



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 2006. 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 has continued high quality financial management and financial reporting during fiscal year 2006. During the year, the RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2006. 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 also planning for or implementing new financial management software. During fiscal year 2007, we intend to evaluate various migration options. Transition to a new financial system is tentatively planned for fiscal years 2009/2010.
- Included the audited net assets of the NRRIT in its 2006 financial statements for the first time. The RRB's fiscal year 2005 financial statements were restated to reflect the increase in NRRIT net assets for that period as well as adding the NRRIT net assets to the balance sheet. This change was a direct result of the Statement of Social Insurance becoming a primary financial statement requirement.
- Implemented audit recommendations as follows:

At the beginning of fiscal year 2006, there were 166 open audit recommendations in the agency's audit follow-up tracking system. In addition, during the fiscal year, audit reports containing another 47 recommendations were issued. As a result, the total number of open recommendations during the year was 213. At the same time, final action was completed on 77 audit recommendations, resulting in a balance at the end of the year of 136 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.



Kenneth P. Boehne
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2006 AND 2005
(in dollars)

	<u>FY 2006</u>	<u>RESTATED FY 2005</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$24,469,861	\$74,888,380
Investments (Note 4)	1,203,713,506	1,265,204,565
Accounts Receivable (Note 6)	3,855,266,651	3,736,301,894
Total Intragovernmental	5,083,450,018	5,076,394,839
NRRIT Net Assets (Note 5)	29,372,752,000	27,666,492,289
Accounts Receivable, Net (Note 6)	30,350,971	27,435,248
Inventory and related property, Net (Note 7)	97,070	98,949
General Property, Plant and Equipment, Net (Note 8)	1,471,016	1,798,139
Other	31,691	42,686
TOTAL ASSETS	<u>\$34,488,152,766</u>	<u>\$32,772,262,150</u>
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	\$473,225,000	\$453,850,000
Debt	3,030,001,471	3,041,835,141
Other	987,950	912,793
Total Intragovernmental	3,504,214,421	3,496,597,934
Accounts Payable	746,703	625,911
Benefits Due and Payable	819,087,219	795,282,599
Other	278,020,074	292,462,925
TOTAL LIABILITIES	<u>4,602,068,417</u>	<u>4,584,969,369</u>
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations		11,802,025
Unexpended Appropriations - Earmarked Funds (Note 17)	434,877	
Unexpended Appropriations - Other Funds	8,469,010	
Cumulative Results of Operations		28,175,490,756
Cumulative Results of Operations - Earmarked Funds (Note 17)	29,877,180,462	
TOTAL NET POSITION	<u>29,886,084,349</u>	<u>28,187,292,781</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$34,488,152,766</u>	<u>\$32,772,262,150</u>

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

**RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in dollars)**

	<u>2006</u>	<u>Restated 2005</u>
Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 11)	\$9,740,207,228	\$9,463,596,172
Less: Earned Revenue	<u>7,698,032</u>	<u>7,858,273</u>
Net Program Costs	9,732,509,196	9,455,737,899
Total Net Costs	9,732,509,196	9,455,737,899
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	118,940,272	118,823,241
Less: Earned Revenue	<u>28,259,164</u>	<u>29,422,262</u>
Net Program Costs	90,681,108	89,400,979
Total Net Costs	90,681,108	89,400,979
Costs Not Assigned to Program	0	0
Less: Earned Revenues Not Attributed to Programs	<u>236,717</u>	<u>250,073</u>
NET COST OF OPERATIONS	<u><u>\$9,822,953,587</u></u>	<u><u>\$9,544,888,805</u></u>

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
AS OF SEPTEMBER 30, 2006 AND 2005
(in dollars)

	FY 2006 (CY)			RESTATED FY 2005 (PY)
	EARMARKED FUNDS	ALL OTHER FUNDS	ELIMINATIONS	CONSOLIDATED TOTAL
CUMULATIVE RESULTS OF OPERATIONS				CONSOLIDATED TOTAL
BEGINNING BALANCES	\$28,175,490,756			\$28,175,490,756
ADJUSTMENTS:				
CORRECTIONS OF ERRORS				25,032,862,071
BEGINNING BALANCE, AS ADJUSTED	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
OTHER				(100,000,000)
CHANGE IN NRRIT NET 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
ADJUSTMENTS:				
CORRECTIONS OF ERRORS				2,000
BEGINNING BALANCE, AS ADJUSTED	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 FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005
 (in dollars)

	<u>FY 2006</u>	<u>RESTATED FY 2005</u>
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	\$15,323,716	\$15,083,263
Adjustment to beginning balance (Note 20)	(118,324)	0
Adjusted unobligated balance, brought forward, October 1	<u>\$15,205,392</u>	<u>\$15,083,263</u>
Recoveries of prior year unpaid obligations	933,937	1,403,436
Budget authority:		
Appropriation	10,730,700,185	10,473,081,838
Spending authority from offsetting collections:		
Earned:		
Collected	37,760,934	38,276,903
Change in receivables from Federal sources	97,565	(687)
Subtotal	<u>10,768,558,684</u>	<u>10,511,358,054</u>
Nonexpenditure transfers, net, anticipated and actual:		
Temporarily not available pursuant to Public Law	(8,961,274)	(57,564)
Permanently Not Available	(441,125,344)	(488,640,336)
	<u>(4,936,444)</u>	<u>(2,762,264)</u>
TOTAL BUDGETARY RESOURCES	<u>\$10,329,674,951</u>	<u>\$10,036,384,589</u>
STATUS OF BUDGETARY RESOURCES		
Obligations incurred: (Note 19)		
Direct	\$10,309,804,264	\$10,013,134,379
Reimbursable	7,822,479	7,926,494
Subtotal	<u>10,317,626,743</u>	<u>10,021,060,873</u>
Unobligated balance	1,309,390	1,276,942
Unobligated balance not available	<u>10,738,818</u>	<u>14,046,774</u>
TOTAL STATUS OF BUDGETARY RESOURCES	<u>\$10,329,674,951</u>	<u>\$10,036,384,589</u>
CHANGE IN OBLIGATED BALANCES		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	\$849,518,757	\$826,606,893
Adjustment to beginning balance (Note 20)	149,662	11,760
Adjusted unpaid obligations, brought forward, October 1	<u>\$849,668,419</u>	<u>\$826,618,653</u>
Less: Uncollected customer payments from Federal sources, brought forward, October 1	96,809	0
Total unpaid obligated balance, net	<u>\$849,765,228</u>	<u>\$826,618,653</u>
Obligations incurred net (+/-)	\$10,317,626,743	\$10,021,060,873
Less: Gross outlays	(10,292,673,433)	(9,996,758,020)
Less: Recoveries of prior year unpaid obligations, actual	(933,937)	(1,403,436)
Change in uncollected customer payments from Federal sources	(97,565)	687
Obligated balance, net, end of period:		
Unpaid Obligations (Note 13)	\$873,687,793	\$849,421,948
Less: Uncollected customer payments from Federal sources	(757)	96,809
Total, unpaid obligated balance, net, end of period	<u>\$873,687,036</u>	<u>\$849,518,757</u>
NET OUTLAYS (Note 14)		
Gross outlays	\$10,292,673,433	\$9,996,758,020
Less: Offsetting collections	(37,760,934)	(38,276,903)
Less: Distributed offsetting receipts	<u>(3,933,814,000)</u>	<u>(3,810,862,000)</u>
Net Outlays	<u>\$6,321,098,499</u>	<u>\$6,147,619,117</u>

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

**RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF FINANCING
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(in dollars)**

	<u>2006</u>	<u>RESTATED 2005</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$10,317,626,743	\$10,021,060,873
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(38,792,436)</u>	<u>(39,679,652)</u>
Obligations Net of Offsetting Collections and Recoveries	10,278,834,307	9,981,381,221
Less: Offsetting Receipts	<u>(3,933,814,000)</u>	<u>(3,810,862,000)</u>
Net Obligations	6,345,020,307	6,170,519,221
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,817,957	8,618,630
Other	<u>1,706,259,711</u>	<u>2,533,623,289</u>
Net Other Resources Used to Finance Activities	1,715,077,668	2,542,241,919
Total Resources Used to Finance Activities	8,060,097,975	8,712,761,140
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	(326,791)	(4,101,029)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	1,137,987	144,043
Resources That Finance the Acquisition of Assets	<u>(1,706,720,927)</u>	<u>(2,634,049,671)</u>
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	<u>3,467,814,000</u>	<u>3,368,862,000</u>
Total Resources Used to Finance Items Not Part of Net Cost of Operations	1,761,904,269	730,855,343
Total Resources Used to Finance Net Cost of Operations	9,822,002,244	9,443,616,483
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	229,122	4,630
Other	<u>189,489</u>	<u>775,039</u>
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	418,611	779,669
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	532,732	492,653
Other	<u>100,000,000</u>	<u>100,000,000</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	532,732	100,492,653
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	951,343	101,272,322
Net Cost of Operations	<u>\$9,822,953,587</u>	<u>\$9,544,888,805</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, 2006

(Present values in millions of dollars)

		Unaudited	Unaudited	Unaudited	Unaudited
	<u>1/1/2006</u>	<u>1/1/2005</u>	<u>1/1/2004</u>	<u>1/1/2003</u>	<u>1/1/2002</u>
Estimated future income (excluding interest) received from or on behalf of:					
Current participants not yet having attained retirement age	\$64,980	\$56,842	\$55,778	\$58,315	\$60,452
Current participants who have attained retirement age	62,480	56,859	54,882	54,491	51,137
Those expected to become participants	44,309	31,313	30,327	32,419	30,843
Subtotal - future income for the 75-year period	171,770	145,014	140,986	145,225	142,432
Estimated future expenditures:					
Current participants not yet having attained retirement age	84,068	72,927	71,803	72,976	75,781
Current participants who have attained retirement age	91,734	84,054	81,128	80,374	73,840
Those expected to become participants	24,966	15,783	13,912	13,789	12,776
Subtotal - future expenditures for the 75-year period	200,767	172,764	166,843	167,139	162,397
Estimated future excess of income over expenditures:	(28,997)	(27,750)	(25,857)	(21,914)	(19,965)

Notes to the Financial Statements: Fiscal Years Ended September 30, 2006 and 2005

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 2006 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2006. 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, Financing, 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 108-7.
- 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 agencies:

- 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 2006 and 2005, net payroll taxes transferred to the RRB by Treasury were \$4.7 billion and \$4.5 billion, respectively.

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 2006 and 2005, investments, including accrued interest, totaled \$1.2 billion and \$1.27 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 2006 due to the financial interchange advances during fiscal year 2005 included principal of \$3.2 billion and interest of \$170 million. The amount paid by the RRB to Treasury in fiscal year 2005 due to the financial interchange advances during fiscal year 2004 included principal of \$3.2 billion and interest of \$159 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 2006, the RRB trust funds realized \$3.8 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 2006 and 2005 were almost \$1.2 billion, each year.

- The Centers for Medicare and Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred \$471 million

and \$445 million to CMS in fiscal years 2006 and 2005, 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 2006 and 2005 were \$7.2 million each year.

- The General Services Administration (GSA) provides payroll processing services to the RRB. In addition, the RRB paid rent to GSA in the amounts of \$3.6 million and \$3.4 million for fiscal years 2006 and 2005, respectively.
- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to \$101.5 million and \$94.8 million for fiscal years 2006 and 2005, respectively.
- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2006 and 2005, the NRRIT transferred \$947 million and \$809 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:

	2006	RESTATED 2005
A. Fund Balances:		
(1) Trust Funds	\$15,554,765	\$63,075,571
(2) Appropriated Funds	8,903,887	11,802,026
(3) Other Fund Types	11,209	10,783
	<hr/>	<hr/>
Total	\$24,469,861	\$74,888,380
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B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	\$ 1,309,655	\$ 1,276,942
(b) Unavailable	10,738,818	14,046,774
(2) Obligated Balance not yet Disbursed	12,410,179	59,553,881
(3) Non-Budgetary FBWT	11,209	10,783
	<hr/>	<hr/>
Total	\$24,469,861	\$74,888,380
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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, 2006 and 2005, the book values of the RRB's investments held at the Treasury, including accrued interest, totaled \$1,203,713,506 and \$1,265,204,565, respectively.

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. The balance on September 30, 2005, consisted of \$1,262,628,000 in 3.875 percent par value specials (with market value equal to face value) maturing on October 3, 2005, and \$2,576,565 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, 2006 and 2005. These figures were provided to the RRB by the NRRIT on November 15, 2006, for the fiscal year ended September 30, 2006.

6. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	<u>2006</u>	<u>2005</u>
Financial Interchange – Principal	\$3,631,000,000	\$3,505,500,000
Financial Interchange – Interest	122,600,000	135,800,000
Department of Labor	101,538,678	94,820,436
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	<u>127,973</u>	<u>181,458</u>
Total	<u>\$3,855,266,651</u>	<u>\$3,736,301,894</u>

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	<u>2006</u>	<u>2005</u>
Accounts receivable - Benefit overpayments	\$36,638,586	\$32,029,588
Accounts receivable – Past due RUI contributions and taxes	96,788	34,249
Accounts receivable - Interest, penalty & administrative costs	<u>254,498</u>	<u>356,309</u>
Total	\$36,989,872	\$32,420,146
Less: Allowances for doubtful accounts	<u>6,638,901</u>	<u>4,984,898</u>
Net Total	<u>\$30,350,971</u>	<u>\$27,435,248</u>

The RRB's September 30, 2006, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of \$36,989,872 includes \$32,163,935 (87%) in railroad retirement program receivables and \$4,825,937 (13%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is \$6,638,901. This includes \$5,693,018 (85.8%) for the railroad retirement program and \$945,883 (14.2%) 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, 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		<u>959,580</u>	<u>0</u>	<u>959,580</u>
		<u>\$28,616,144</u>	<u>\$27,145,128</u>	<u>\$1,471,016</u>

Classes of Fixed Assets	Service Lives	RESTATED At September 30, 2005		
		Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	\$ 2,651,787	\$ 2,475,289	\$ 176,498
ADP software	5 years	19,467,854	19,249,268	218,586
Equipment	5-10 years	5,519,563	4,985,779	533,784
Internal-Use Software in Development		869,271	0	869,271
		<u>\$28,508,475</u>	<u>\$26,710,336</u>	<u>\$1,798,139</u>

See Note 18 regarding restatements.

9. Liabilities

Liabilities at September 30 consisted of:

	2006	RESTATED 2005
Intragovernmental:		
Other - Unfunded Federal Employees' Compensation Act Liability	\$ 391,040	\$ 336,911
Public:		
Other - Accrued Unfunded Leave	\$ 6,563,472	\$ 6,334,350
Total Liabilities Not Covered by Budgetary Resources	\$ 6,954,512	\$ 6,671,261
Total Liabilities Covered by Budgetary Resources	4,595,113,905	4,578,298,108
Total Liabilities	<u>\$4,602,068,417</u>	<u>\$4,584,969,369</u>

- *Debt*

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

	2006	2005
Beginning Balance, Principal	\$2,973,100,000	\$2,962,200,000
New Borrowing	3,235,200,000	3,251,000,000
Repayments	(3,250,100,000)	(3,240,100,000)
Ending Balance, Principal	2,958,200,000	2,973,100,000
Accrued Interest	71,801,471	68,735,141
Total	<u>\$3,030,001,471</u>	<u>\$3,041,835,141</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 \$10,107,022 and \$9,794,148, at

September 30, 2006 and 2005, 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.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

	2006	RESTATED 2005
Accrued Unfunded Liabilities	\$ 6,563,472	\$ 6,334,350
Accrued Payroll	2,835,839	2,758,875
Accrued RRB Contributions – Thrift Savings Plan	54,172	51,897
Withholdings Payable	26,020	24,876
Contingent Liability (see Note 10 for details)	268,000,000	283,000,000
Capital Lease Liability	112,578	221,025
Other	427,993	71,902
Total	<u>\$278,020,074</u>	<u>\$292,462,925</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. Based on an August 14, 2006, judgment, the RRB's legal counsel has determined that it is probable the RR and SSEB Accounts are contingently liable for \$86 million. The amount of \$90 million was recorded in fiscal year 2003; an additional \$11 million was recorded in fiscal year 2005; and a reduction of \$15 million was recorded in fiscal year 2006 (for a total of \$86 million) and is reflected on the 2005 and 2006 Balance Sheet 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. Due to the decision entered by the United States Claims Court on October 31, 2003, regarding the above case, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for an estimated amount of \$82 million. This amount was recorded in fiscal year 2003 and is reflected on the Balance Sheet for fiscal years 2005 and 2006 under other liabilities.

The amount of the contingent liability recorded for the above two actions is \$168 million.

- 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 contingent liability recorded is \$268 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 \$1.084 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

	2006	RESTATED 2005
Railroad Retirement (RR) Program		
Intragovernmental Costs	\$ 200,262,640	\$ 191,475,166
Public Costs	9,539,944,588	9,272,121,006
Total RR Program Costs	<u>\$9,740,207,228</u>	<u>\$9,463,596,172</u>
Intragovernmental Earned Revenue	\$ 7,165,078	\$ 7,245,977
Public Earned Revenue	532,954	612,296
Total RR Program Earned Revenue	<u>\$ 7,698,032</u>	<u>\$ 7,858,273</u>
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	\$ 4,663,731	\$ 4,580,665
Public Costs	114,276,541	114,242,576
Total RUIA Program Costs	<u>\$ 118,940,272</u>	<u>\$ 118,823,241</u>
Intragovernmental Earned Revenue	\$ 0	\$ 0
Public Earned Revenue	28,259,164	29,422,262
Total RUIA Program Earned Revenue	<u>\$ 28,259,164</u>	<u>\$ 29,422,262</u>

These totals do not include \$236,717 and \$250,073 of earned revenues not attributable to either program for fiscal years 2006 and 2005, respectively.

12. Transfers To/From NRRIT

The RRB received a total of \$947 million and \$809 million from the NRRIT during fiscal years 2006 and 2005, 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>2006</u>	<u>2005</u>
Undelivered Orders	<u>\$7,915,076</u>	<u>\$7,721,210</u>

14. Explanation of Material Difference 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, 2005. A reconciliation was not performed for the period ended September 30, 2006, since the RRB's Performance and Accountability Report is published in November 2006, and OMB's MAX system will not have actual budget data until mid-December 2006.

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 2005</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	\$10,036	\$10,022	\$3,811	\$6,148
2. Unobligated Balance, brought forward October 1, 2004	(15)			
3. Recoveries of prior year unpaid obligations	(1)			
4. Dual Benefit Obligations (0111)	(107)	(107)		
5. Sickness Insurance Benefit Recoveries	(29)	(29)		
6. Administrative Expense Reimbursement	(8)	(8)		
7. Cancelled Authority	2			
8. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(442)	(442)	(442)	
<u>Financial Interchange</u>				
9. Financial Interchange – Cash vs. Accrual (net difference)			548	(548)
<u>NRRIT</u>				
10. NRRIT Obligations / Outlays	827	827		827
11. Intrafund Transfers: NRRIT Transfer to RRA			809	(809)
12. Proprietary Receipts: NRRIT – Gains and Losses			3,094	(3,094)
13. Proprietary Receipts: NRRIT – Interest and Dividends			331	(331)
14. Rounding				(1)
15. Budget of the United States Government	<u>\$10,263</u>	<u>\$10,263</u>	<u>\$8,151</u>	<u>\$2,192</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.
- Below are the fund balances used in the Statement of Social Insurance:

<u>Date</u>	<u>Fund Balance</u> (millions)	<u>Fund Balance</u> (unaudited) (millions)
1/1/2006	\$29,976	
1/1/2005		\$28,570
1/1/2004		26,616
1/1/2003		22,679
1/1/2002		20,861

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2005, whereas present values are as of 1/1/2006. Prior to 2003, present value categories for “Current participants not yet having attained retirement age” included those employees eligible for retirement who had not yet retired.
- Prior to 2006, certain accrual adjustments were included in the above fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefit 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.

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 23rd actuarial valuation. Under employment assumption II, starting with an average 2005 employment of 233,000, (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.

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

Balance Sheet as of September 30, 2006

ASSETS

	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
Fund Balance with Treasury Investments	\$ (6,392,891) *	\$2,681,862	\$8,132,697	\$434,877	\$10,360,150	\$97,612	\$675,334		\$15,989,641
NRRT Net Invested Assets	725,037,871	478,075,636							1,203,713,507
Taxes and Interest Receivable	3,753,600,000	29,372,752,000	95,353,739	4,481,666	1,486,727	10,064,992	53,129	(4,555,684)	29,372,752,000
Other Assets		26,619,780					113,050		3,885,617,622
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	9,886,313	741,861	104,354	(4,555,684)	4,323,043,484
Other Liabilities	177,725,200	90,701,935					700,276		279,013,724
Total Liabilities	4,151,785,471	436,315,031	6,225,088	434,877	10,740,811	741,861	804,630	(4,555,684)	4,602,057,208
Unexpended Appropriations									434,877
Cumulative Results of Operations	321,059,509	29,443,814,247	97,261,348	434,877	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 Attributed to Programs

Net Cost of Operations					236,059		678		236,717
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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)
Non-Exchange Revenue	34,578,538	19,327,539	4,744,340			270,098		(83,460)	58,837,055
Other Financing Sources	3,404,962,449	(29,841,915)	5,113,550		108,974,468	(20,047,894)	7,471,299		3,476,681,957
Transfers In From NRRT		947,000,000							947,000,000
Change in NRRT 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)
Taxes and Other Non-Exchange Revenue	2,469,443,533	2,682,874,031	65,805,844			21,709,468		(466,000,000)	4,773,832,876
Change in Net Position	104,164,726	1,592,959,875	3,074,563	64,127	(285,738)	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	\$5,567,732	\$9,420,743	\$36,883		\$29,877,615,339

* The negative cash balance for the SSEB (Fund 60x6010) account is a result of regular, retroactive year-end adjustments made by Treasury.

18. Restatements

Since the assets of the NRRIT are included in the RRB's Statement of Social Insurance (a basic statement for the first time in fiscal year 2006), management, in conjunction with the RRB's Inspector General, agreed to restate the financial statements of the RRB to include NRRIT net assets. For fiscal year 2005, the Balance Sheet, the Statement of Changes in Net Position, and the Statement of Financing were restated to include the net assets of the NRRIT. NRRIT net assets of \$27,666.5 million were added to the Balance Sheet. The Statement of Changes in Net Position was restated to include a prior-period adjustment of \$25,032.9 million to bring in the audited NRRIT net assets as of September 30, 2004, and the increase in NRRIT net assets for fiscal year 2005 amounting to \$2,633.6 million. Other resources on the Statement of Financing were increased by \$2,633.6 million as a result of the increase in NRRIT net assets for fiscal year 2005.

After a consultation with DOL, OMB and the Financial Management Service, it has been determined that the RUIA contributions that the RRB receives from railroad employers should be reported as revenue to the RRB. As a result of this accounting change, the restatement of fiscal year 2005 on the Statement of Changes in Net Position shows an increase in non-exchange revenue and a decrease in transfers-in without reimbursement in the amount of \$97.2 million.

In conjunction with the material restatements described above, we made certain other corrections with only immaterial impact on the financial statements.

The overall effect of the restatements was an increase in assets of \$27,666,708,385 on the Balance Sheet; an increase in the Statement of Net Cost of \$95,774; an increase in cumulative results of operations on the Statement of Changes in Net Position of \$25,032,864,071; a decrease in budgetary resources and status of budgetary resources on the Statement of Budgetary Resources of \$341,407; and an increase in total resources used to finance activities of \$2,633,165,752 on the Statement of Financing.

19. 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 2005 and 2006.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2006 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

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