility Rate <sup>1</sup>	Age-Sex Adjusted Death Rate <sup>2</sup> (per 100,000)	Net Immigration <sup>3</sup> (persons)	Period Life Expectancy at Birth <sup>4</sup>	
				Male	Female
2008	2.06	822.2	1,250,000.0	75.4	79.9
2010	2.06	812.2	1,195,000.0	75.7	80.0
2020	2.03	750.5	1,130,000.0	76.9	80.9
2030	2.01	689.8	1,085,000.0	78.0	81.8
2040	2.00	635.9	1,050,000.0	79.0	82.6
2050	2.00	588.6	1,035,000.0	80.0	83.4
2060	2.00	546.8	1,030,000.0	80.8	84.2
2070	2.00	509.8	1,025,000.0	81.7	84.9
2080	2.00	476.8	1,025,000.0	82.4	85.6

  

Economic Assumptions						
Year	Real Wage Differential <sup>5</sup> (percent)	Average Annual Wage in Covered Employment <sup>6</sup> (percent change)	CPI <sup>7</sup> (percent change)	Real GDP <sup>8</sup> (percent change)	Total Employment <sup>9</sup> (percent change)	Average Annual Interest Rate <sup>10</sup> (percent)
2010	1.3	4.0	2.8	2.7	0.9	5.6
2020	1.1	3.9	2.8	2.2	0.5	5.7
2030	1.1	3.9	2.8	2.1	0.4	5.7
2040	1.1	3.9	2.8	2.2	0.5	5.7
2050	1.1	3.9	2.8	2.1	0.4	5.7
2060	1.1	3.9	2.8	2.1	0.4	5.7
2070	1.1	3.9	2.8	2.1	0.4	5.7
2080	1.1	3.9	2.8	2.1	0.4	5.7

<sup>1</sup> The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2032.

<sup>2</sup> The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>3</sup> Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>4</sup> The period life expectancy for a group of persons born in a given year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age observed in, or assumed for, the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>5</sup> The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.

<sup>6</sup> The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>7</sup> The CPI is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.

<sup>8</sup> The real GDP is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>9</sup> Total employment represents total of civilian and military employment in the U.S. economy. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>10</sup> The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually for special-issue Treasury obligations sold only to the trust funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

**Table 1B  
Medicare – Demographic and Economic Assumptions**

Demographic Assumptions								
Year	Total Fertility Rate <sup>1</sup>	Age-Sex		Net Immigration <sup>3</sup>				
		Adjusted Death Rate <sup>2</sup>	(per 100,000)		(persons)			
2008	2.06	822.2		1,250,000				
2010	2.06	812.2		1,195,000				
2020	2.03	750.5		1,130,000				
2030	2.01	689.8		1,085,000				
2040	2.00	635.9		1,050,000				
2050	2.00	588.6		1,035,000				
2060	2.00	546.8		1,030,000				
2070	2.00	509.8		1,025,000				
2080	2.00	476.8		1,025,000				

  

Economic Assumptions								
Year	Real Wage Differential <sup>4</sup>	Average Annual Wage in Covered Employment (percent change)	CPI <sup>5</sup>	Real GDP <sup>6</sup>	Per Beneficiary Cost (percent change) <sup>7</sup>			Real Interest Rate <sup>8</sup>
					HI	SMI		
						Part B	Part D	
2008	1.3	4.1	2.8	2.3	7.1	1.4	2.9	1.9
2010	1.3	4.0	2.8	2.7	4.3	3.8	6.4	2.3
2020	1.1	3.9	2.8	2.2	4.3	6.1	7.8	2.9
2030	1.1	3.9	2.8	2.1	5.6	5.8	5.7	2.9
2040	1.1	3.9	2.8	2.2	5.9	5.5	5.3	2.9
2050	1.1	3.9	2.8	2.1	4.9	4.9	5.0	2.9
2060	1.1	3.9	2.8	2.1	4.8	4.8	4.7	2.9
2070	1.1	3.9	2.8	2.1	4.7	4.6	4.5	2.9
2080	1.1	3.9	2.8	2.1	4.4	4.3	4.4	2.9

<sup>1</sup> The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate of 2.0 is assumed to be reached in 2032.

<sup>2</sup> The age-sex-adjusted death rate is a weighted average of age-sex-specific death rates (deaths per 100,000) in a year where the weights are the number of people in the corresponding age-sex group as of April 1, 2000. The death rate is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>3</sup> Net immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

<sup>4</sup> The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual CPI.

<sup>5</sup> The CPI is the annual average value for the calendar year of the CPI for urban wage earners and clerical workers.

<sup>6</sup> The real GDP is the value of total output of goods and services, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

<sup>7</sup> These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, and pharmaceutical costs). These assumptions include changes in the payment rates, utilization, and intensity of each type of service.

<sup>8</sup> The average annual interest rate earned on new trust fund securities, above and beyond the rate of inflation.

## Railroad Retirement

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

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

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

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

## Railroad Retirement – Employment, Demographic and Economic Assumptions

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

Three employment assumptions were used in preparing the projections and reflect optimistic, moderate and pessimistic future passenger rail and freight employment. The average railroad employment is assumed to be 231,000 in 2008. This employment assumption, based on a model developed by the Association of American Railroads, assumes that (1) passenger service employment will remain at the level of 43,000 and (2) the employment base, excluding passenger service employment, will decline at a constant 2.5 percent annual rate for 25 years, at a falling rate over the next 25 years, and remain level thereafter. All the projections are based on an open group (i.e., future entrants) population.

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

Sources of the demographic assumptions including mortality rates and total termination rates, remarriage rates for widows, retirement rates and withdrawal rates, are listed in Table 2. For further details on the employment, demographic, economic and all other assumptions, refer to the *Railroad Retirement System Annual Report*, June 2008 and the 23<sup>rd</sup> *Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts* (Valuation Report) as of December 31, 2004, with Technical Supplement.

<b>Table 2 Railroad Retirement Demographic Actuarial Assumptions (Sources)</b>		
<b>Mortality Rates<sup>1</sup></b>	Mortality after age retirement	2004 RRB Annuitants Mortality Table
	Mortality after disability retirement	2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze
		2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze
	Mortality during active service	1994 RRB Active Service Mortality Table
	Mortality of widow annuitants	1995 RRB Mortality Table for Widows
<b>Total Termination Rates<sup>2</sup></b>	Termination for spouses	2004 RRB Spouse Total Termination Table
	Termination for disabled children	2004 RRB Total Termination Table for Disabled Children
<b>Widow Remarriage Rate<sup>3</sup></b>	1997 RRB Remarriage Table	
<b>Retirement Rates<sup>4</sup></b>	Age retirement	See the Valuation Report
	Disability retirement	See the Valuation Report
<b>Withdrawal Rates<sup>5</sup></b>	See the Valuation Report	
<p><sup>1</sup> These mortality tables are used to project the termination of eligible employee benefit payments within the population.</p> <p><sup>2</sup> Total termination rates are used to project the termination of dependent benefits to spouses and disabled children.</p> <p><sup>3</sup> This rate is used to project the termination of spousal survivor benefits.</p> <p><sup>4</sup> The retirement rates are used to determine the expected annuity to be paid based on age and years of service for both age and disability retirees.</p> <p><sup>5</sup> The withdrawal rates are used to project all withdrawals from the railroad industry and resultant effect on the population and accumulated benefits to be paid.</p>		

**Black Lung Disability Benefit Program**

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

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

## **Black Lung – Demographic and Economic Assumptions**

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

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

Estimates of future receipts of the black lung excise tax are based on projections of future coal production and sale prices prepared by the Energy Information Agency of DOE. Treasury's Office of Tax Analysis provides the first 11 years of tax receipt estimates. The remaining years are estimated using a growth rate based on both historical tax receipts and Treasury's estimated tax receipts. The coal excise tax rate structure is \$1.10 per ton of underground-mined coal and \$0.55 per ton of surface-mined coal sold, with a cap of 4.4 percent of sales price, through December 31, 2013. Starting in 2014, the tax rates revert to \$0.50 per ton of underground-mined coal and \$0.25 per ton of surface-mine coal sold, and a limit of 2 percent of sales price.

OMB supplies assumptions for future monthly benefit rate increases based on increases in the Federal pay scale and future medical cost inflation based on increases in the consumer price index-medical, which are used to calculate future benefit costs. During the current projection period, future benefit rate increases 2.4 percent in each year, and medical cost increases 3.9 percent each year. Estimates for administrative costs for the first 11 years of the projection are supplied by DOL's Budget Office, while later years are based on the number of projected beneficiaries. Estimates for future interest on advances are based on the interest rates on outstanding advances ranging from 4.3 percent to 13.9 percent and new borrowings ranging from 4.9 percent to 5.6 percent.

## Note 24. Stewardship Land and Heritage Assets

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

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

DOI uses units as a measure to more accurately reflect the major categories of uses of stewardship land. As of September 30, 2008, they have 548 national wildlife refuges, 378 park units, 134 geographic management areas, 67 fish hatcheries, and many other categories. At the end of fiscal year 2008, the Department of Agriculture's Forest Service managed an estimated 193 million acres of public land, while the Department of Commerce (DOC) had 13 National Marine Sanctuaries, which included near-shore coral reefs and open ocean, covering a total of 19 thousand square miles.

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

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

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

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

Many laws and regulations govern the preservation and management of heritage assets. Established policies by individual Federal agencies for heritage assets ensure the proper care and handling of the assets under their control and preserve these assets for the benefit of the American public.

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

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

The discussion of the Government's heritage assets is not all-inclusive. Rather, it highlights significant heritage assets reported by Federal agencies. Please refer to the individual financial statements of the DOI, the USDA, the National Archives and Records Administration, and the websites for the Library of Congress (<http://www.loc.gov/index.html>) and Smithsonian Institution (<http://www.si.edu>), for additional information on multi-use heritage assets, agency stewardship policies, and physical units by major categories and conditions.

## Note 25. Subsequent Events

### A. Emergency Economic Stabilization Act of 2008

The Emergency Economic Stabilization Act of 2008 (EESA) was signed into law on October 3, 2008. This law authorizes a Troubled Asset Relief Program (TARP) to be administered by the Department of the Treasury. The TARP is intended to promote market stability and protect the U.S. economy by authorizing Treasury to purchase and guarantee troubled mortgage-related assets and other financial assets. EESA also provides for the purchase of any other financial instruments that the Secretary of the Treasury determines, after consultation with the Federal Reserve Board Chairman, is necessary to purchase in order to promote financial market stability.

The Secretary of the Treasury's authority to purchase troubled assets was limited initially to \$250 billion in outstanding assets, and increased to \$350 billion upon certification by the President to the Congress on October 14, 2008. The authority can be increased to the maximum of \$700 billion upon submission of a written report from the President to the Congress detailing the Secretary of the Treasury's plan to exercise additional authority, providing Congress does not enact a joint resolution disapproving the plan of the Secretary.

Upon establishment of the insurance program required under EESA the \$700 billion limit shall be reduced by the difference between outstanding guaranteed obligations under the insurance program authorized by EESA, if any, and the balance in the Troubled Assets Insurance Financing Fund (TAIFF) established by EESA to guarantee timely payments on mortgage-related assets. The Treasury Secretary can guarantee timely payment of up to 100 percent of the principal and interest on these insured assets. Institutions seeking this guarantee will be required to pay risk-based premiums into the fund. The premiums will be in amounts determined by the Treasury Secretary, as necessary, to meet anticipated claims and eliminate any budgetary cost.

Significant EESA authorities terminate on December 31, 2009. However, the Treasury Secretary can extend this authority to October 3, 2010, upon submission of a written certification to Congress. EESA increases the statutory public debt limit by \$700 billion, from \$10.615 trillion to \$11.315 trillion.

Upon passage of EESA, Treasury established the Office of Financial Stability to administer the TARP. No EESA transactions occurred during fiscal year 2008. As of December 9, 2008, over \$200 billion in troubled assets were purchased or committed through TARP.

The EESA also provides for a temporary increase in the Federal Deposit Insurance Corporation (FDIC) deposit coverage from \$100,000 per depositor to \$250,000 per depositor from the date of the enactment of the legislation through December 31, 2009. This will significantly increase future contingent liabilities for anticipated failure of insured institutions. See FDIC's Annual Report, released on a calendar year basis, for more information.

EESA contains numerous tax provisions that could result in additional burdens to future deficits. EESA also amended the HOPE for Homeowners Program, established by HERA, which the Federal Housing Administration may guarantee up to \$300 billion in mortgages.

The Federal Reserve announced a program to purchase up to \$500 billion of mortgage-backed securities and up to \$100 billion of Fannie and Freddie debt, and to lend up to \$200 billion against new car, student, and small-business loans. Treasury has pledged \$20 billion from TARP to cover partial loss.

The Reserve Fund's U.S. Government Money Market Fund (the "Fund"), which Treasury accepted into its temporary guarantee program for money market funds (see Note 8), has not made a claim to Treasury under the program. In a separate agreement with the Fund, the Treasury Exchange Stabilization Fund (ESF) has agreed to serve as a buyer of last resort for the Fund's portfolio, which consists of short-term U.S. Government and GSE securities. EESA contains a provision for reimbursement of the ESF for its funds used under the Temporary Guarantee Program for Money Market Funds, which would cover any losses, however unlikely, arising from the separate agreement with the Fund.

Under EESA, in November 2008, Treasury has committed to providing Citigroup another \$20 billion from TARP. In addition, Treasury and FDIC agreed to share losses with Citigroup on a \$306 billion asset pool for any losses in excess of \$37 billion. Treasury and FDIC's combined maximum exposure is \$15 billion, which may be offset by any value of the \$7 billion of preferred stock issued to them by Citigroup. FRB will backstop residual risk in the asset pool through a nonrecourse loan.

Treasury's actions to stabilize the financial system and the economy continue as of the date of this Report. Treasury's strategy for continued implementation of the financial rescue package can be found at:

<http://www.treas.gov/initiatives/eesa/>.

## **B. American International Group (AIG)**

To help AIG work out its financial difficulties, the Federal Reserve agreed to lend up to \$85 billion to AIG pursuant to the authority in Section 13(3) of the Federal Reserve Act. The Government is not a party to the AIG credit facility with the Federal Reserve, and has no liabilities, commitments, or guarantees pursuant to the Fed's arrangements with AIG or any other financial relationship with AIG.

Under the terms of the agreement with AIG and the Federal Reserve, an approximately 79.9 percent equity interest in AIG (in the form of Convertible Participating Serial Preferred Stock convertible into approximately 79.9 percent of the issued and outstanding shares of common stock) was to be issued to a trust to be established by the Federal Reserve. As of the date of this report, it is anticipated that the Treasury will be named as the beneficiary of that trust, so that when the stock is ultimately liquidated the proceeds will be deposited into the General Fund of the Government. Treasury would also be the recipient of any dividends and any proceeds from the liquidation of the stock on behalf of the General Fund. The accounting and reporting for any activities related to the government's interest in the stock held by the trust will be done by Treasury.

Subsequent to September 30, 2008, the credit facility to assist AIG was restructured significantly. Treasury agreed in November 2008 to directly purchase \$40 billion in senior AIG preferred stock through the TARP, with the proceeds being used to pay down the Federal Reserve's \$85 billion credit facility. Treasury will also receive common stock warrants for 2 percent of the outstanding AIG common stock, with the above-described convertible preferred stock interest to be owned by the trust reduced to 77.9 percent.

## **C. Energy Improvement and Extension Act of 2008**

The Energy Improvement and Extension Act of 2008, enacted on October 3, 2008, allowed for a temporary increase in coal excise tax rates to continue an additional 5 years beyond the current statutory limit collected for the Black Lung Disability Trust Fund. The excise rates were set to decrease from \$1.10 per ton for coal from underground mines and \$0.55 per ton for coal from surface mines (not to exceed 4.4 percent of sales) to \$0.50 per ton for coal from underground mines and \$0.25 per ton for coal from surface mines (not to exceed 2 percent of sales) on January 1, 2014. The Act extended the temporary increase to December 31, 2018. The higher excise tax rates will continue until the earlier of December 31, 2018, or the first December 31 after 2007 in which there exist no (1) balances of repayable advances described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the advances.

Section 113 of the Energy Improvement and Extension Act of 2008 also allowed a restructuring of the debt of the Black Lung Disability Trust Fund that resulted in an actuarial present value of future excise tax income during the projection period of \$9,293 billion as of October 7, 2008, and an actuarial present value of the par value of the zero coupon bonds coming due during the projection period of \$6,326 billion as of October 7, 2008. This, with an actuarial present value of \$2,967 billion for expenses, results in a fund balance of zero at the end of the projection period.

## **D. Temporary Liquidity Guarantee Program**

On October 14, 2008 the FDIC established the Temporary Liquidity Guarantee Program as part of a larger government effort to strengthen confidence and encourage liquidity in the banking system. The new program will (1) guarantee newly issued senior unsecured debt of eligible FDIC-insured depository institutions and certain holding companies between October 14, 2008 and June 30, 2009 with guarantees expiring no later than June 30, 2012, and (2) provide full deposit insurance coverage for non-interest bearing deposit transaction accounts in FDIC-insured institutions until December 31, 2009. The FDIC will charge a fee, based on a sliding scale from 50 to 100 basis points, depending on length of maturity, to guarantee newly-issued senior unsecured debt and a 10-basis point surcharge will be collected through the normal assessment cycle to cover the non-interest bearing transaction accounts.

## **E. Other**

The ability of issuers of the debt securities held by the Government to meet their obligations may be affected by economic developments in a specific industry or region. The values of the securities can be significantly affected by changes in interest rates or in the financial condition of the issuer or market conditions generally. The Government invests a portion of its assets in mortgage-backed securities and debentures. The value and related income of these securities is sensitive to change in economic conditions, including delinquencies and/or defaults. Recent instability in the markets for fixed-income securities, particularly mortgage-backed securities, has resulted in increased volatility of market prices and periods of illiquidity have adversely impacted the valuation of certain securities held by the Government. The values of such investments are reported at their fair value based upon the market conditions as of September 30, 2008. Due to continued market instability since yearend, the fair values of such investments have decreased from the amounts reported.

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