



FINANCIAL SECTION

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Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2007. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB is committed to integrated and automated financial management systems that focus on the agency's mission and accountability. RRB strives to maintain an environment in which program and financial managers work in partnership to ensure the integrity of financial information and use that information to make decisions, measure performance, and monitor outcomes. In this environment, we envision integrated financial management systems with appropriate internal review and controls that provide agency managers with timely, accurate, and easily accessible information. We expect managers throughout the agency to use that information to achieve program objectives in a cost-effective manner and to ensure accountability.

The RRB has continued high quality financial management and financial reporting during fiscal year 2007. During the year, the RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2007. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB within 21 days of the end of the quarter.
- Continued our planning for the transition to a new financial management system. Initial efforts have focused on evaluating the potential costs and monitoring the progress of other Federal agencies that are migrating to a Financial Management Line of Business Shared Service Provider. During fiscal year 2008, we intend to evaluate various migration options.
- Implemented audit recommendations as follows:

At the beginning of fiscal year 2007, there were 136 open audit recommendations in the agency's audit follow-up tracking system. In addition, during the fiscal year, audit reports containing another 104 recommendations were issued. As a result, the total number of open recommendations during the year was 240. At the same time, final action was completed on 51 audit recommendations, resulting in a balance at the end of the year of 189 open recommendations. Many of the open recommendations deal with information technology, including several security-related recommendations, and require ongoing, long-term corrective actions to bring them to closure. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurance section.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.

Original signed by:

Kenneth P. Boehne
Chief Financial Officer

**RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2007 AND 2006
(in dollars)**

| | <u>FY 2007</u> | <u>FY 2006</u> |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Intragovernmental: | | |
| Fund Balances with Treasury (Note 3) | \$61,178,489 | \$24,469,861 |
| Investments (Note 4) | 1,323,596,381 | 1,203,713,506 |
| Accounts Receivable (Note 6) | 3,911,000,908 | 3,855,266,651 |
| | <u>5,295,775,778</u> | <u>5,083,450,018</u> |
| Total Intragovernmental | | |
| NRRIT Net Assets (Note 5) | 32,660,594,000 | 29,372,752,000 |
| Accounts Receivable, Net (Note 6) | 32,521,516 | 30,350,971 |
| Inventory and Related Property, Net (Note 7) | 101,517 | 97,070 |
| General Property, Plant and Equipment, Net (Note 8) | 1,371,309 | 1,471,016 |
| Other | 29,660 | 31,691 |
| | <u>37,990,393,780</u> | <u>34,488,152,766</u> |
| TOTAL ASSETS | | |
| LIABILITIES (Note 9) | | |
| Intragovernmental: | | |
| Accounts Payable | \$484,330,000 | \$473,225,000 |
| Debt | 3,017,472,732 | 3,030,001,471 |
| Other | 992,347 | 987,950 |
| | <u>3,502,795,079</u> | <u>3,504,214,421</u> |
| Total Intragovernmental | | |
| Accounts Payable | 883,223 | 746,703 |
| Benefits Due and Payable | 849,154,891 | 819,087,219 |
| Other | 110,158,446 | 278,020,074 |
| | <u>4,462,991,639</u> | <u>4,602,068,417</u> |
| TOTAL LIABILITIES | | |
| COMMITMENTS AND CONTINGENCIES (Note 10) | | |
| NET POSITION | | |
| Unexpended Appropriations - Earmarked Funds (Note 17) | 495,477 | 434,877 |
| Unexpended Appropriations - Other Funds | 6,132,482 | 8,469,010 |
| Cumulative Results of Operations - Earmarked Funds (Note 17) | 33,520,774,182 | 29,877,180,462 |
| | <u>33,527,402,141</u> | <u>29,886,084,349</u> |
| TOTAL NET POSITION | | |
| TOTAL LIABILITIES AND NET POSITION | <u>\$37,990,393,780</u> | <u>\$34,488,152,766</u> |

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

**RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(in dollars)**

| | <u>2007</u> | <u>2006</u> |
|---|--------------------------------|-------------------------------|
| Program Costs | | |
| Railroad Retirement Program | | |
| Gross Costs (Note 11) | \$10,111,342,675 | \$9,740,207,228 |
| Less: Earned Revenue | <u>8,536,491</u> | <u>7,698,032</u> |
| Net Program Costs | 10,102,806,184 | 9,732,509,196 |
| Railroad Unemployment and Sickness Insurance Program | | |
| Gross Costs (Note 11) | 117,351,269 | 118,940,272 |
| Less: Earned Revenue | <u>24,854,898</u> | <u>28,259,164</u> |
| Net Program Costs | 92,496,371 | 90,681,108 |
| Costs Not Assigned to Programs | 0 | 0 |
| Less: Earned Revenues Not Attributed to Programs | <u>241,770</u> | <u>236,717</u> |
| NET COST OF OPERATIONS | <u><u>\$10,195,060,785</u></u> | <u><u>\$9,822,953,587</u></u> |

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(in dollars)

FY 2007

| | Earmarked Funds | All Other Funds | Eliminations | Consolidated Total |
|---|-------------------------|--------------------|---------------|-------------------------|
| Cumulative Results of Operations | | | | |
| Beginning Balances | \$29,877,180,462 | | | \$29,877,180,462 |
| Budgetary Financing Sources | | | | |
| Appropriations Used | 460,089,400 | 86,486,517 | | 546,575,917 |
| Non-exchange Revenue | 5,490,878,777 | 2,460 | (460,089,400) | 5,030,791,837 |
| Transfers In From NRRIT (Note 12) | 1,391,000,000 | | | 1,391,000,000 |
| Transfers In/Out Without Reimbursement | 3,573,541,000 | | | 3,573,541,000 |
| Other Financing Sources (Non-Exchange) | | | | |
| Imputed Financing | 8,904,879 | | | 8,904,879 |
| Change in NRRIT Assets | 3,287,842,000 | | | 3,287,842,000 |
| Other | (1,128) | | | (1,128) |
| Total Financing Sources | 14,212,254,928 | 86,488,977 | (460,089,400) | 13,838,654,505 |
| Net Cost of Operations | 10,568,661,208 | 86,488,977 | (460,089,400) | 10,195,060,785 |
| Net Change | 3,643,593,720 | | | 3,643,593,720 |
| Cumulative Results of Operations | 33,520,774,182 | | | 33,520,774,182 |
| Unexpended Appropriations | | | | |
| Beginning Balances | 434,877 | 8,469,010 | | 8,903,887 |
| Budgetary Financing Sources | | | | |
| Appropriations Received | 460,150,000 | 88,000,000 | | 548,150,000 |
| Other Adjustments | | (3,850,011) | | (3,850,011) |
| Appropriations Used | (460,089,400) | (86,486,517) | | (546,575,917) |
| Total Budgetary Financing Sources | 60,600 | (2,336,528) | | (2,275,928) |
| Total Unexpended Appropriations | 495,477 | 6,132,482 | | 6,627,959 |
| Net Position | \$33,521,269,659 | \$6,132,482 | | \$33,527,402,141 |

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(in dollars)

FY 2006

| | Earmarked Funds | All Other Funds | Eliminations | Consolidated Total |
|---|-------------------------|--------------------|---------------|-------------------------|
| Cumulative Results of Operations | | | | |
| Beginning Balances | \$28,175,490,756 | | | \$28,175,490,756 |
| Budgetary Financing Sources | | | | |
| Appropriations Used | 466,085,873 | 95,995,821 | | 562,081,694 |
| Non-Exchange Revenue | 5,298,753,391 | 2,414 | (466,085,874) | 4,832,669,931 |
| Transfers In From NRRIT (Note 12) | 947,000,000 | | | 947,000,000 |
| Transfers In/Out Without Reimbursement | 3,467,814,000 | | | 3,467,814,000 |
| Other Financing Sources (Non-Exchange) | | | | |
| Imputed Financing | 8,817,957 | | | 8,817,957 |
| Change in NRRIT Assets | 1,706,259,711 | | | 1,706,259,711 |
| Total Financing Sources | 11,894,730,932 | 95,998,235 | (466,085,874) | 11,524,643,293 |
| Net Cost of Operations | 10,193,041,226 | 95,998,235 | (466,085,874) | 9,822,953,587 |
| Net Change | 1,701,689,706 | | | 1,701,689,706 |
| Cumulative Results of Operations | 29,877,180,462 | | | 29,877,180,462 |
| Unexpended Appropriations | | | | |
| Beginning Balances | 370,750 | 11,431,275 | | 11,802,025 |
| Budgetary Financing Sources | | | | |
| Appropriations Received | 466,150,000 | 97,970,000 | | 564,120,000 |
| Other Adjustments | | (4,936,444) | | (4,936,444) |
| Appropriations Used | (466,085,873) | (95,995,821) | | (562,081,694) |
| Total Budgetary Financing Sources | 64,127 | (2,962,265) | | (2,898,138) |
| Total Unexpended Appropriations | 434,877 | 8,469,010 | | 8,903,887 |
| Net Position | \$29,877,615,339 | \$8,469,010 | | \$29,886,084,349 |

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

RAILROAD RETIREMENT BOARD
 COMBINED STATEMENT OF BUDGETARY RESOURCES
 FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
 (in dollars)

| | <u>2007</u> | <u>2006</u> |
|--|--------------------------------|--------------------------------|
| BUDGETARY RESOURCES | | |
| Unobligated balance, brought forward, October 1 | \$12,048,208 | \$15,323,716 |
| Adjustment to beginning balance (Note 19) | 0 | (118,324) |
| Adjusted unobligated balance, brought forward, October 1 | <u>\$12,048,208</u> | <u>\$15,205,392</u> |
| Recoveries of prior year unpaid obligations | 1,497,036 | 933,937 |
| Budget authority: | | |
| Appropriation | 11,234,210,880 | 10,730,700,185 |
| Spending authority from offsetting collections: | | |
| Earned: | | |
| Collected | 32,122,746 | 37,760,934 |
| Change in receivables from Federal sources | 19 | 97,565 |
| Subtotal | <u>11,266,333,645</u> | <u>10,768,558,684</u> |
| Nonexpenditure transfers, net, anticipated and actual: | | |
| Temporarily not available pursuant to Public Law | (7,693,059) | (8,961,274) |
| Permanently not available | (574,373,107) | (441,125,344) |
| | <u>(3,850,011)</u> | <u>(4,936,444)</u> |
| TOTAL BUDGETARY RESOURCES | <u>\$10,693,962,712</u> | <u>\$10,329,674,951</u> |
| STATUS OF BUDGETARY RESOURCES | | |
| Obligations incurred: (Note 18) | | |
| Direct | \$10,674,573,992 | \$10,309,804,264 |
| Reimbursable | 8,695,131 | 7,822,479 |
| Subtotal | <u>10,683,269,123</u> | <u>10,317,626,743</u> |
| Unobligated balance | | |
| Apportioned | 1,959,099 | 1,309,390 |
| Unobligated balance not available | <u>8,734,490</u> | <u>10,738,818</u> |
| TOTAL STATUS OF BUDGETARY RESOURCES | <u>\$10,693,962,712</u> | <u>\$10,329,674,951</u> |
| CHANGE IN OBLIGATED BALANCE | | |
| Obligated balance, net | | |
| Unpaid obligations, brought forward, October 1 | \$873,687,793 | \$849,518,757 |
| Adjustment to beginning balance (Note 19) | 0 | 149,662 |
| Adjusted unpaid obligations, brought forward, October 1 | <u>\$873,687,793</u> | <u>\$849,668,419</u> |
| Uncollected customer payments from Federal sources, brought forward, October 1 | (757) | 96,809 |
| Total unpaid obligated balance, net | <u>\$873,687,036</u> | <u>\$849,765,228</u> |
| Obligations incurred net (+/-) | \$10,683,269,123 | \$10,317,626,743 |
| Gross outlays | (10,650,634,370) | (10,292,673,433) |
| Recoveries of prior year unpaid obligations, actual | (1,497,036) | (933,937) |
| Change in uncollected customer payments from Federal sources | (19) | (97,565) |
| Obligated balance, net, end of period: | | |
| Unpaid Obligations (Note 13) | \$904,825,510 | \$873,687,793 |
| Uncollected customer payments from Federal sources | (776) | (757) |
| Total, unpaid obligated balance, net, end of period | <u>\$904,824,734</u> | <u>\$873,687,036</u> |
| NET OUTLAYS (Note 14) | | |
| Gross outlays | \$10,650,634,370 | \$10,292,673,433 |
| Offsetting collections | (32,122,746) | (37,760,934) |
| Distributed offsetting receipts | <u>(4,033,541,000)</u> | <u>(3,933,814,000)</u> |
| Net Outlays | <u>\$6,584,970,624</u> | <u>\$6,321,098,499</u> |

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

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2007

(Present values in millions of dollars)

| | <u>1/1/2007</u> | <u>1/1/2006</u> | <u>1/1/2005</u> | <u>1/1/2004</u> | <u>1/1/2003</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Estimated future income (excluding interest) received from or on behalf of: | | | | | |
| Current participants not yet having attained retirement age | \$66,714 | \$64,980 | \$56,842 | \$55,778 | \$58,315 |
| Current participants who have attained retirement age | 63,356 | 62,480 | 56,859 | 54,882 | 54,491 |
| Those expected to become participants | 43,077 | 44,309 | 31,313 | 30,327 | 32,419 |
| Subtotal - future income for the 75-year period | 173,147 | 171,770 | 145,014 | 140,986 | 145,225 |
| Estimated future expenditures: | | | | | |
| Current participants not yet having attained retirement age | 85,958 | 84,068 | 72,927 | 71,803 | 72,976 |
| Current participants who have attained retirement age | 92,755 | 91,734 | 84,054 | 81,128 | 80,374 |
| Those expected to become participants | 25,518 | 24,966 | 15,783 | 13,912 | 13,789 |
| Subtotal - future expenditures for the 75-year period | 204,231 | 200,767 | 172,764 | 166,843 | 167,139 |
| Estimated future excess of income over expenditures: | (31,084) | (28,997) | (27,750) | (25,857) | (21,914) |
| Fund balance: | 31,991 | 29,976 | 28,570 | 26,616 | 22,679 |
| Fund balance plus estimated future excess of income over expenditures: | 907 | 979 | 820 | 759 | 765 |

Notes to the Financial Statements: Fiscal Years Ended September 30, 2007 and 2006

1. Summary of Significant Accounting Policies

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2007 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2007. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).
- Social Security Equivalent Benefit (SSEB) Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).
- Dual Benefits Payments (DBP) Account (0111) funds the phase-out costs of certain vested dual benefits from general appropriations. Account 0111 is considered a general fund. Our authority to use these collections is 45 USC §231(N)(d).
- Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. Account 0113 is considered an earmarked fund. This account has no basis in law.
- Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad

Unemployment Insurance Trust Fund, Administrative Expenses. Account 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.
- Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. Account 8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.
- Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Account 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 110-5.
- Savings Bonds Allotment (6050), and City and State Taxes (6275) were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting

As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

E. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Treasury, excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

2. Related Parties

The RRB has significant transactions with the following governmental and nongovernmental entities:

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2007 and 2006, net payroll taxes transferred to the RRB by Treasury were \$4.7 billion each year.

Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2007 and 2006, investments, including accrued interest, totaled \$1.3 billion and \$1.2 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2007 due to the financial interchange advances during fiscal year 2006 included principal of \$3.2 billion and interest of \$178.7 million. The amount paid by the RRB to Treasury in fiscal year 2006 due to the financial interchange advances during fiscal year 2005 included principal of \$3.2 billion and interest of \$170 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2007, the RRB trust funds realized \$4.0 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2007 and 2006 were almost \$1.2 billion, each year.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred \$483 million

and \$471 million to CMS in fiscal years 2007 and 2006, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2007 and 2006 were \$8.0 million and \$7.2 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amounts of \$3.4 million and \$3.6 million for fiscal years 2007 and 2006, respectively.
- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to \$109 million and \$101.5 million for fiscal years 2007 and 2006, respectively.
- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2007 and 2006, the NRRIT transferred \$1,391 million and \$947 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| A. Fund Balances: | | |
| (1) Trust Funds | \$54,540,225 | \$15,554,765 |
| (2) General Funds | 6,627,959 | 8,903,887 |
| (3) Other Fund Types | <u>10,305</u> | <u>11,209</u> |
| Total | <u>\$61,178,489</u> | <u>\$24,469,861</u> |
| B. Status of Fund Balance with Treasury (FBWT) | | |
| (1) Unobligated Balance | | |
| (a) Available | \$ 1,959,099 | \$ 1,309,655 |
| (b) Unavailable | 8,734,490 | 10,738,818 |
| (2) Obligated Balance not yet Disbursed | 50,474,595 | 12,410,179 |
| (3) Non-Budgetary FBWT | <u>10,305</u> | <u>11,209</u> |
| Total | <u>\$61,178,489</u> | <u>\$24,469,861</u> |

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

4. Investments

On September 30, 2007 and 2006, the book values of the RRB's investments held at the Treasury, including accrued interest, totaled \$1,323,596,381 and \$1,203,713,506, respectively. The balance on September 30, 2007, consisted of \$1,320,915,000 in 4.375 percent par value

specials (with market value equal to face value) maturing on October 1, 2007, and \$2,681,381 in accrued interest. The balance on September 30, 2006, consisted of \$1,200,466,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and \$3,247,506 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at market value, as of September 30, 2007 and 2006. These figures were provided to the RRB by the NRRIT for the fiscal year ended September 30, 2007.

6. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

| | <u>2007</u> | <u>2006</u> |
|---|------------------------|------------------------|
| Financial Interchange – Principal | \$3,688,700,000 | \$3,631,000,000 |
| Financial Interchange – Interest | 113,100,000 | 122,600,000 |
| Department of Labor | 108,973,750 | 101,538,678 |
| Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance) | <u>227,158</u> | <u>127,973</u> |
| Total | <u>\$3,911,000,908</u> | <u>\$3,855,266,651</u> |

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|---------------------|
| Accounts receivable - Benefit overpayments | \$39,509,459 | \$36,638,586 |
| Accounts receivable – Past due RUI contributions and taxes | 68,352 | 96,788 |
| Accounts receivable - Interest, penalty & administrative costs | <u>252,460</u> | <u>254,498</u> |
| Total | \$39,830,271 | \$36,989,872 |
| Less: Allowances for doubtful accounts | <u>7,308,755</u> | <u>6,638,901</u> |
| Net Total | <u>\$32,521,516</u> | <u>\$30,350,971</u> |

The RRB's September 30, 2007, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of \$39,830,271 includes \$35,707,135 (90%) in railroad retirement program receivables and \$4,123,136 (10%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is \$7,308,755. This includes \$6,502,269 (89%) for the railroad retirement program and \$806,486 (11%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is \$5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

| Classes of Fixed Assets | Service Lives | At September 30, 2007 | | |
|---|---------------|-----------------------|--------------------------|--------------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Structures, facilities and leasehold improvements | 15 years | \$ 2,651,787 | \$ 2,580,470 | \$ 71,317 |
| ADP software | 5 years | 19,578,768 | 19,484,356 | 94,412 |
| Equipment | 5-10 years | 5,538,068 | 5,292,068 | 246,000 |
| Internal-Use Software in Development | | <u>959,580</u> | <u>0</u> | <u>959,580</u> |
| | | <u>\$28,728,203</u> | <u>\$27,356,894</u> | <u>\$1,371,309</u> |

| Classes of Fixed Assets | Service Lives | At September 30, 2006 | | |
|---|---------------|-----------------------|--------------------------|--------------------|
| | | Cost | Accumulated Depreciation | Net Book Value |
| Structures, facilities and leasehold improvements | 15 years | \$ 2,651,787 | \$ 2,538,506 | \$ 113,281 |
| ADP software | 5 years | 19,539,768 | 19,431,024 | 108,744 |
| Equipment | 5-10 years | 5,465,009 | 5,175,598 | 289,411 |
| Internal-Use Software in Development | | 959,580 | 0 | 959,580 |
| | | <u>\$28,616,144</u> | <u>\$27,145,128</u> | <u>\$1,471,016</u> |

9. Liabilities

Liabilities at September 30 consisted of:

| | 2007 | 2006 |
|--|------------------------|------------------------|
| Intragovernmental: | | |
| Other - Unfunded Federal Employees' Compensation Act Liability | \$ 385,281 | \$ 391,040 |
| Public: | | |
| Other - Accrued Unfunded Leave | \$ 6,756,781 | \$ 6,563,472 |
| Total Liabilities Not Covered by Budgetary Resources | \$ 7,142,062 | \$ 6,954,512 |
| Total Liabilities Covered by Budgetary Resources | 4,455,849,577 | 4,595,113,905 |
| Total Liabilities | <u>\$4,462,991,639</u> | <u>\$4,602,068,417</u> |

- *Debt*

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

| | 2007 | 2006 |
|------------------------------|------------------------|------------------------|
| Beginning Balance, Principal | \$2,958,200,000 | \$2,973,100,000 |
| New Borrowing | 3,226,400,000 | 3,235,200,000 |
| Repayments | (3,240,000,000) | (3,250,100,000) |
| Ending Balance, Principal | 2,944,600,000 | 2,958,200,000 |
| Accrued Interest | 72,872,732 | 71,801,471 |
| Total | <u>\$3,017,472,732</u> | <u>\$3,030,001,471</u> |

- *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of \$10,557,048 and \$10,107,022, at September 30, 2007 and 2006, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the

RRB determines that entitlement no longer exists or another check is issued to the beneficiary. Finally, a special workload of approximately 17,000 benefit cases, estimated at \$7 to \$11 million, has been identified and will be processed over the next few years.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

| | <u>2007</u> | <u>2006</u> |
|---|----------------------|----------------------|
| Accrued Unfunded Liabilities | \$ 6,756,782 | \$ 6,563,472 |
| Accrued Payroll | 2,867,018 | 2,835,839 |
| Accrued RRB Contributions – Thrift Savings Plan | 55,148 | 54,172 |
| Withholdings Payable | 29,719 | 26,020 |
| Contingent Liability (see Note 10 for details) | 100,000,000 | 268,000,000 |
| Capital Lease Liability | 4,132 | 112,578 |
| Other | <u>445,647</u> | <u>427,993</u> |
| Total | <u>\$110,158,446</u> | <u>\$278,020,074</u> |

10. Commitments and Contingencies

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of Railroad Retirement Tax Act (RRTA) or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. The RRB’s legal counsel has determined that it is no longer probable but reasonably possible that the RR and SSEB Accounts are contingently liable for \$86 million. Therefore the RRB fiscal year 2007 Balance Sheet no longer reflects the \$86 million under other liabilities.
- Several Class 1 railroads are party to a suit claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suit has been pending the outcome of the above case and the RRB’s legal counsel has determined that it is no longer probable but reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of \$82 million. Therefore the RRB fiscal year 2007 Balance Sheet no longer reflects the \$82 million under other liabilities.
- A transportation company has appealed a U.S. District Court judgment in the amount of \$3.2 million and the RRB’s legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for \$3.2 million. No provision has been made in the accompanying financial statements regarding this judgment other than this disclosure.
- In fiscal year 2005, we recorded a contingent liability in the amount of \$100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due SSA.

The total fiscal year 2007 contingent liability recorded is \$100 million.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Based on prior experience, it is remote that the RR Account and the SSEB Account are contingently liable for an estimated amount of \$1.2 billion. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

11. Intragovernmental Costs and Exchange Revenue

| | <u>2007</u> | <u>2006</u> |
|---|-------------------------|------------------------|
| Railroad Retirement (RR) Program | | |
| Intragovernmental Costs | \$ 207,049,278 | \$ 200,262,640 |
| Public Costs | 9,904,293,397 | 9,539,944,588 |
| Total RR Program Costs | <u>\$10,111,342,675</u> | <u>\$9,740,207,228</u> |
| | | |
| Intragovernmental Earned Revenue | \$ 8,015,913 | \$ 7,165,078 |
| Public Earned Revenue | 520,578 | 532,954 |
| Total RR Program Earned Revenue | <u>\$ 8,536,491</u> | <u>\$ 7,698,032</u> |
| | | |
| Railroad Unemployment and Sickness Insurance (RUIA) Program | | |
| Intragovernmental Costs | \$ 4,495,995 | \$ 4,663,731 |
| Public Costs | 112,855,274 | 114,276,541 |
| Total RUIA Program Costs | <u>\$ 117,351,269</u> | <u>\$ 118,940,272</u> |
| | | |
| Intragovernmental Earned Revenue | \$ 0 | \$ 0 |
| Public Earned Revenue | 24,854,898 | 28,259,164 |
| Total RUIA Program Earned Revenue | <u>\$ 24,854,898</u> | <u>\$ 28,259,164</u> |

These totals do not include \$241,770 and \$236,717 of earned revenues not attributable to either program for fiscal years 2007 and 2006, respectively.

Intragovernmental costs (exchange transactions made between two reporting entities within the Federal government) are being reported separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenues (exchange transactions made between two reporting entities within the Federal government) are reported separately from exchange revenues with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity, not to the classification of related revenue.

12. Transfers To/From NRRIT

The RRB received a total of \$1,391 million and \$947 million from the NRRIT during fiscal years 2007 and 2006, respectively. These funds were received into the Railroad Retirement (RR) Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

| | <u>2007</u> | <u>2006</u> |
|--------------------|--------------------|--------------------|
| Undelivered Orders | <u>\$7,988,215</u> | <u>\$7,915,076</u> |

14. Explanation of Material Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2006. A reconciliation was not performed for the period ended September 30, 2007, since the RRB's Performance and Accountability Report is published in November 2007, and OMB's MAX system will not have actual budget data available until mid-December 2007.

The Budget of the United States Government and the RRB's Statement of Budgetary Resources differ because of the following transaction types:

| | <u>Fiscal Year 2006</u> | | | |
|---|--|---|--|--------------------------------------|
| | <u>Budgetary Resources (in millions)</u> | <u>Obligations Incurred (in millions)</u> | <u>Distributed Offsetting Receipts (in millions)</u> | <u>Net Outlays (in millions)</u> |
| 1. Combined Statement of Budgetary Resources – September 30, 2006 | \$10,330 | \$10,318 | \$3,934 | \$6,321 |
| 2. Unobligated Balance, Brought Forward October 1, 2005 | (15) | | | |
| 3. Recoveries of Prior Year Unpaid Obligations | (1) | | | |
| 4. Sickness Insurance Benefit Recoveries | (29) | | | |
| 5. Administrative Expense Reimbursement | (8) | | | |
| 6. Cancelled Authority | 4 | | | |
| 7. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113) | (466) | | 466 | (466) |
| 8. Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund | (3,458) | | | |
| 9. Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund | (388) | | | |
| <u>Financial Interchange</u> | | | | |
| 10. Financial Interchange – Cash vs. Accrual Adjustment | | | (559) | 559 |
| 11. Financial Interchange Settlement | | | 471 | (471) |
| <u>NRRIT</u> | | | | |
| 12. NRRIT Obligations / Outlays | 987 | 987 | | 987 |
| 13. Intrafund Transfers: NRRIT Transfer to RRA | (947) | | 947 | (947) |
| 14. Proprietary Receipts: NRRIT – Gains and Losses | (2,176) | | 2,176 | (2,176) |
| 15. Proprietary Receipts: NRRIT – Interest and Dividends | (485) | | 485 | (485) |
| 16. Rounding | | (1) | | |
| 17. Budget of the United States Government FY 2006 Actuals | <u>\$3,348</u> | <u>\$11,304</u> | <u>\$7,920</u> | <u>\$3,322</u> |

15. Social Insurance

- Actuarial Surplus or (Deficiency) represents combined values for the RR Account, SSEB Account, and NRRIT.
- Estimated future income (excluding interest) includes tier 1 taxes, tier 2 taxes, income taxes on benefits, financial interchange income, advances from general revenues, and repayments of advances from general revenues.
- Estimated future expenditures include benefit and administrative costs.
- A closed group estimate of the future excess of income over expenditures using the projected tax rates under employment assumption II may be obtained by subtracting future expenditures for current participants from future income for current participants.
- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2006, whereas present values are as of 1/1/2007.

Fund Balance

The fund balance appears on the face of the statement because the size of the balance directly affects projected future cash flows. Lower fund balances lead to higher future tier 2 tax rates and consequently higher tax income, while higher fund balances lead to lower tier 2 tax rates and lower tax income.

The tier 2 tax rate is based on the Average Account Benefits Ratio (AABR). At the end of each fiscal year (September 30), an Account Benefits Ratio (ABR) is calculated by dividing the fair market value of the assets in the RR Account and the NRRIT (and for years before 2002, the SSEB Account) as of the close of such fiscal year by the total benefits and administrative expenses paid from the RR Account and the NRRIT during such fiscal year. The AABR, with respect to any calendar year, is then calculated as the average of the account benefits ratios for the 10 most recent fiscal years ending before such calendar year.

The January 1, 2007, fund balance does not include approximately \$50 million of accrued interest and dividends and \$15 million in miscellaneous adjustments related primarily to operating expenses of the NRRIT. The January 1, 2006, fund balance was not reduced for certain payables of the NRRIT, which were estimated to be less than \$1 billion.

Prior to 2006, certain accrual adjustments were included in the fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefits ratio calculation, wherein the asset values do not include these accrual adjustments. If the accrual adjustments had been made as in prior years, the 1/1/2006 fund balance would have been \$400 million higher.

As stated earlier, a higher fund balance results in lower tax rates and consequently lower future tax income and a lower balance results in higher rates and income. This self-adjusting tax rate mechanism mitigates the effects of changes in the fund balance on the program's net actuarial position.

16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent interest rate, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2007 Section 502 Report. Under employment assumption II, starting with an average 2006 employment of 237,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Other actuarial assumptions are those published in the Technical Supplement to the "Twenty-Third Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2004." This may be found on the RRB's website, www.rrb.gov.

Actuarial assumptions published in the Twenty-Third Actuarial Valuation include:

| | |
|-------------|---|
| Table S-1. | 2004 RRB Annuitants Mortality Table |
| Table S-2. | 2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze |
| Table S-3. | 2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze |
| Table S-4. | 1994 RRB Active Service Mortality Table |
| Table S-5. | 2004 RRB Spouse Total Termination Table |
| Table S-6. | Probability of a retired employee having a spouse eligible for railroad retirement benefits |
| Table S-7. | 1995 RRB Mortality Table for Widows |
| Table S-8. | 1997 RRB Remarriage Table |
| Table S-9. | 2004 RRB Total Termination Table for Disabled Children |
| Table S-10. | Calendar year rates of immediate age retirement |
| Table S-11. | Rates of immediate disability retirement and of eligibility for disability freeze |
| Table S-12. | Calendar year rates of final withdrawal |
| Table S-13. | Service months and salary scales |
| Table S-14. | Family characteristics of railroad employees assumed for the valuation of survivor benefits |

Note 17 Earmarked Funds

| | 8010 SSEB | 8011 RRA | 8051.001 RUIA Benefit Payments | 0113 Federal Payments to RR Accounts | 8237 Limitation on Administration | 8051.002 RUIA Admin Expenses | 8018 Limitation on OIG | Eliminations | Total Earmarked Funds |
|---|------------------------|-------------------------|--------------------------------------|--|---|------------------------------------|------------------------------|------------------------|-----------------------------|
| Balance Sheet as of September 30, 2007 | | | | | | | | | |
| Assets | | | | | | | | | |
| Fund Balance with Treasury | \$19,537,468 | \$20,647,722 | \$6,527,507 | \$495,477 | \$6,960,401 | \$97,612 | \$769,515 | | \$55,035,702 |
| Investments | 726,234,578 | 597,361,803 | | | | | | | 1,323,596,381 |
| NRRIT Net Invested Assets | | 32,660,594,000 | | | | | | | 32,660,594,000 |
| Taxes and Interest Receivable | 3,801,800,000 | 29,432,764 | 102,369,261 | | 8,992,777 | 9,921,139 | 1,408 | (8,994,925) | 3,943,522,424 |
| Other Assets | | | | | 1,392,290 | | 110,196 | | 1,502,486 |
| Total Assets | 4,547,572,046 | 33,308,036,289 | 108,896,768 | 495,477 | 17,345,468 | 10,018,751 | 881,119 | (8,994,925) | 37,984,250,993 |
| Liabilities Due and Payable | 3,997,152,646 | 353,420,218 | 8,211,189 | | 1,073,995 | 934,437 | 26,376 | (8,994,925) | 4,351,823,936 |
| Other Liabilities | 100,000,000 | 445,695 | | | 10,088,550 | | 623,153 | | 111,157,398 |
| Total Liabilities | 4,097,152,646 | 353,865,913 | 8,211,189 | | 11,162,545 | 934,437 | 649,529 | (8,994,925) | 4,462,981,334 |
| Unexpended Appropriations | | | | 495,477 | | | | | 495,477 |
| Cumulative Results of Operations | 450,419,400 | 32,954,170,376 | 100,685,579 | | 6,182,923 | 9,084,314 | 231,590 | | 33,520,774,182 |
| Total Liabilities and Net Position | \$4,547,572,046 | \$33,308,036,289 | \$108,896,768 | \$495,477 | \$17,345,468 | \$10,018,751 | \$881,119 | (\$8,994,925) | \$37,984,250,993 |
| Statement of Net Cost for the Period Ended September 30, 2007 | | | | | | | | | |
| Gross Program Costs | \$5,881,443,284 | \$4,034,919,838 | \$99,414,487 | \$460,089,400 | \$119,546,625 | | \$7,318,181 | (\$460,524,388) | \$10,142,207,427 |
| Less Earned Revenues | | 520,578 | 24,854,898 | | 8,453,361 | | | (437,448) | 33,391,389 |
| Net Program Costs | \$5,881,443,284 | \$4,034,399,260 | \$74,559,589 | \$460,089,400 | \$111,093,264 | | \$7,318,181 | (\$460,086,940) | \$10,108,816,038 |
| Costs Not Attributable to Program Costs | | | | | | | | | |
| Less Earned Revenues Not Attributable to Program Costs | | | | | 241,770 | | | | 241,770 |
| Net Cost of Operations | \$5,881,443,284 | \$4,034,399,260 | \$74,559,589 | \$460,089,400 | \$110,851,494 | | \$7,318,181 | (\$460,086,940) | \$10,108,574,268 |
| Statement of Changes in Net Position for the Period Ended September 30, 2007 | | | | | | | | | |
| Net Position Beginning of Period | \$321,059,509 | \$29,443,814,247 | \$97,261,348 | \$434,877 | \$5,587,732 | \$9,420,743 | \$36,883 | | \$29,877,615,339 |
| Appropriations Received | | | | 460,150,000 | | | | | 460,150,000 |
| Expended Appropriations | | | | 460,089,400 | | | | | 460,089,400 |
| Appropriations Used | | | | (460,089,400) | | | | | (460,089,400) |
| Taxes and Non-Exchange Revenue | 2,650,328,563 | 2,746,734,584 | 70,621,637 | | | 23,193,993 | | (460,086,940) | 5,030,791,837 |
| Other Financing Sources | 3,360,474,612 | 119,178,805 | 7,362,183 | | 111,446,685 | (23,530,422) | 7,512,888 | | 3,582,444,751 |
| Transfers In From NRRIT | | 1,391,000,000 | | | | | | | 1,391,000,000 |
| Change in NRRIT Assets | | 3,287,842,000 | | | | | | | 3,287,842,000 |
| Net Cost of Operations | (5,881,443,284) | (4,034,399,260) | (74,559,589) | (460,089,400) | (110,851,494) | | (7,318,181) | 460,086,940 | (10,108,574,268) |
| Change in Net Position | 129,359,891 | 3,510,356,129 | 3,424,231 | 60,600 | 595,191 | (336,429) | 194,707 | | 3,643,654,320 |
| Net Position End of Period | \$450,419,400 | \$32,954,170,376 | \$100,685,579 | \$495,477 | \$6,182,923 | \$9,084,314 | \$231,590 | | \$33,521,269,659 |

Note 17 Earmarked Funds

| | 8010 SSEB | 8011 RRA | 8051.001 RUIA Benefit Payments | 0113 Federal Payments to RR Accounts | 8237 Limitation on Administration | 8051.002 RUIA Admin Expenses | 8018 Limitation on OIG | Eliminations | Total Earmarked Funds |
|---|------------------------|-------------------------|--------------------------------------|--|---|------------------------------------|------------------------------|------------------------|-----------------------------|
| Balance Sheet as of September 30, 2006 | | | | | | | | | |
| ASSETS | | | | | | | | | |
| Fund Balance with Treasury | \$(6,392,891) * | \$2,681,862 | \$8,132,697 | \$434,877 | \$10,360,150 | \$97,612 | \$675,334 | | \$15,989,641 |
| Investments | 725,637,871 | 478,075,636 | | | | | | | 1,203,713,507 |
| NRRIT Net Invested Assets | | 29,372,752,000 | | | | | | | 29,372,752,000 |
| Taxes and Interest Receivable | 3,753,600,000 | 26,619,780 | 95,353,739 | | 4,481,666 | 10,064,992 | 53,129 | (4,555,684) | 3,885,617,622 |
| Other Assets | | | | | 1,486,727 | | 113,050 | | 1,599,777 |
| Total Assets | 4,472,844,980 | 29,880,129,278 | 103,486,436 | 434,877 | 16,328,543 | 10,162,604 | 841,513 | (4,555,684) | 34,479,672,547 |
| Liabilities Due and Payable | 3,974,060,271 | 345,613,096 | 6,225,088 | | 854,498 | 741,861 | 104,354 | (4,555,684) | 4,323,043,484 |
| Other Liabilities | 177,725,200 | 90,701,935 | | | 9,886,313 | | 700,276 | | 279,013,724 |
| Total Liabilities | 4,151,785,471 | 436,315,031 | 6,225,088 | | 10,740,811 | 741,861 | 804,630 | (4,555,684) | 4,602,057,208 |
| Unexpended Appropriations | | | | 434,877 | | | | | 434,877 |
| Cumulative Results of Operations | 321,059,509 | 29,443,814,247 | 97,261,348 | | 5,587,732 | 9,420,743 | 36,883 | | 29,877,180,462 |
| Total Liabilities and Net Position | \$4,472,844,980 | \$29,880,129,278 | \$103,486,436 | \$434,877 | \$16,328,543 | \$10,162,604 | \$841,513 | \$(4,555,684) | \$34,479,672,547 |
| Statement of Net Cost for the Period Ended September 30, 2006 | | | | | | | | | |
| Gross Program Costs | \$5,804,819,794 | \$3,733,192,445 | \$100,848,315 | \$466,085,873 | \$117,062,685 | | \$7,647,389 | \$(466,504,822) | \$9,763,151,679 |
| Less Earned Revenues | | 532,954 | 28,259,164 | | 7,586,440 | | | (421,362) | 35,957,196 |
| Net Program Costs | \$5,804,819,794 | \$3,732,659,491 | \$72,589,151 | \$466,085,873 | \$109,476,245 | | \$7,647,389 | \$(466,083,460) | \$9,727,194,483 |
| Costs Not Attributable to Program Costs | | | | | | | | | |
| Less Earned Revenues Not Attributable to Program Costs | | | | | 236,039 | | 678 | | 236,717 |
| Net Cost of Operations | \$5,804,819,794 | \$3,732,659,491 | \$72,589,151 | \$466,085,873 | \$109,240,206 | | \$7,646,711 | \$(466,083,460) | \$9,726,957,766 |
| Statement of Changes in Net Position for the Period Ended September 30, 2006 | | | | | | | | | |
| Net Position Beginning of Period | \$216,894,783 | \$27,850,854,372 | \$94,186,765 | \$370,750 | \$5,853,470 | \$7,489,071 | \$212,295 | | \$28,175,861,506 |
| Appropriations Received | | | | 466,150,000 | | | | | 466,150,000 |
| Expended Appropriations | | | | 466,085,873 | | | | | 466,085,873 |
| Appropriations Used | | | | (466,085,873) | | | | | (466,085,873) |
| Taxes and Non-Exchange Revenue | 2,504,022,072 | 2,702,201,570 | 70,550,184 | | | 21,979,566 | | (466,083,460) | 4,832,669,932 |
| Other Financing Sources | 3,404,962,448 | (29,841,915) | 5,113,550 | | 108,974,468 | (20,047,894) | 7,471,299 | | 3,476,631,956 |
| Transfers In From NRRIT | | 947,000,000 | | | | | | | 947,000,000 |
| Change in NRRIT Assets | | 1,706,259,711 | | | | | | | 1,706,259,711 |
| Net Cost of Operations | (5,804,819,794) | (3,732,659,491) | (72,589,151) | (466,085,873) | (109,240,206) | | (7,646,711) | 466,083,460 | (9,726,957,766) |
| Change in Net Position | 104,164,726 | 1,592,959,875 | 3,074,583 | 64,127 | (265,738) | 1,931,672 | (175,412) | | 1,701,753,833 |
| Net Position End of Period | \$321,059,509 | \$29,443,814,247 | \$97,261,348 | \$434,877 | \$5,587,732 | \$9,420,743 | \$36,883 | | \$29,877,615,339 |

* The negative cash balance for the SSEB (Fund 60x8010) account is a result of regular, retroactive year-end adjustments made by Treasury.

Note: The Statement of Changes in Net Position portion of this Note has been changed to conform to the format of OMB Circular A-136, dated June 29, 2007.

18. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

All RRB direct and reimbursable obligations are incurred against Category B apportionments. There are no RRB direct or reimbursable obligations incurred against Categories A or Exempt apportionments.

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2006 and 2007.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2007 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

19. Changes to Obligated and Unobligated Balances at the Beginning of the Fiscal Year

There is no material change to either the unobligated or unpaid obligation balances at the beginning of fiscal year 2007 from the respective ending balances in these RRB accounts at September 30, 2006. The change to the unobligated balance and the balance of unpaid obligations at the beginning of fiscal year 2006 relate to the restatement of prior year balances associated with the capitalization of two operating leases.

Note 20 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2007 and 2006
(in dollars)

| | <u>2007</u> | <u>2006</u> |
|--|--------------------------------|-------------------------------|
| Resources Used to Finance Activities: | | |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$10,683,269,123 | \$10,317,626,743 |
| Less: Spending Authority from Offsetting Collections and Recoveries | (33,619,801) | (38,792,436) |
| Obligations Net of Offsetting Collections and Recoveries | 10,649,649,322 | 10,278,834,307 |
| Less: Offsetting Receipts | (4,033,541,000) | (3,933,814,000) |
| Net Obligations | <u>6,616,108,322</u> | <u>6,345,020,307</u> |
| Other Resources | | |
| Imputed Financing from Costs Absorbed by Others | 8,904,879 | 8,817,957 |
| Other | 3,287,840,872 | 1,706,259,711 |
| Net Other Resources Used to Finance Activities | <u>3,296,745,751</u> | <u>1,715,077,668</u> |
| Total Resources Used to Finance Activities | <u>9,912,854,073</u> | <u>8,060,097,975</u> |
| Resources Used to Finance Items Not Part of the Net Cost of Operations: | | |
| Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided | (151,398) | (326,791) |
| Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations | (3,623,700) | 1,137,987 |
| Resources That Finance the Acquisition of Assets | (3,288,358,958) | (1,706,720,927) |
| Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations | 3,573,541,000 | 3,467,814,000 |
| Total Resources Used to Finance Items Not Part of the Net Cost of Operations | <u>281,406,944</u> | <u>1,761,904,269</u> |
| Total Resources Used to Finance the Net Cost of Operations | <u>10,194,261,017</u> | <u>9,822,002,244</u> |
| Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period: | | |
| Components Requiring or Generating Resources in Future Periods: | | |
| Increase in Annual Leave Liability | 193,310 | 229,122 |
| Other | 309,116 | 189,489 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | <u>502,426</u> | <u>418,611</u> |
| Components Not Requiring or Generating Resources: | | |
| Depreciation and Amortization | 296,214 | 532,732 |
| Revaluation of Assets or Liabilities | 1,128 | 0 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | <u>297,342</u> | <u>532,732</u> |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | <u>799,768</u> | <u>951,343</u> |
| Net Cost of Operations | <u><u>\$10,195,060,785</u></u> | <u><u>\$9,822,953,587</u></u> |