Financial Report
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United States
Government
2000

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A MESSAGE FROM THE SECRETARY OF THE TREASURY

I am pleased to present the fiscal year 2000 *Financial Report of the United States Government*. The Report includes audited financial statements that cover the executive branch, as well as parts of the legislative and judicial branches of U.S. Government. This is the fourth report issued pursuant to the Federal Financial Management Act of 1994. Our goal is to present the activities of the U.S. Government in a timely, accurate, and professional manner. Developing the capability for the Government to produce financial reports in accordance with generally accepted accounting principles continues to be an enormous task.

The U.S. Government is again reporting an accrual-based surplus, which this year is $46 billion. Additionally, this past year the size of the Federal debt held by the public has been reduced by $223 billion. All 24 major agencies completed their financial statements on time and the quality of their reporting continues to improve. The Joint Financial Management Improvement Program has established a Governmentwide financial software certification process that is beginning to ensure that commercial systems being purchased by the Federal Government meet its requirements.

The Statement of Federal Financial Accounting Standards Number 17 "Accounting for Social Insurance" became effective in fiscal year 2000. Accordingly, for the first time this Financial Report is required to contain comprehensive information regarding Social Security, Medicare, Railroad Retirement benefits, Black Lung benefits, and Unemployment Insurance. The purpose of this statement is to assist users in evaluating the Government's financial condition and the sufficiency of future budgetary resources to sustain program services and meet program obligations as they come due.

I am pleased that the Government has progressed to the point where a comprehensive report such as this can be issued; however, in my experience, reporting financial results 6 months after the end of the year is simply not good enough. Nor does this adequately fulfill our responsibilities to Congress or to the public. This process will improve. Over the next several years this Administration will be implementing a series of improvements to achieve the following goals:

- We will substantially accelerate the timing of the issuance of agency and Governmentwide financial reports.
- A comprehensive review of the processes necessary to produce financial statements will be conducted by management and our auditors, and the results of their recommendations will be implemented.
- The Treasury Department will implement new Governmentwide central accounting systems and processes for reporting budget execution information to improve data access, reduce redundant data entry and reporting, and eliminate time-consuming reconciliations.

I am committed to producing and reporting financial information that meets the highest standards of integrity, and to provide to the American people the accountability and professionalism that they expect from their Govemment.

Paul H. O'Neill

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

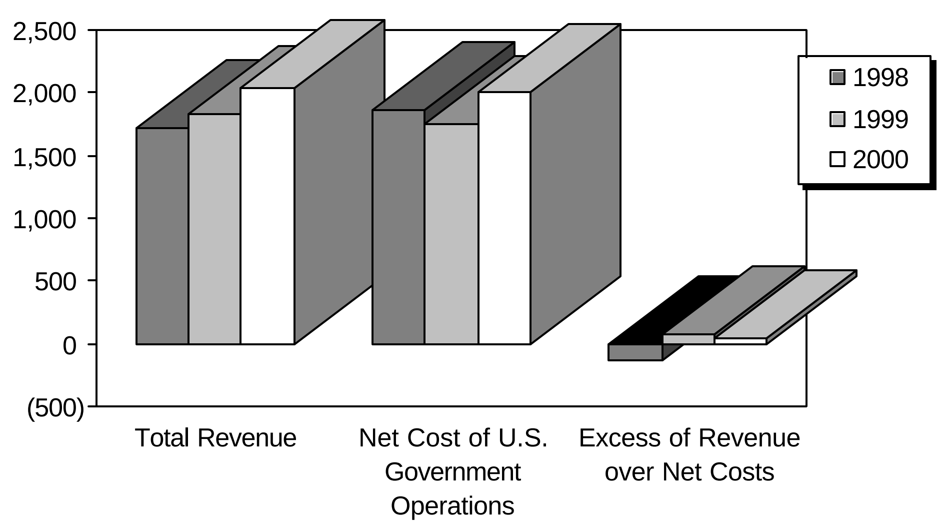
We are pleased to be presenting the fourth annual consolidated *Financial Report of the United States Government (Financial Report)*. Although we continue to receive a disclaimer of opinion from our auditors, we have made significant progress in our quest to report the financial activities of the U.S. Government timely, reliably, and in a format that is useful to the readers. All 24 of the largest agencies completed their financial statements on time and 18 received an unqualified or clean opinion this year, which compares to 15 last year. We are committed and will continue to work to improve financial management, modernize the Government's financial management systems, and strengthen financial reporting.

The accompanying *Financial Report* is required by 31 United States Code 331(e)(1) and consists of the Management's Discussion and Analysis (MD&A), Statement of Operations and Changes in Net Position, Statement of Net Cost, Balance Sheet, Stewardship Information, Notes to the Financial Statements, and Supplemental Information. Each section is preceded by a description of its contents.

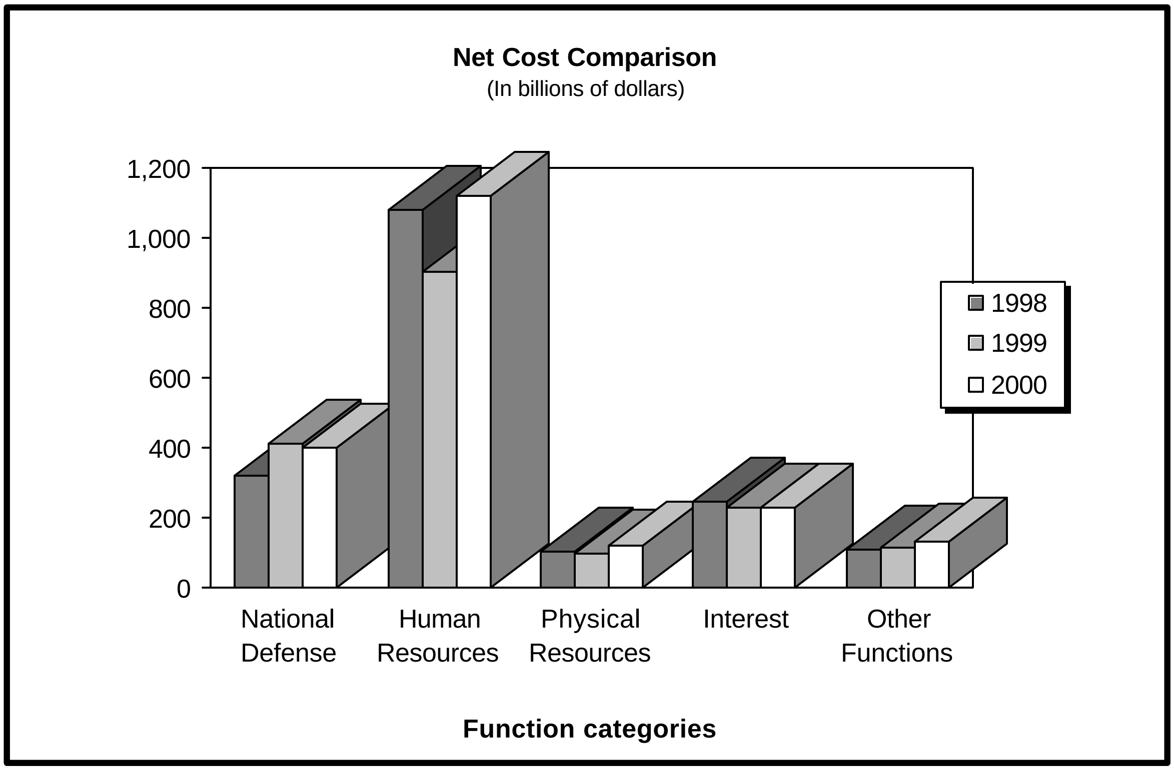
Financial Highlights

The following charts present comparisons in major revenue, cost, asset, and liability amounts between fiscal 1998, 1999, and 2000. Some of these changes are discussed in the following sections.

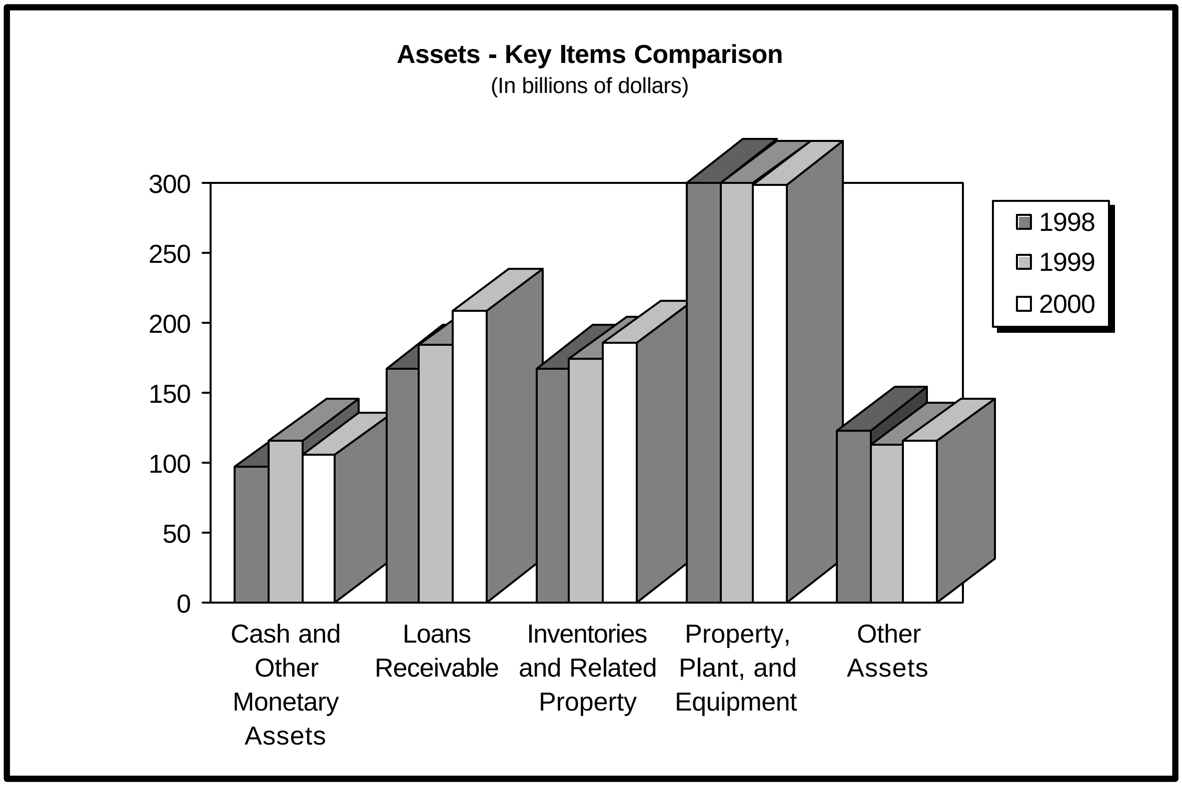
Statement of Operations and Changes in Net Position Comparison
(In billions of dollars)



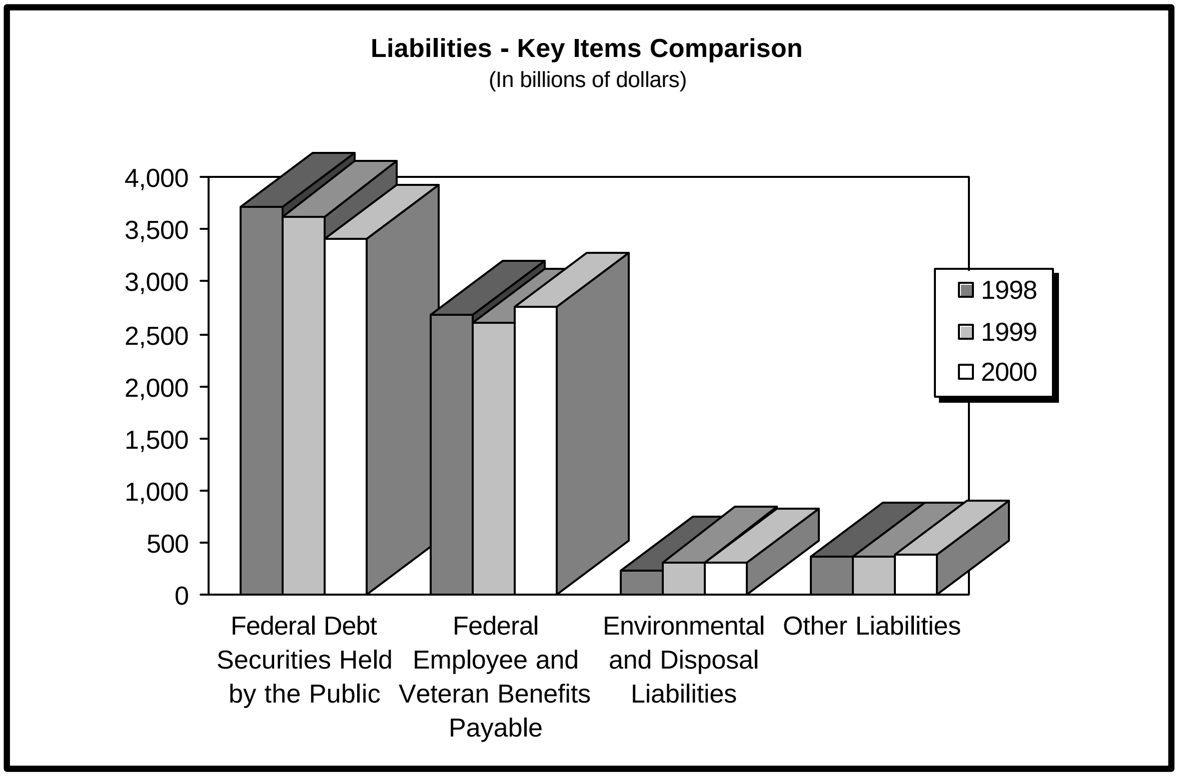
This chart shows that the Government has progressed from an accrual deficit in fiscal 1998 to accrual surpluses in fiscal 1999 and 2000. Revenue has steadily increased each year while Net Cost of U.S. Government Operations experienced a decrease in fiscal 1999. The largest increase in revenue for fiscal 2000 was for individual income tax and tax withholdings (an increase of $179.2 billion or 12.3 percent). The decrease in net cost for fiscal 1999 was due primarily to a change in the interest rate assumptions for the veterans compensation and burial benefits payable and its effect on net cost was a decrease of $204.8 billion. In fiscal 2000, there were further changes in the actuarial and interest rate assumptions resulting in an increase in net cost and accrued liability for veterans benefits and services of $62.5 billion.



The above chart compares net cost, by fiscal year, in each function category. As noted earlier, the reduction in human resources for fiscal 1999 was due primarily to a change in the interest rate assumptions for the veterans compensation and burial benefits payable. Interest has been declining in relationship to the decrease in the debt held by the public; however, in fiscal 2000, the decrease in interest was offset by a $5.5 billion premium on buyback purchases.



The above chart compares changes in key balance sheet asset items by fiscal year. In fiscal 1999, cash and other monetary assets increased by 19 percent over the previous year with cash comprising the largest increase of $18.2 billion. In fiscal 2000, cash and other monetary assets decreased by 9 percent with international monetary assets decreasing by $6.9 billion and cash decreasing by $4.2 billion. For fiscal 2000, loans receivable increased by 13 percent with Federal Direct Student Loans comprising the largest dollar increase of $16.8 billion. Inventories and related property increased by 7 percent in fiscal 2000 with operating materials and supplies increasing by $25.8 billion and inventory held for sale, principally to Federal agencies, decreasing by $14.1 billion.



The above chart compares changes in key balance sheet liability items by fiscal year. As clearly shown above, the Federal debt securities held by the public have been significantly decreasing over the past 2 years. The reduction in fiscal 2000 was $223.1 billion. The reduction in the Federal employee and veteran benefits payable for fiscal 1999 was primarily as a result of a change in the interest rate assumption for computing the liability for veterans compensation and burial benefits payable. In fiscal 2000, the liability for veterans compensation and burial benefits payable increased by $62.5 billion, mainly due to changes in actuarial and interest rate assumptions. In addition, civilian and military pension liability increased in fiscal 2000 by $46.7 billion and $28.6 billion, respectively.

Mission and Organizational Structure

No other entity in the world compares in size, scope, and complexity to the U.S. Government. The Federal Government is the largest landowner in the world. Its budgeted outlays for fiscal 2000 were $1.8 trillion. A civilian Federal workforce of 2.7 million individuals plus 1.4 million Department of Defense active duty military personnel serves a diverse Nation of more than 275 million Americans.

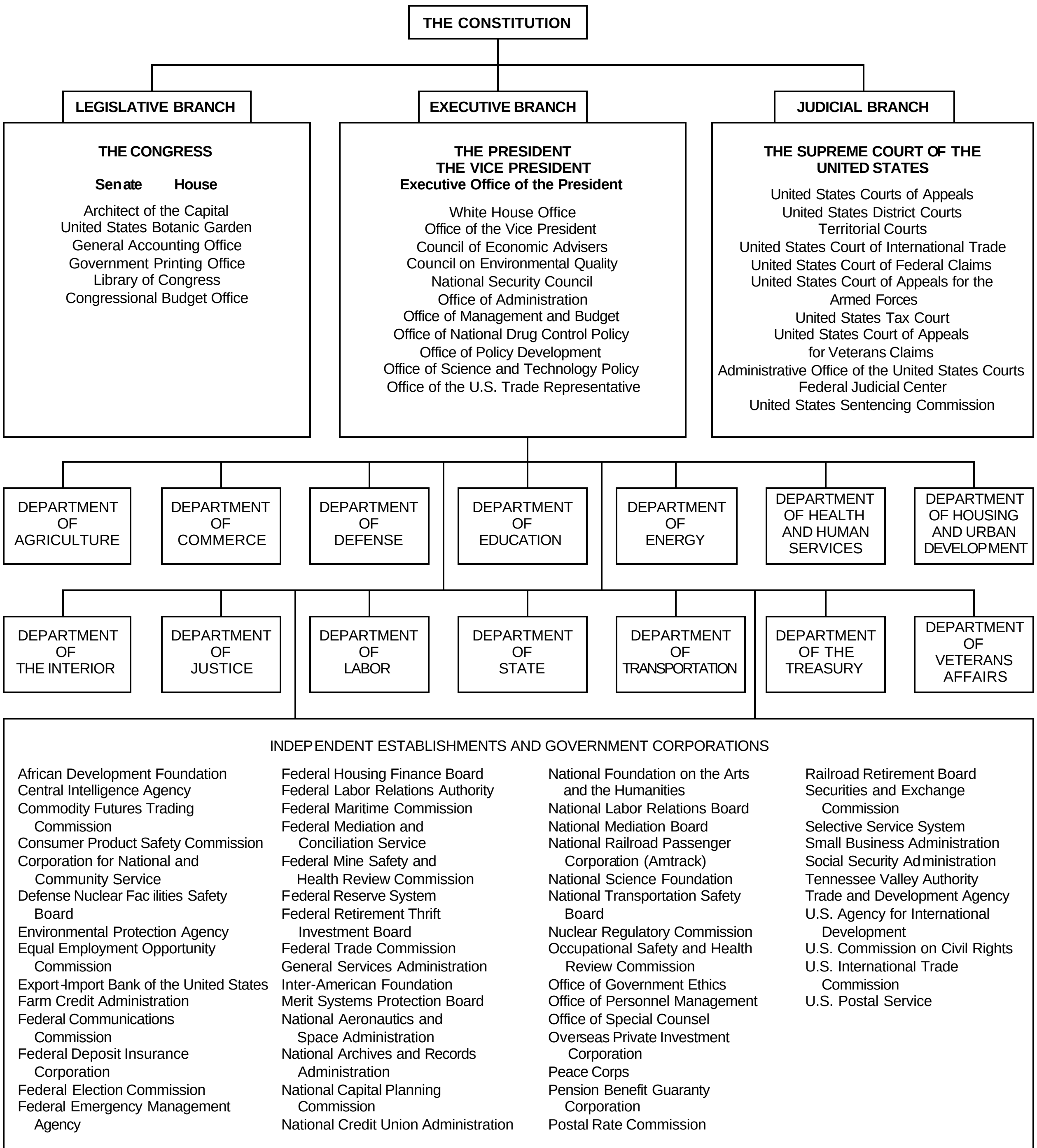
To fulfill its constitutional mandates, the U.S. Government undertakes a wide variety of programs to:

- Maintain strong, ready, and modern military forces.
- Provide critical international leadership.
- Contribute to energy security.
- Protect the environment.
- Boost agricultural productivity.
- Facilitate commerce and support housing.
- Support the transportation system.
- Help economically distressed urban and rural communities.
- Assist States and localities in providing essential education and training.
- Promote health care.
- Foster income security.
- Provide benefits and services to veterans.

- Administer justice.

The form of government that exists in the United States is a constitutional representative democracy. The following organization chart illustrates the constitutionally mandated separation of powers into the three main branches of Government. It also illustrates the breadth and complexity of the executive branch.

THE GOVERNMENT OF THE UNITED STATES



Source: *U.S. Government Manual 2000-2001*

The United States is impressive in its position as one of the world powers. The following table illustrates several interesting facts about the United States, as compared with other countries.

Item of Interest	Amount for the United States	Information as of	Country Rank	Comments
Land area	9,158,960 square kilometers		4th	Russia, China, and Canada are larger.
Population	275.6 million	July 2000 est.	3rd	China and India are greater.
Gross domestic product	$9.255 trillion	1999 est.	1st	
Gross domestic product–per capita	$33,900	1999 est.	2nd	Luxembourg was first.
Electricity–production	3.62 trillion kilowatthour	1998	1st	This was 29.3 percent of world production.
Telephones–number of main lines in use	178 million	1999	1st	
Military expenditures–dollar figure	$276.7 billion	Fiscal 1999 est.	1st	
Military expenditures–percent of gross domestic product	3.20 percent	Fiscal 1999 est.	39th	North Korea was first with an estimate of 25-33 percent.
SOURCE: Central Intelligence Agency's *The World Factbook 2000*				

Financial Results

The excess of revenue over net cost figure (accrual basis) contained in these financial statements for fiscal 2000 is $46.0 billion. In fiscal 2000, there was a unified budget surplus (primarily on the cash basis) of $236.9 billion. The primary components of the difference that have been identified are increases in the liability for veteran compensation and burial benefits, $62.5 billion; increases in the liability for civilian employee benefits, $55.3 billion; increases in the liability for military employee benefits, $39.5 billion; principal payments of pre-credit reform loans, $24.1 billion; increases in environmental liabilities, $19.6 billion; and decreases in capitalized fixed assets, $31.6 billion. For more information on the detailed reconciliation, see the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus in the Supplemental Information section.

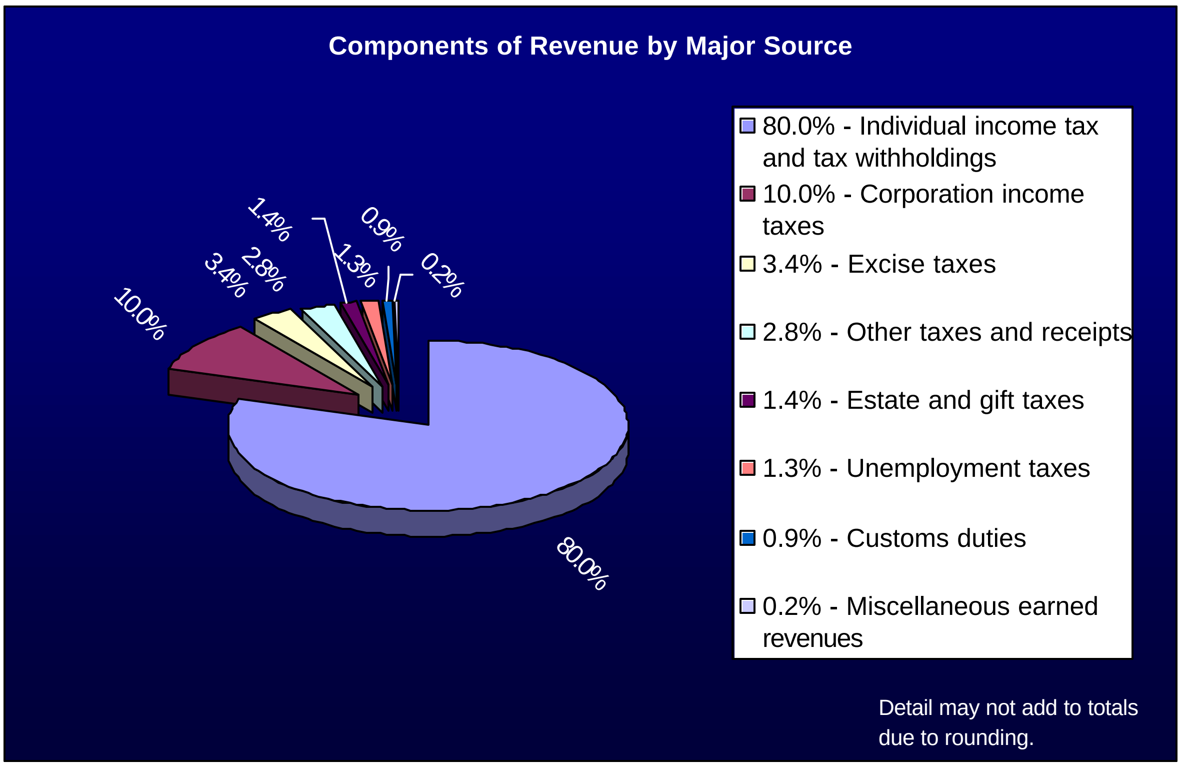
Revenue and Expense Summary

Revenue

Government revenue comes from two sources: nonexchange transactions and exchange transactions. Nonexchange revenues arise primarily from exercise of the Government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. Nonexchange revenue is the U.S. Government's primary source of revenue and totaled $2,040.0 billion in fiscal 2000. More than 95 percent of this total came from tax receipts, with the remainder coming from customs duties and other miscellaneous receipts.

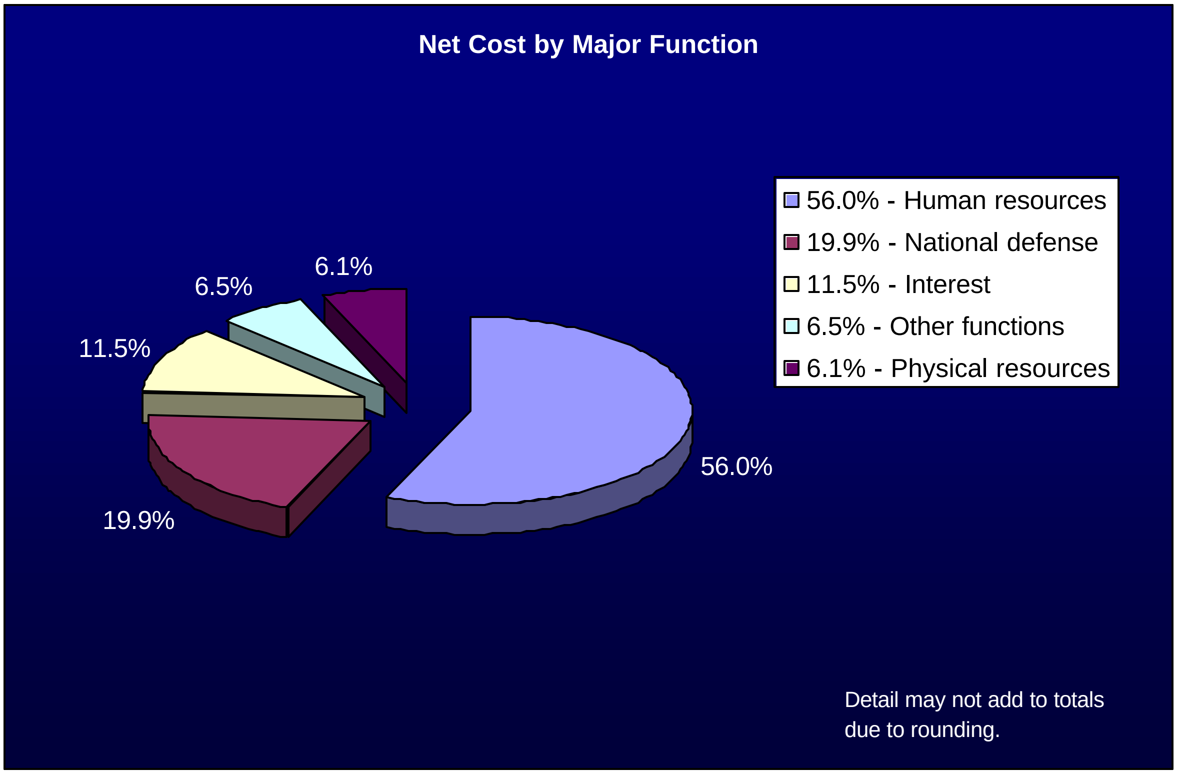
Exchange revenues aris e when a Government entity provides goods and services to the public or to another Government entity for a price. Another term for exchange revenue is earned revenue. During fiscal 2000, the U.S. Government earned $160.5 billion in exchange revenue. Of these revenues, $155.7 billion is offset against the gross cost of the related functions to arrive at the function's net cost. The U.S. Government also earned $4.8 billion that was not offset against the cost of any function (e.g., royalties on the Outer Continental Shelf lands).

The following chart shows the components of revenue by major source.



Expenses by Function

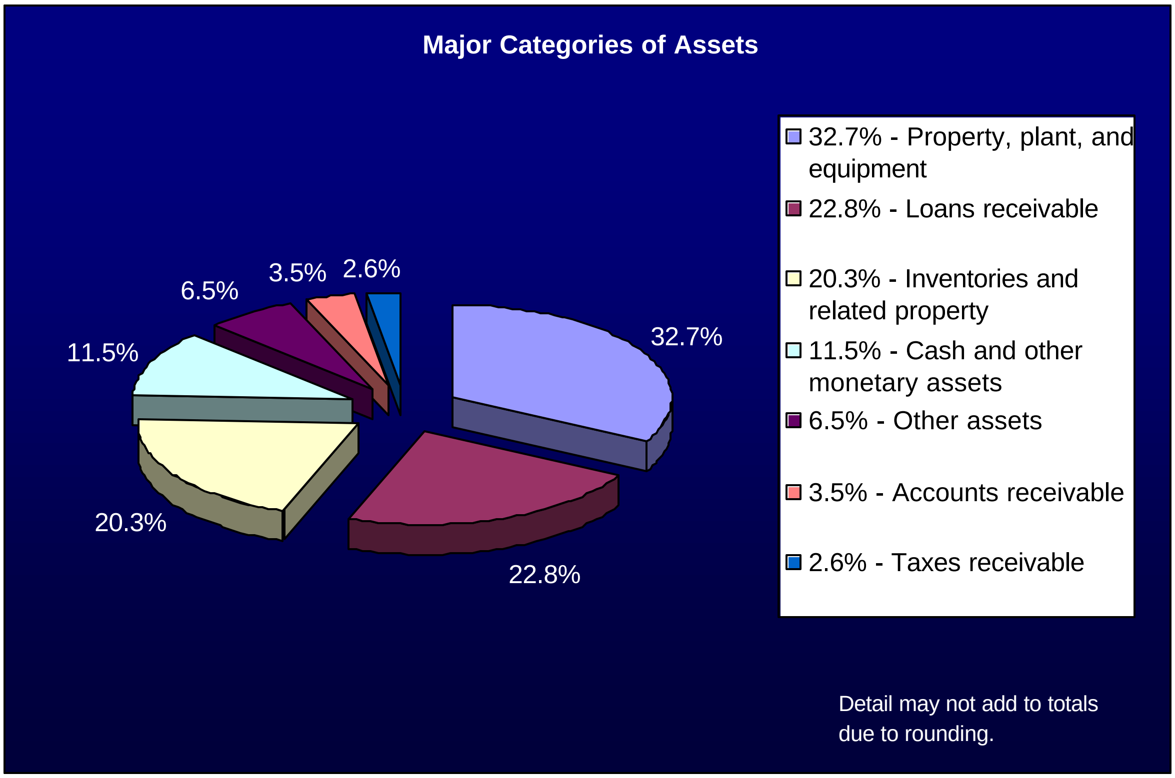
The net cost of U.S. Government operations was $1,998.8 billion for fiscal 2000. Net cost represents the gross cost of operations less related earned revenues. The Statement of Net Cost reflects the cost incurred to carry out the national priorities identified by the President and the Congress. Costs are allocated to functions and subfunctions based on accounting standards and, in some cases, may be allocated differently than the budget. The functions and subfunctions used to accumulate costs associated with the national priorities are identified in the President's budget and described in detail in the Supplemental Information section of this *Financial Report*. The accompanying chart presents the percentage of the net cost of U.S. Government operations by each of the U.S. Government's major functions.



Asset and Liability Summary

Assets

The assets of the U.S. Government are the resources available to pay liabilities or to satisfy future service needs. The accompanying chart depicts the major categories of reported assets as of September 30, 2000, as a percentage of reported total assets. Detailed information about the components of these asset categories can be found in the Notes to the Financial Statements.

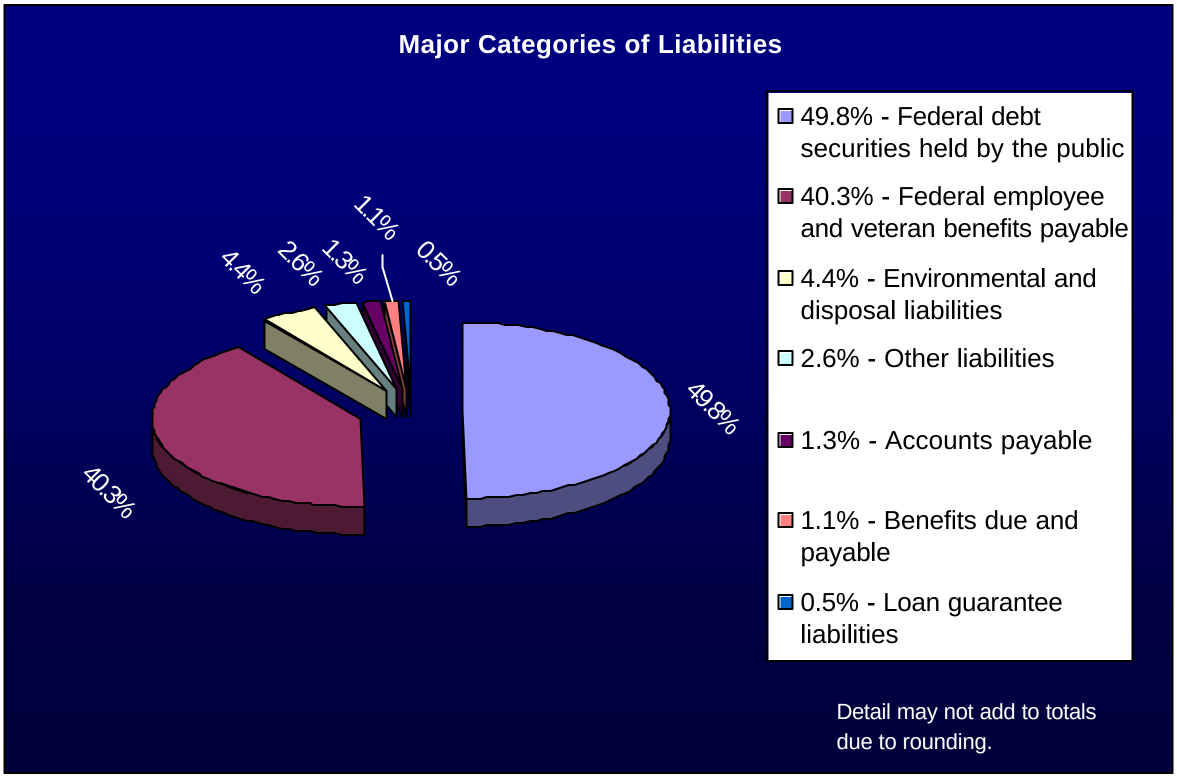


The assets presented on the Balance Sheet are not a comprehensive list of Federal resources. Natural resources, stewardship land (national parks, forests, and grazing lands), national defense assets, and heritage assets are examples of resources that are not included in the $911.5 billion of Federal assets reported on the Balance Sheet at the end of fiscal 2000. Detailed information about national defense assets, stewardship land, and heritage assets can be found in the Stewardship Information section. Another example, the U.S. Government's most important financial resource, its ability to tax and regulate commerce, cannot be quantified and is not reflected.

Liabilities

At the end of fiscal 2000, the U.S. Government reported liabilities of $6,848.6 billion. These liabilities are probable and measurable future outflows of resources arising out of past transactions or events. The largest component of these liabilities ($3,408.5 billion) is represented by Federal debt securities held by the public. The next largest component ($2,757.8 billion) relates to pension, disability, and health care costs for Federal civilian and military employees as well as for veterans. Included in this component is a Department of Veterans Affairs program whereby veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service-connected causes. During fiscal 2000, changes in actuarial and interest rate assumptions were the primary factors contributing to the increase of $62.5 billion for veterans compensation and burial payable. Another liability, which will likely require substantial future budgetary resources to liquidate, is related to environmental cleanup costs associated with environmental damage/contamination. As of September 30, 2000, the recognized cost of cleaning up environmental damage/contamination across Government programs was estimated to be $301.2 billion.

The accompanying chart presents the percentage of total Federal liabilities represented by each of the categories of liabilities reported on the Balance Sheet. Additional details about the U.S. Government's reported liabilities can be found in the Notes to the Financial Statements.



Federal Debt and Budget Surpluses

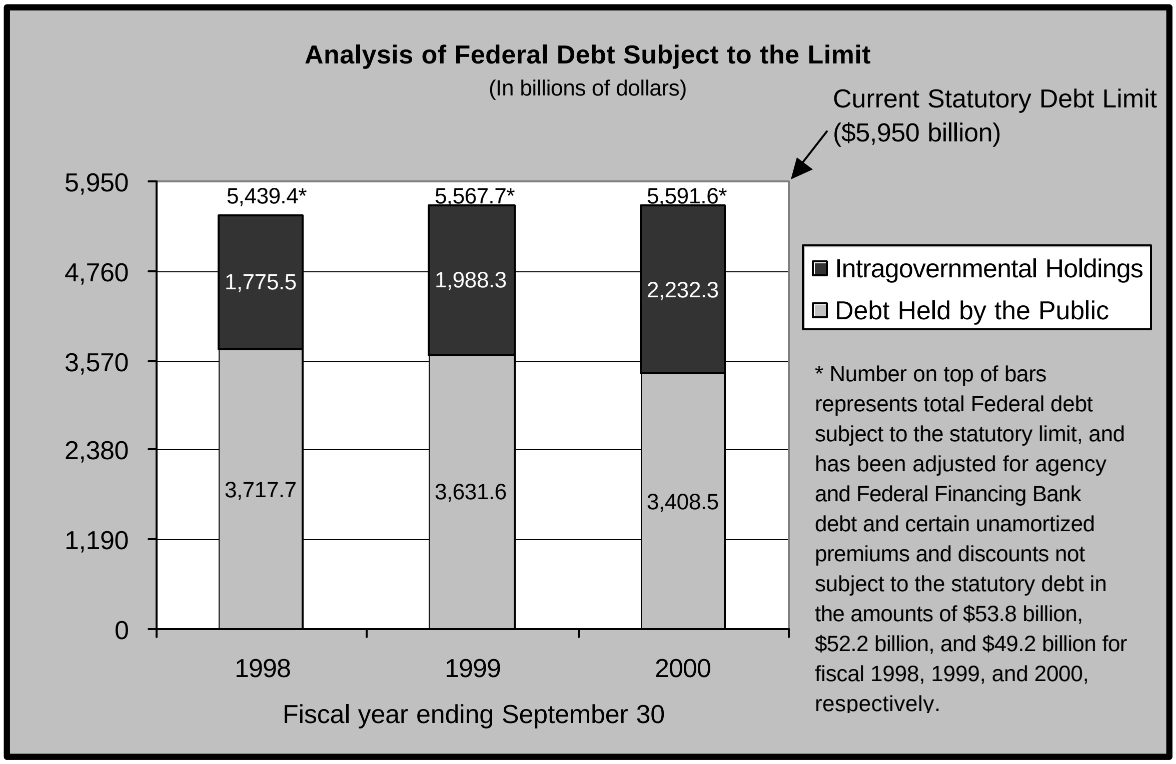
Now that the Federal Government has achieved budget surpluses coupled with projections of continuing surpluses, focus has started to shift to the impact of the surpluses on the Federal debt.

While we have had 3 consecutive years of budget surpluses, it is important to understand the composition of budget surpluses, and the relationship that these excess funds have had on reducing or changing the composition of the Federal debt. There are two components of Federal debt: debt held by the public and intragovernmental holdings.

Debt held by the public includes all Federal debt held by individuals, corporations, State or local governments, Federal Reserve System, foreign governments, and other entities outside of the U.S. Government. The types of securities that are held by the public include, but are not limited to, Treasury Bills, Treasury Notes, Treasury Bonds, U.S. Savings Bonds, State and Local Government Series securities, Foreign Series securities, and Domestic Series securities.

Intragovernmental holdings include Government Account Series securities held by Government trust funds, revolving funds, and special funds; Federal Financing Bank securities held by Government trust funds; and Treasury securities and agency securities held by Government accounts. The laws establishing Government trust funds (such as the Social Security and Medicare Trust Funds) generally require the balances to be invested in special Treasury debt securities. Although intragovernmental holdings are used in the calculation of the Federal debt subject to the statutory debt limit, intragovernmental transactions are eliminated in the consolidation process of preparing this *Financial Report* since they are claims of one part of the Government against another part. However, they are important to an understanding of total debt because, as the intragovernmental securities are redeemed, other sources of funds will be identified to fund the redemptions.

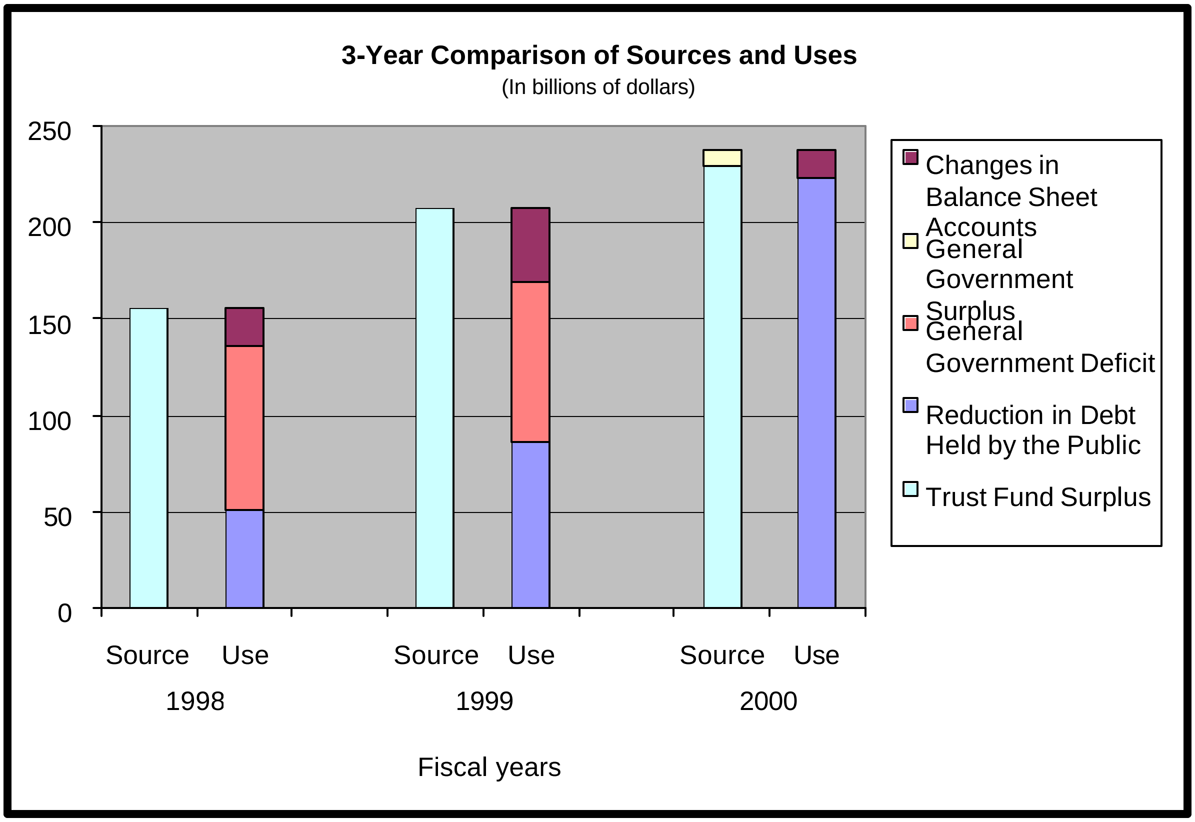
The following chart presents a 3-year comparison of the components of Federal debt subject to the statutory debt limit.



As can be seen from the above chart, debt held by the public has been reduced by over $300 billion since 1998; however, total debt subject to the limit has risen by $152.2 billion over the same period. This is because the intragovernmental holdings have risen faster than the debt held by the public has been repaid.

Due to the Government's improved cash position, Treasury's external borrowing needs have declined significantly. Debt maturing still exceeds the Government's cash surplus, however, and new securities continue to be issued. To adjust the Government's borrowing program, Treasury has taken a number of actions including initiating a buyback program, a competitive redemption process by which Treasury accepts offers to redeem certain marketable Treasury securities (debt held by the public) prior to their maturity date. During fiscal 2000, a total of 13 buybacks occurred involving the redemption of $21.3 billion par amount of marketable Treasury securities at a total cost of $26.7 billion.

Federal Government operations are composed of two parts: trust funds, which receive their funding from dedicated collections, and general government, which is funded from general revenues. Trust funds are funds that are designated by law as trust funds. For Federal Government trust funds, the beneficiaries do not own the moneys in the funds and the Congress may, and often does, unilaterally alter the collections, benefit levels, or other features of the programs financed by the funds. These Federal trust funds provide funding for specific programs and purposes. The income from the funds must be used only for the purposes designated by law. Many of the larger trust funds finance social insurance programs (such as Social Security and Medicare) and Federal military and civilian retirement programs. Other major trust funds finance highway and transit construction and airport development. The following chart illustrates a 3-year comparison of the surpluses or deficits of these two parts of Government and how the budget surpluses were used.



Trust fund surpluses (the white area in the chart) are invested in Treasury securities. The cash invested in the Treasury securities is mainly used for two purposes: to reduce the debt held by the public (the diagonally stripped area) and to cover the general government deficits (the black area). Due to having a general government surplus in fiscal 2000, almost all of the budget surplus could be used to reduce the debt held by the public.

The budget surpluses, which are based primarily on a cash basis, are due almost entirely to the trust fund surpluses. General government operations experienced budget deficits for fiscal 1998 and 1999, but had a surplus for fiscal 2000.

Future Commitments

Social Security and Medicare: Fiscal Challenges Looming on the Horizon

For 65 years, Social Security has provided retirement security for tens of millions of Americans. Like Social Security, Medicare represents a promise that the Nation has made to its senior citizens. As demographics change and costs increase, ensuring that these two programs are strengthened for tomorrow's retirees and beneficiaries poses a long-term fiscal challenge. Reform is significantly easier to implement if done far in advance, so that individuals and families have time to adjust their personal plans and changes can be phased in slowly over time.

Both Social Security's and Medicare's spending paths are unsustainable in the long run, driven largely by demographic trends. First, longer life spans mean more benefit payments. Advances in health and well-being have led to significant increases in the average life span in the 21st century. The net result is that people are spending a growing proportion of their lives in retirement and facing the inevitable medical needs of aging persons. While longer life spans are clearly desirable, they also mean additional years of Social Security and Medicare payments, and a dramatic long-term increase in Government obligations.

Compounding this problem is the long-term decline in fertility rates. This means there will be fewer workers available to support each beneficiary once the baby boom generation starts to retire.

Under current legislation and using intermediate assumptions, the Trustees estimated in their 2001 report, released on March 19, 2001, that by 2016 cash disbursements for the Social Security programs will exceed cash receipts from taxes and by 2038 the combined trust fund assets, primarily investments in special Treasury securities, will be exhausted. When this occurs, dedicated tax revenues would be sufficient to pay only approximately 73 percent of the benefits due. Additional information about the Social Security program can be found in the Stewardship Information section of this *Financial Report*, along with updated information from the 2001 report.

While demographic trends will dramatically change spending for both Social Security and Medicare, the problem is likely to be more pronounced in Medicare due to the expected increases in health care costs per beneficiary. Today, Medicare covers only 53 percent of the average senior's annual medical expenses. Medicare per capita spending is projected to vastly outpace the Consumer Price Index for the next 25 years.

While it is true that the Hospital Insurance Trust Fund is projected to have a surplus over the next 10 years, it is misleading to focus so much attention on only one of the program's two trust funds representing only 60 percent of total Medicare spending. A full assessment of Medicare's finances reveals spending exceeds the total of tax receipts and premiums dedicated to Medicare today, and that "financing gap" is projected to widen dramatically. This annual gap was $51 billion in fiscal 2000, growing to $216 billion (using constant dollars) in 2020, and $368 billion in 2030. Additional information on the Medicare program can be found in the Stewardship Information section of this *Financial Report*.

Economic and Budgetary Results

Fiscal 2000 was a very favorable year for the economy and for the budgetary position of the U.S. Government. Economic growth was even stronger than in the previous fiscal year, and the unemployment rate held at the lowest level in more than 30 years. Although large increases in oil prices resulted in a higher overall rate of inflation, "core" inflation (excluding energy and food) remained contained. Productivity rose at an even faster pace than in the preceding several years and helped to restrain inflationary pressures.

The Economy in Fiscal 2000

Economic growth in fiscal 2000 accelerated from the previous year, and the current expansion became the longest on record. Real gross domestic product (GDP) increased by a sizable 5.2 percent over the four quarters of the fiscal year (encompassing the fourth quarter of calendar 1999 through the third quarter of calendar 2000). That was the largest increase on a fiscal year basis in 16 years, although economic growth slowed considerably in the final quarter of the fiscal year. During the course of the fiscal year, the first three quarters grew at 8.3 percent, 4.8 percent, and 5.6 percent, while the last quarter (July-September) grew at only 2.2 percent.

Growth in fiscal 2000 was powered by strong gains in productivity. Average annual increases in labor productivity doubled to 3 percent over the past 5 years, compared to an average annual rate of about 1-1/2 percent from 1974 to 1995. Last year productivity growth accelerated even further, to an outsized 4.8 percent over the four quarters of the fiscal year.

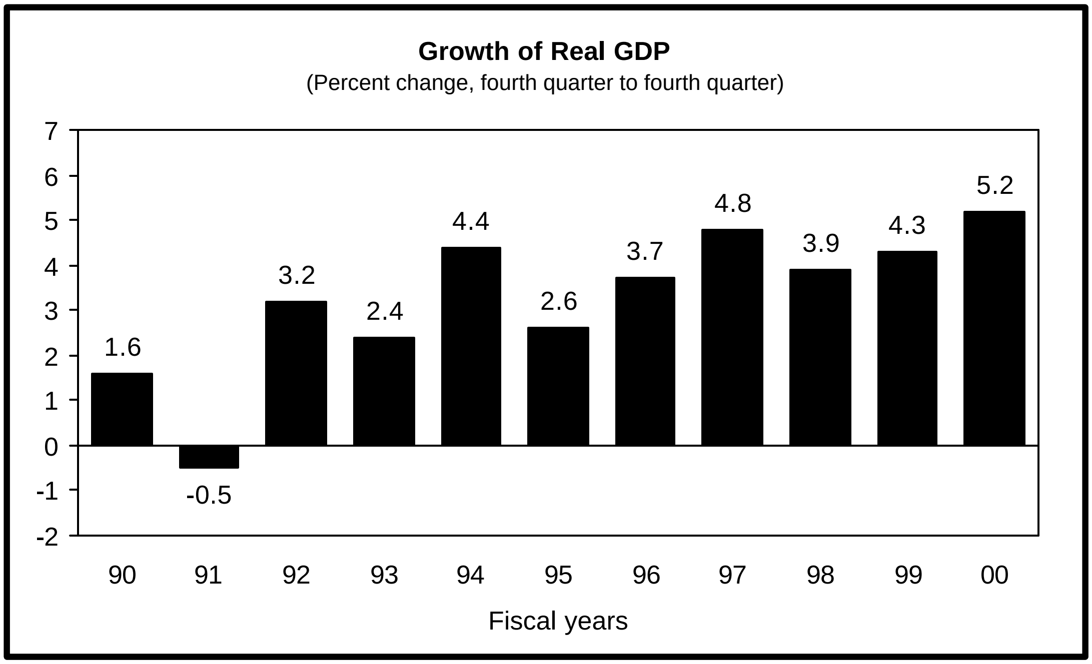
Growth in consumer spending and business investment in equipment and software was very rapid in fiscal 2000. Real consumer purchases increased by 5.3 percent over the year, matching the growth of fiscal 1999 as the fastest in 14 years.

Labor markets remained tight in fiscal 2000. The unemployment rate held within a narrow band of 3.9 percent to 4.1 percent during the fiscal year, the lowest readings in three decades.

The rate of inflation increased in fiscal 2000 due to higher oil prices, but underlying inflationary pressures remained contained even with strong economic growth and low unemployment. The acceleration in productivity growth to almost 5 percent over the fiscal year helped to hold down costs. The Consumer Price Index rose by 3.5 percent over the fiscal year compared with 2.6 percent in fiscal 1999. Increases in fiscal 2000 were led by a nearly 16 percent jump in energy prices. Excluding energy and food, growth in "core" consumer prices posted a moderate 2.5 percent increase, up a bit from 2.1 percent in the prior fiscal year but in line with gains over the prior 3 fiscal years.

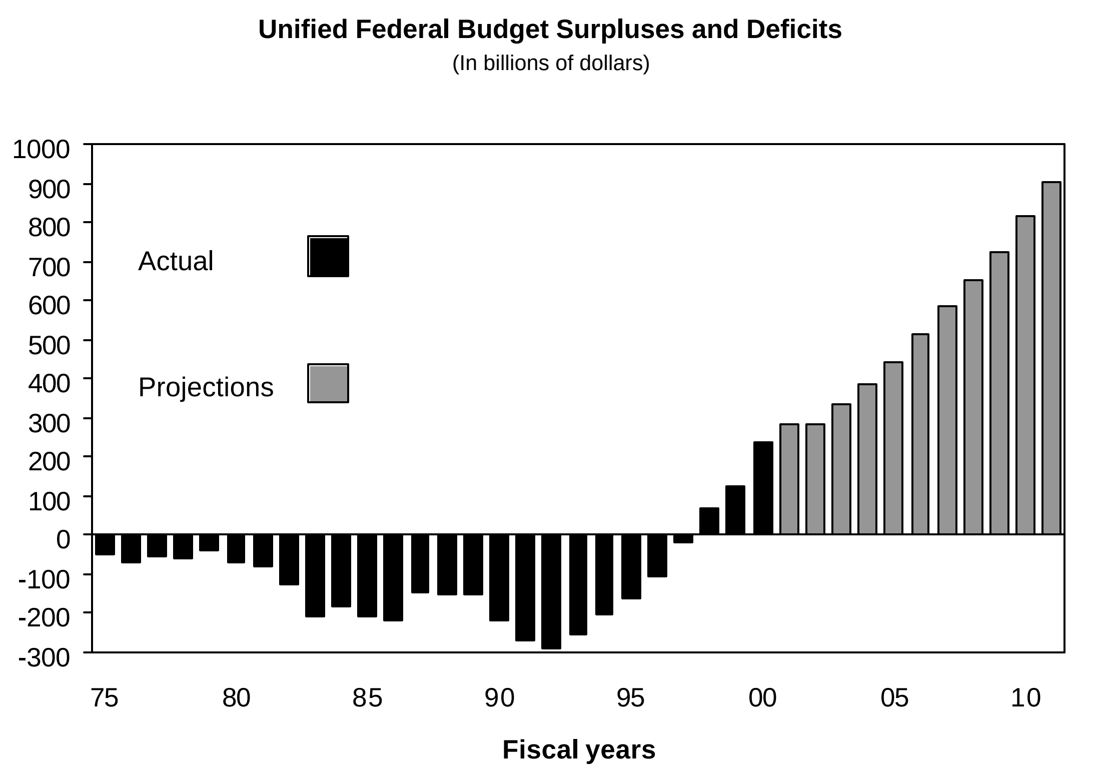
The Federal Reserve raised short-term interest rates four times over the course of fiscal 2000. The Federal Reserve described its actions as the appropriate policy for avoiding the inflationary risk of growth in demand, exceeding even the productivity-enhanced growth in potential supply. The targeted Federal funds rate (the rate that banks and other financial institutions charge one another for overnight loans) was raised from 5.25 percent to 6.5 percent. The discount rate (the rate the Federal Reserve charges banks for short-term funds) was raised from 4.75 percent to 6.0 percent.

Economic indicators have continued to decline since the end of fiscal 2000. The Bureau of Economic Analysis estimates that the real GDP only increased at an annual rate of 1.1 percent in the first quarter of fiscal 2001 (October-December). Furthermore, the Federal Reserve reduced both the Federal funds rate and the discount rate by one full percentage point in January 2001 and 0.5 percent in March 2001, citing that risks were weighted mainly toward economic weakness.



Budget Projections

New budget projections for fiscal 2001 and beyond (primarily on the cash basis) show the surplus is expected to rise to $284 billion this fiscal year. Over the following 10 years, the unified budget surplus under the current services baseline (i.e., with no changes to tax and spending laws already enacted) is now projected to total a cumulative $5.6 trillion.



Figures for fiscal 2001-2011 are projected. (*A Blueprint for New Beginnings*)

Significant Performance Accomplishments

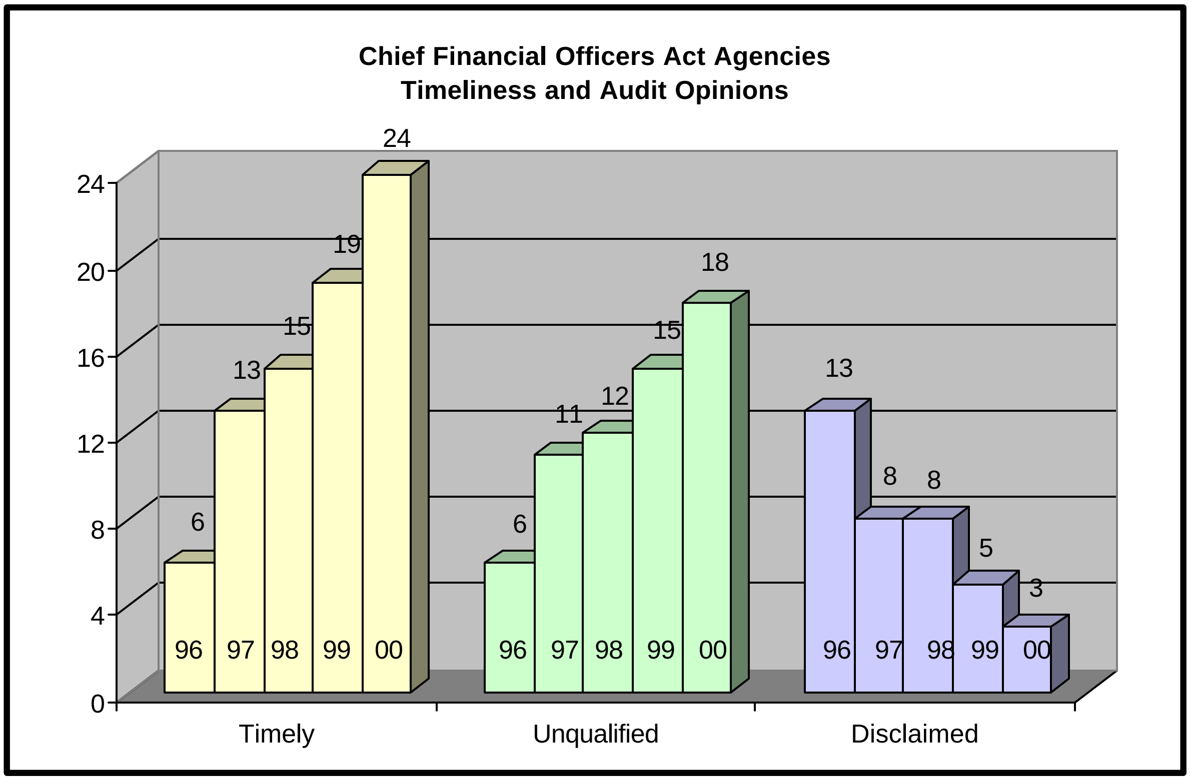
Many Goals Successfully Achieved

The Federal Government has devoted substantial efforts to tackling long-standing and difficult agency-specific and Governmentwide management challenges that defy easy solutions. By focusing coordinated, sustained, and intensive attention on these issues, Federal employees achieved significant contributions to improved Government management, including:

- Successful resolution of the Year 2000 (Y2K) problem. Y2K posed the single largest technological management challenge in history, and Federal agencies ensured that the transition occurred smoothly. The lessons learned from the Y2K experience are helping agencies deal with other information technology-related challenges.
- Census 2000 was completed on time, under budget, and with a higher than expected mail response.
- Efforts to protect the Government's critical infrastructure have led to greater incident response capabilities and an overall heightened awareness of the importance of computer security.

- The Internal Revenue Service (IRS) restructured its operations to ensure the fairness of tax administration and to improve customer service, productivity, and financial management. For example, it has expanded the hours when toll-free assistance is available and offered new electronic filing and payment options.
- The Department of Education's student aid performance-based organization issued the Government's first incentive-based information technology contract, estimated to save $40-50 million by fiscal 2004. Electronic applications for student aid increased by one-third last year, reducing processing times and costs.
- The Immigration and Naturalization Service reduced its citizenship application processing time to approximately 6 months—down from 27 months only a few years ago.
- Electronic-Government (e-Gov) successes included the launching of FirstGov.gov, a one-stop gateway to all Government information on the Internet; FedBizOpps.gov, a single portal for contracting agencies; FedSales.gov, a website listing all available assets for transfer or sale to the public; and FedCommons.gov, a single source for applications and information about grants.

For the first time, in fiscal 2000, all of the 24 largest agencies met the March 1 deadline for completing and submitting their audited financial statements. Eighteen (75 percent) received clean (unqualified) opinions and three others received qualified opinions. This leaves only three agencies with disclaimed opinions, a condition where the auditors are unable to render an opinion, generally because of deficiencies in the accounting records. The following exhibit illustrates agencies' progress toward unqualified audit opinions on their financial statements. (Audits for all of the 24 major agencies were not required until 1996.)



Financial Challenges Remain

While significant progress has been made, three major agencies continue to have serious shortcomings in financial management reporting and systems that resulted in disclaimers. These agencies must satisfactorily address these problems to receive unqualified opinions on their financial statements and for the U.S. Government to receive an unqualified opinion on its financial statements.

Identifying and eliminating transactions between agencies (intragovernmental transactions) for Governmentwide reporting is still a problem for most agencies. If these transactions are not properly eliminated, total U.S. Government assets, liabilities, revenues, and expenses will be misstated. Significant improvements were made in the area of intragovernmental fiduciary transaction issues during fiscal 2000, including the development of policies and procedures for accounting, reporting, and reconciliations; however, more improvements need to take place before this can be removed as a material deficiency.

Audits of agency financial statements disclose internal control weaknesses and other deficiencies that, among other things, impede compliance with Generally Accepted Accounting Principles (GAAP). As a result, despite progress over the past year, we again received a disclaimer of opinion from our auditors, the General Accounting Office (GAO).

Looking to the Future: The Administration's Blueprint for Improving Government Management

To meet the challenges and opportunities of tomorrow, the President has proposed a reexamination of the role of the Federal Government. He has called for "active, but limited" Government: one that empowers States, cities, and citizens to make decisions; ensures results through accountability; and promotes innovation through competition. The result should be a Government that is citizen-centered—not bureaucracy-centered; results-oriented—not process-oriented; and market-based—actively promoting, not stifling, innovation and competition.

To make Government citizen-centered, the President proposes: (1) flattening the Federal hierarchy to ensure that there is as little distance as possible between citizens and decision-makers; (2) using the Internet to provide citizens with access to information and to enable them to transact business; and (3) providing funds to support interagency electronic Government (e-Gov) initiatives.

To make Government results-oriented, the President proposes: (1) linking budget and management decisions to performance by establishing accountability systems that allow citizens to judge whether effective performance is taking place; (2) requiring agencies to pass their audits; (3) reducing erroneous payments to beneficiaries and other recipients of Government funds so that monies are being used for their intended purpose; (4) using capital planning to improve performance to ensure that information technology investments match agency strategic priorities and provide real benefits for the American people; (5) eliminating duplicative and ineffective programs to redeploy resources from old priorities to make room for new priorities; (6) expanding the use of performance-based contracts to focus on results rather than process; and (7) incorporating successful private sector reforms throughout the Federal workforce to reward achievement and encourage excellence.

To make Government market-based, the President proposes: (1) making e-procurement via the Internet the Governmentwide standard to produce significant cost savings through reduced transaction-processing costs, more efficient inventory management, and greater competition; and (2) opening Government activities to competition to ensure market-based pricing and encourage innovation, while saving taxpayer dollars.

Systems, Controls, and Legal Compliance

Systems

The Federal Government faces agency-specific and Governmentwide challenges in modernizing its financial management systems. Changing technology, as well as changing information needs, are occurring so rapidly that technology advances in today's systems become obsolete with identification of new data and systems requirements. The cornerstone of sound financial management, as well as performance measurement, is accurate, timely, and useful information. Many Federal financial systems are simply unable to provide the data needed to manage programs and make good decisions. Producing reliable, useful, and timely data throughout the year and at the end of the year requires overhauling financial and related management information systems. Agencies also must address problems with fundamental recordkeeping, incomplete documentation, and weak internal controls before their systems can produce reliable information on an ongoing basis. Simply put, many financial management systems need upgrading or replacing before they can provide information to support efforts to achieve the President's goal of a citizen-centered, results-oriented, and market-based Government.

Improvement in financial systems requires: (1) the ability to successfully plan, develop, operate, and maintain financial systems; (2) data standards that satisfy information requirements; and (3) the ability to use such information in a real-time environment to make informed decisions, satisfy customers, and measure performance. As data from systems is used, its timeliness and quality will continue to improve.

Controls

Numerous internal controls exist over Federal assets. These controls include the existence of a statutory budget and centralized cash management, debt, and disbursement functions. In addition, Treasury's Financial Management Service (FMS) publishes the "Monthly Treasury Statement of Receipts and Outlays of the United States Government" (MTS), a summary statement prepared from agency accounting reports. The MTS presents the receipts, outlays, resulting budget surplus or deficit, and Federal debt for the month and the fiscal year-to-date and compares those figures to the same period in the previous year.

Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, including appropriations, employment, health and safety, and others. Responsibility for compliance primarily rests with agency management; compliance is addressed as part of agency financial statement audits. Agency auditors tested for compliance with selected laws and regulations related to financial reporting. These auditors found no instances of material noncompliance that affected the Governmentwide financial statements. There were, however, instances that were material to an individual agency, and these were reported in the individual agencies' financial statement audit reports.

Basis of Accounting and Reporting Entity

Accounting Standards

The accompanying financial statements were prepared based on GAAP standards developed by the Federal Accounting Standards Advisory Board (FASAB), except as noted in our auditor's report. These standards form the foundation for preparing consistent and meaningful financial statements both for individual Federal agencies and the Government as a whole.

GAAP for the Federal Government is tailored to the U.S. Government's unique characteristics and special needs. For example, stewardship land (land set aside for the use and enjoyment of present and future generations, and land on which military bases are located), heritage assets, weapon systems used in the performance of military missions, and vessels held as part of the National Defense Reserve Fleet (national defense assets) are reported in the Stewardship Information section rather than valued and reported on the Balance Sheet. The Government's responsibilities and policy commitments are much broader than the reported Balance Sheet liabilities. They include the social insurance programs disclosed in the Stewardship Information section, as well as a wide range of other programs under which the Government provides benefits and services to the people of this Nation.

Three Statements of Federal Financial Accounting Standards (SFFAS) were implemented in fiscal 2000 at the Governmentwide reporting level. SFFAS No. 17 includes accounting standards for Federal social insurance programs. The Statement covers the following programs: Social Security (Old-Age, Survivors, and Disability Insurance), Medicare (Hospital Insurance [Medicare Part A] and Supplementary Medical Insurance [Medicare Part B]), Railroad Retirement benefits, Black Lung benefits, and Unemployment Insurance. SFFAS No. 15 requires that general purpose Federal financial reports include a section devoted to MD&A. Finally, SFFAS No. 16 amended earlier standards with respect to multi-use heritage assets. The amending language requires that all acquisition, reconstruction, and betterment costs of multi-use heritage assets (i.e., heritage assets whose predominant use is general government operations) be capitalized and depreciated.

Accrual Basis

GAAP requires that these financial statements be prepared using the accrual basis of accounting. Under the accrual basis, transactions are reported when the events giving rise to the transactions occur, rather than when cash is received or paid (cash basis). In contrast, Federal budgetary reporting is generally on the cash basis in accordance with accepted budget concepts.

The most significant difference between these two bases involves the timing of recognition and measurement of revenues and costs. For example, GAAP requires recognition of liabilities for costs related to environmental cleanup when the events requiring such costs occur and, among other things, the Government has acknowledged responsibility for the event. By contrast, current budget concepts recognize such costs later, at the time payment is made for the cleanup. The effects of these differences are reflected in the Reconciliation of the Excess of Revenue Over Net Cost to the Unified Budget Surplus, which can be found in the Supplemental Information section of this Financial Report.

Coverage

These financial statements cover the executive branch, as well as parts of the legislative and judicial branches of the U.S. Government. A list of the significant entities included in these financial statements is in the Appendix. Information from the legislative and judicial branches is limited because those entities are not required by law to submit comprehensive financial statement information to Treasury. Due to its private ownership and independence, the Federal Reserve System is excluded. In addition, Government-sponsored but privately owned enterprises (such as Federal Home Loan Banks and the Federal National Mortgage Association) also are excluded.

Additional Information

Additional details about the information contained in these financial statements can be found in the financial statements of the individual agencies listed in the Appendix. In addition, related U.S. Government publications such as the "Budget of the United States Government," the "Treasury Bulletin," the "Monthly Treasury Statement of Receipts and Outlays of the United States Government," the "Monthly Statement of the Public Debt of the United States," and the Trustees' reports for the Social Security and Medicare programs may be of interest.

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GAO
Accountability * Integrity * Reliability

Comptroller General of the United States

United States General Accounting Office
Washington, DC 20548

March 30, 2001

The President
The President of the Senate
The Speaker of the House of Representatives

Our report on the U.S. government's consolidated financial statements for fiscal year 2000 is enclosed. This is the fourth consecutive year for which we were unable to express an opinion on the consolidated financial statements. Certain material weaknesses in internal control and accounting and reporting issues resulted in conditions that prevented us from being able to provide the Congress and the American citizens an opinion as to whether the consolidated financial statements are fairly stated in accordance with U.S. generally accepted accounting principles.

Until the problems discussed in our report are adequately addressed, they will continue to (1) hamper the government's ability to accurately report a significant portion of its assets, liabilities, and costs, (2) affect the government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations, and (3) significantly impair the government's ability to adequately safeguard certain significant assets and properly record various transactions.

Some progress continues to be made in addressing the underlying causes of these problems--significant financial management systems weaknesses, problems with fundamental recordkeeping and financial reporting, incomplete documentation, and weak internal controls. However, many of the pervasive and generally long-standing material weaknesses we have reported for the past 3 years remain to be fully resolved.

Across government, we are seeing financial management improvement initiatives that could ultimately lead to an unqualified opinion on the consolidated financial statements. The number of the 24 agencies covered by the Chief Financial Officers (CFO) Act that were able to attain an unqualified audit opinion on their financial statements has increased. For fiscal year 2000, 18 of the 24 CFO Act agencies received unqualified opinions from their auditors, up from 6 agencies 4 years ago. Also, the Office of Management and Budget (OMB) reported that, for the first time, all 24 CFO Act agencies met the March 1 reporting deadline. However, reports of Inspectors General and their contract auditors indicated that only 3 of the 24 CFO Act agencies had neither a material control weakness nor an issue involving compliance with applicable laws and regulations.

The largest impediment to an opinion on the consolidated financial statements is the Department of Defense's (DOD) serious financial management problems, which we have designated as high-risk since 1995. DOD has made progress in a number of areas, but is far from solving a range of financial management problems that are also inextricably linked to addressing DOD's other high-risk management challenges–inventory management, contract management, acquisition, information technology, information security, and human capital strategies. The Secretary of Defense has indicated that he intends to include financial management reform among his top priorities. Another major impediment that must be overcome is the government's inability to properly prepare the consolidated financial statements and account for billions of dollars of transactions between federal government entities.

Many agencies have been able to obtain unqualified audit opinions only through "heroic efforts," which include expending significant resources to use extensive ad hoc procedures and making billions of dollars in adjustments to derive financial statements months after the end of a fiscal year. Also, irrespective of the unqualified opinions on their financial statements, many agencies do not have timely, accurate, and useful financial information and sound controls with which to make informed decisions and to ensure accountability on an ongoing basis. Auditors for 15 of the 24 CFO Act agencies reported at least one material control weakness. In addition, reports of Inspectors General and their contract auditors indicated that only 5 of the 24 CFO Act agencies' financial management systems were in substantial compliance with the three federal financial management systems requirements of the Federal Financial Management Improvement Act of 1996. Ultimately, to fully meet the goals of financial management reform legislation, agencies will need to be able to generate timely, accurate, and useful financial and management information, including reporting performance results, to make decisions and monitor government performance every day. Agencies will also need to have effective internal controls in place and must ensure compliance with applicable laws and regulations.

Meeting legislative financial management reforms and modernizing financial management systems will be especially important to provide the Congress and other policymakers timely, accurate, and useful information in deliberations involving the long-range fiscal policy challenges facing the Congress and our nation. As I recently testified before the Senate Committee on the Budget, the government today is moving from balancing the budget to balancing fiscal risk.[1] The Congress and the President face a very different set of budget choices than did their predecessors. For over 15 years, fiscal policy has been seen in the context of the need to reduce the deficit. The policies and

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[1] *Long-term Budget Issues: Moving From Balancing the Budget to Balancing Fiscal Risk* (GAO-01-385T, February 6, 2001).

procedures put in place to achieve a balanced budget do not provide guidance for fiscal policy in a time of surplus.

While considerable uncertainty surrounds both short- and long-term budget projections, we know two things for certain: the population is aging and the baby boom generation is approaching retirement age. Although the 10-year horizon looks better in the Congressional Budget Office's (CBO) January 31, 2001, projections than it did in July 2000, the long-term fiscal outlook looks worse. In the longer term—beyond the 10-year budget window of CBO's projections—the share of the population over 65 will begin to climb, and the federal budget will increasingly be driven by demographic trends and rising health care costs.

On March 19, 2001, the Trustees of the Social Security and Medicare trust funds reported on the current and projected status of these programs over the next 75 years. The near-term financial condition of both Social Security and Medicare has improved since last year's report. However, the Medicare program's long-term financial condition has deteriorated significantly and the long-term trends point to serious sustainability challenges relating to both the Social Security and Medicare programs. The Trustees reported that the most significant implication of these findings is that both Social Security and Medicare need to be reformed and strengthened at the earliest opportunity.

While current budget surpluses offer an opportunity to address today's needs and the many pent-up demands held in abeyance during years of fighting deficits, they do not eliminate our obligation to prepare for the future. Today's choices must be seen not only in terms of how they respond to today's needs, but also how they affect the future capacity of the nation and its ability to meet the very real and significant fiscal challenges associated with the approaching demographic tidal wave. Without a change in entitlement programs, demographics will overwhelm the surplus and drive us back into escalating deficits and debt. In this regard, for entitlement programs, the key question is not trust fund solvency but overall program sustainability.

The question before this Congress is how to balance today's wants and needs against our nation's long-term challenges. Surpluses challenge our nation to move beyond a focus on reducing annual deficits to a broader agenda. They offer us an opportunity to look more closely at what government does and how government does business. The budget surpluses before us offer policymakers the opportunity to strike a balance between addressing today's needs and the obligation to hand a strong economy and sustainable fiscal policies on to our children, our grandchildren, and future generations.

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We appreciate the cooperation and assistance of Department of the Treasury and OMB officials, as well as the Chief Financial Officers and Inspectors General in carrying out our responsibility to report on the U.S. government's consolidated financial statements.

We look forward to continuing to work with these officials and the Congress to achieve the goals and objectives of financial management reform.

Our report was prepared under the direction of Jeffrey C. Steinhoff, Managing Director, and Gary T. Engel, Director, Financial Management and Assurance. If you have any questions, please contact me on (202) 512-5500 or them on (202) 512-2600.

David M. Walker
Comptroller General
of the United States

Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

The President
The President of the Senate
The Speaker of the House of Representatives

The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget (OMB), is required annually to submit financial statements for the U.S. government to the President and the Congress.[1] GAO is required to audit these statements. This is our report on the accompanying U.S. government's consolidated financial statements for fiscal year 2000.[2]

The government is responsible for (1) preparing annual consolidated financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act are met,[3] and (3) complying with applicable laws and regulations. Also, the 24 Chief Financial Officers (CFO) Act agencies are responsible for complying with the Federal Financial Management Improvement Act's (FFMIA) requirements. Our objective was to audit the fiscal year 2000 consolidated financial statements. Appendix I discusses the scope and methodology of our work.

As was the case for fiscal years 1997 through 1999,[4] various material weaknesses[5] related to financial systems, fundamental recordkeeping and financial reporting, and incomplete documentation continued to (1) hamper the government's ability to accurately report a

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[1]The Government Management Reform Act of 1994 requires such reporting beginning with financial statements prepared for fiscal year 1997.
[2]The fiscal year 2000 consolidated financial statements consist of the Statement of Operations and Changes in Net Position, the Statement of Net Cost, and Balance Sheet, including the related notes to these financial statements and unaudited Stewardship Information.
[3]31 U. S. C. 3512 (c), (d). This Act requires agency heads to evaluate and report annually to the President on the adequacy of their internal controls and accounting systems and on actions to correct any problems.
[4]See, for example, *Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000).
[5]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

significant portion of its assets, liabilities, and costs, (2) affect the government's ability to accurately measure the full cost and financial performance of certain programs and effectively manage related operations, and (3) significantly impair the government's ability to adequately safeguard certain significant assets and properly record various transactions. Certain of these material weaknesses (referred to hereafter as material deficiencies) resulted in conditions that continued to prevent us from expressing an opinion on the accompanying consolidated financial statements. They also may cause additional problems that have not been identified. Also included are our report on internal control, in which we conclude that internal control was ineffective, and our report on compliance with applicable laws and regulations.

DISCLAIMER OF OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

Because we were unable to determine the reliability of significant portions of the accompanying U.S. government's consolidated financial statements for fiscal year 2000, we are unable to, and we do not, express an opinion on such consolidated financial statements.

As a result of material deficiencies in the government's systems, recordkeeping, documentation, and financial reporting, readers are cautioned that amounts reported in the consolidated financial statements and related notes may not be a reliable source of information. These material deficiencies also affect the reliability of certain information contained in the accompanying Management's Discussion and Analysis and any other financial management information--including information used to manage the government day to day and budget information reported by agencies--which is taken from the same data sources as the consolidated financial statements.

While we have not audited and do not express an opinion on the Stewardship Information and Supplemental or Other Information included in the accompanying Fiscal Year 2000 Financial Report of the United States Government, we noted certain material omissions related to the presentation of national defense assets and issues related to the reconciliation of operating results to budget results, which are discussed below.

Material Deficiencies

The following material deficiencies contributed to our disclaimer of opinion and also constitute material weaknesses in internal control. Appendix II highlights the primary effects of these material deficiencies on the accompanying consolidated financial statements and on the management of government operations.

Property, Plant, and Equipment and Inventories and Related Property Because the government lacked complete and reliable information to support these asset holdings, reported at $484 billion, it could not satisfactorily determine that all assets were included in the financial statements, verify that certain reported assets actually exist, or substantiate the amounts at which they were valued. A majority of the property, plant, and equipment and inventories and related property, which is primarily the responsibility of the Department of Defense (DOD), was not adequately supported by financial and/or logistical records. Further, national defense asset unit information reported as Stewardship Information was incomplete because (1) it did not include billions of dollars of major national defense support real property and equipment, such as missile silos and communications equipment and (2) amounts were reported in units, rather than in dollars, as required by generally accepted accounting principles.

<u>Loans Receivable and Loan Guarantee Liabilities</u> As of the end of fiscal year 2000, the government reported $208 billion of loans receivable and $37 billion of liabilities for estimated losses related to estimated future defaults of guaranteed loans. Certain federal credit agencies responsible for significant portions of the government's lending programs, most notably the Department of Agriculture (USDA), were unable to properly estimate the cost of these programs, or estimate the net loan amounts expected to be collected, in accordance with generally accepted accounting principles and budgeting requirements.

<u>Liabilities</u> The government did not maintain adequate systems or have sufficient information necessary to (1) develop an accurate estimate of key components of DOD's environmental and disposal liabilities, which were reported at $63 billion, such as liabilities related to unexploded ordnance and residual contaminants from training ranges, (2) accurately estimate the reported $192 billion military postretirement health benefits liability included in federal employee and veteran benefits payable because, for example, some of the underlying cost, demographic, and workload data used to develop the estimate were not reliable, (3) ensure that accurate and complete data were used to estimate a reported $91 billion of accounts payable and $175 billion of other liabilities, and (4) determine whether commitments and contingencies were complete and properly reported.

<u>Cost of Government Operations</u> The previously discussed material deficiencies in reporting assets and liabilities and the lack of effective disbursement reconciliations and material deficiencies in financial statement preparation, as discussed below, affect reported net costs. Further, the government was unable to support whether the amounts reported in the individual net cost categories on the Statement of Net Cost were properly classified. As a result, the government was unable to support significant portions of the more than $1.9 trillion reported as the total net cost of government operations, most notably related to DOD's and USDA's net costs.

<u>Disbursement Activity</u> Several major agencies did not effectively reconcile disbursements, which is intended to be a key control to detect and correct errors and other misstatements in financial records in a timely manner—similar in concept to individuals reconciling their checkbooks with their bank statements each month. Specifically, there

were billions of dollars of unreconciled differences between agencies' and the Department of the Treasury's (Treasury) records of disbursements as of September 30, 2000.

Preparation of Consolidated Financial Statements The government did not have adequate systems, controls, and procedures to properly prepare its consolidated financial statements. Such material deficiencies are described below. Also, certain financial information required by generally accepted accounting principles was omitted from the consolidated financial statements.

Intragovernmental Activity and Balances OMB requires the CFO Act agencies to reconcile selected intragovernmental activity and balances with their "trading partners."[6] However, numerous agencies did not fully perform such reconciliations for fiscal year 2000. Using the detail of certain intragovernmental accounts by trading partner that was gathered by the government, we estimated that the amounts reported for agency trading partners for these specific intragovernmental accounts were out-of-balance by more than $250 billion. In addition, solutions will be required to resolve significant differences reported in other intragovernmental accounts, primarily related to appropriations.

Reconciling Operating Results With Budget Results The government did not have an effective process to obtain information to reconcile fully the reported $46 billion excess of revenue over net cost and the reported unified budget surplus of $237 billion. Consequently, it could not identify all items needed to reconcile these amounts.

Consolidated Financial Statement Compilation The government could not fully ensure that the information in the consolidated financial statements was consistent with the underlying agency financial statements. These problems are compounded by the need for certain Standard General Ledger (SGL) accounts to be split between different financial statement line items due to limitations in the government's SGL account structure. In addition, to make the consolidated financial statements balance, Treasury recorded a net $7 billion item on the Statement of Operations and Changes in Net Position, which it labeled Unreconciled Transactions. An additional net $.2 billion of unreconciled transactions was improperly recorded in net cost. Treasury attributes these net out-of-balance amounts primarily to the government's inability to properly identify and eliminate transactions between governmental entities, as discussed above, to agency adjustments that affected net position, and to other errors. However, Treasury was unable to adequately identify and explain the gross components of such amounts. Unreconciled transactions also may exist because the government does not have effective controls over reconciling net position. The net

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[6] "Trading partners" are U.S. government agencies, departments, or other components, included in the consolidated financial statements, that do business with each other.

position reported in the consolidated financial statements is derived by subtracting liabilities from assets, rather than through balanced accounting entries. Further, the process for compiling the financial statements involves significant adjustments and reclassifications and requires significant human and financial resources, which lessens the government's ability to perform effective financial analysis of the information.

ADVERSE OPINION ON INTERNAL CONTROL

In addition to the material weaknesses noted above, we found three other material weaknesses in internal control, which are described below. Because of the effects of the material weaknesses discussed in this report, the government did not maintain effective internal control to ensure that the following objectives are met: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and (2) transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Individual agency financial statement audit reports identify additional reportable conditions[7] in internal control, some of which were reported by agency auditors as being material weaknesses at the individual agency level. These matters do not represent material weaknesses at the governmentwide level. Also, due to the problems noted throughout this report, additional material weaknesses may exist that have not been reported.

Improper Payments Across government, improper payments occur in a variety of programs and activities, including those related to health care, contract management, federal financial assistance, and tax refunds, and include payments made for unauthorized purposes and for excessive amounts, such as overpayments to program recipients or contractors and vendors. The reasons for improper payments range from program design issues to inadvertent errors to fraud and abuse. Most agencies have not estimated the magnitude of improper payments in their programs and comprehensively addressed this issue in their annual performance plans under the Government Performance and Results Act.[8] While reported estimates of improper payments totaled approximately $20 billion for both fiscal years 2000 and 1999, the government did not estimate the full extent of improper payments.

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[7] Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the government’s ability to meet the internal control objectives described in this report.
[8] *Financial Management: Billions in Improper Payments Continue to Require Attention* (GAO-01-44, October 27, 2000).

Computer Security GAO has reported computer security as a governmentwide high-risk area since February 1997.[9] Computer security weaknesses are placing enormous amounts of government assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. The government is not in a position to estimate the full magnitude of actual damage and loss resulting from federal computer security weaknesses because it is likely that many such incidents are either not detected or not reported. Agencies have not yet established comprehensive security management programs, which would provide the government with a framework for resolving computer security problems and managing computer security risks on an ongoing basis. Government information security reform provisions in the National Defense Authorization Act for fiscal year 2001 are intended to strengthen information security practices throughout the government.

Tax Collection Activities Material internal control weaknesses and systems deficiencies continue to affect the government's ability to effectively manage its tax collection activities.[10] Due to errors and delays in recording activity in taxpayer accounts (1) taxpayers were not always being credited for payments made on their tax liabilities and (2) the government lost opportunities to retain or offset overpayments made by a taxpayer for one period to collect on outstanding amounts owed for another period. In addition, the government did not always follow up on potential unreported or underreported taxes and did not always pursue collection efforts against taxpayers owing taxes to the federal government.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS AND FFMIA REQUIREMENTS

Our work to determine compliance with selected provisions of applicable laws and regulations related to financial reporting was limited by the material weaknesses discussed above. Instances of noncompliance, some of which the auditors reported were material to individual agency financial statements, are included in individual agency audit reports. However, none of these instances were material to the accompanying consolidated financial statements.

Additionally, for most CFO Act agencies, the auditors reported that financial management systems did not substantially comply with certain FFMIA requirements. FFMIA requires auditors, as part of CFO Act agency financial statement audits, to report whether agencies' financial management systems substantially comply with federal accounting standards, federal financial management systems requirements, and the government's standard general ledger at the transaction level. Noncompliance with FFMIA is indicative of the overall continuing poor condition of many financial

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[9]See, for example, *High-Risk Series: An Update* (GAO-01-263, January 2001).
[10]*Financial Audit: IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, March 1, 2001).

management systems across government. As also required by FFMIA, GAO will report to the Congress by October 1, 2001, on agencies' FFMIA implementation for fiscal year 2000.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations.

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We provided a draft of this report to Department of the Treasury and Office of Management and Budget officials, who expressed their commitment to address the problems this report outlines.

David M. Walker
Comptroller General
of the United States

March 20, 2001

APPENDIX I

SCOPE AND METHODOLOGY

The Government Management Reform Act of 1994 expanded the requirements of the CFO Act by making the Inspectors General of 24 major federal agencies responsible for annual audits of agencywide financial statements prepared by these agencies and GAO responsible for the audit of the U.S. government's consolidated financial statements.[11] Our work was performed in coordination and cooperation with the Inspectors General to achieve our joint audit objectives. This work included separate GAO audits of certain material agency components, as discussed below. Our audit approach focused primarily on determining the current status of the material deficiencies and the other material weaknesses affecting internal control that we had previously reported in our report on the consolidated financial statements for fiscal year 1999. We performed sufficient audit work to provide our report on the consolidated financial statements, internal control, and the results of our assessment of compliance with applicable laws and regulations.

We separately audited the following material agency components.

- We audited and expressed an unqualified opinion on IRS' fiscal year 2000 financial statements, which included nearly $2.1 trillion of tax revenue, $194 billion of tax refunds, and $22 billion of net federal taxes receivable.[12] We continued to report numerous material internal control weaknesses, other reportable conditions, and several instances of noncompliance with applicable laws and regulations, especially with regard to the compliance of IRS' systems with FFMIA.

- We audited and expressed an unqualified opinion on the Schedule of Federal Debt Managed by Treasury's Bureau of the Public Debt for the fiscal year ended September 30, 2000.[13] This schedule reported (1) over $3.4 trillion of federal debt held by the public comprising individuals, corporations, state and local governments, the Federal Reserve Banks, and foreign governments and central banks, (2) about $2.2 trillion of intragovernmental holdings, which represents debt issued by Treasury and held by certain federal government accounts such as the Social Security and Medicare trust funds, and (3) nearly $225 billion of interest on federal debt held by the public.

- We performed audit procedures on cash balances maintained and internal control over the cash receipts and disbursements processed by Treasury on behalf of the federal government. We provided the results of our work to the Treasury Office of Inspector

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[11] The 1994 Act authorized OMB to designate agency components that also would receive a financial statement audit.

[12] *Financial Audit: IRS' Fiscal Year 2000 Financial Statements* (GAO-01-394, March 1, 2001).

[13] *Financial Audit: Bureau of the Public Debt's Fiscal Years 2000 and 1999 Schedules of Federal Debt* (GAO-00-389, March 1, 2001).

APPENDIX I

General for consideration in its audit of Treasury's fiscal year 2000 departmentwide financial statements.

- We audited and expressed unqualified opinions on the December 31, 1999, financial statements of the funds administered by the Federal Deposit Insurance Corporation (FDIC), including the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund.[14] In addition, we performed audit procedures and tests of internal control over cash, investments and earned interest, and other material balances of the funds administered by FDIC as of September 30, 2000.

We considered the CFO Act agencies' and certain other agencies' fiscal year 2000 financial statements, as well as the related auditors' reports prepared by the Inspectors General or their contractors. Financial statements and audit reports for these agencies provide additional information about the operations of each of these entities. We did not audit, and we do not express an opinion on, any of these individual agency financial statements.

We performed our work in accordance with U.S. generally accepted government auditing standards.

[14] *Financial Audit: Federal Deposit Insurance Corporation's 1999 and 1998 Financial Statements* (GAO/AIMD-00-157, May 26, 2000).

APPENDIX II

Primary Effects Caused by the Material Weaknesses and FFMIA Noncompliance Described in This Report

Areas Involving Material Weaknesses and FFMIA Noncompliance	Primary Effects on the Fiscal Year 2000 Consolidated Financial Statements and the Management of Government Operations
Property, plant, and equipment and inventories and related property	Without accurate asset information, the government does not fully know the assets it owns and their location and condition and cannot effectively (1) safeguard assets from physical deterioration, theft, or loss, (2) account for acquisitions and disposals of such assets, (3) ensure the assets are available for utilization when needed (4) prevent unnecessary storage and maintenance costs or purchase of assets already on hand, and (5) determine the full costs of programs that use these assets.
Loans receivable and loan guarantee liabilities	Unreliable information about the cost of lending programs affects the government's ability to support annual budget requests for these programs, make future budgetary decisions, manage program costs, and measure the performance of lending activities.
Liabilities	Problems in accounting for liabilities affect the determination of the full cost of the government's current operations and the extent of its liabilities. Also, improperly stated environmental and disposal liabilities and weak internal control supporting the process for their estimation affects the government's ability to determine priorities for cleanup and disposal activities and to allow for appropriate consideration of future budgetary resources needed to carry out these activities.
Cost of government operations	Inaccurate cost information affects the government's ability to control and reduce costs, assess performance, evaluate programs, and set fees to recover costs where required.
Disbursement activity	Improperly recorded disbursements could result in misstatements in the financial statements and in certain data provided by agencies for inclusion in the President's budget concerning obligations and outlays.
Preparation of consolidated financial statements	Weaknesses related to the preparation of the consolidated financial statements impair the government's ability to (1) account for billions of dollars of transactions between governmental entities, (2) effectively reconcile the operating results reported in the consolidated financial statements with budget results, and (3) fully ensure that the consolidated financial statements were consistent with agency financial statements and were properly balanced.
Improper payments	Without a systematic measurement of the extent of improper payments, agency management cannot determine (1) if the problem is significant enough to require corrective action, (2) how much to invest in preventative internal control, (3) the success of efforts implemented to reduce improper payments, or (4) the magnitude or trends of improper payments, which limits the ability to pinpoint or target mitigation strategies.
Computer security weaknesses	Computer security weaknesses are placing enormous amounts of federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption.
Tax collection activities	Weaknesses in tax collection activities affect the government's ability to efficiently and effectively account for and collect revenue and to make informed decisions about collection efforts. As a result, the government is vulnerable to loss of tax revenue and exposed to potentially billions of dollars in losses due to inappropriate refund disbursements.
FFMIA	When agency financial systems lack substantial compliance with FFMIA requirements, reliable financial information is not available for effective decision-making day to day.

(198000)

Financial Statements of the United States Government for the Year Ended September 30, 2000

Statement of Operations and Changes in Net Position

This Statement reports the results of Government operations. This includes revenues principally generated by the Government's sovereign power to tax, levy duties, and assess fines and penalties. This Statement covers the cost of Government operations, net of revenue earned from the sale of goods and services to the public. It also includes any adjustments and unreconciled transactions that affect the net position.

Revenue

"Individual Income Tax and Tax Withholdings" consist of Federal individual income taxes, Social Security taxes, Medicare taxes, and railroad retirement taxes, net of related refunds.

"Miscellaneous Earned Revenues" consist of earned revenues received from the public with virtually no associated cost. This category includes revenues generated by the Federal Communications Commission from the sale of spectrum licenses to promote open-air communication services to the public (spectrum auctions). It also includes rents and royalties on the Outer Continental Shelf Lands resulting from the leasing and development of mineral resources on public lands.

Net Cost of Government Operations

The Statement of Net Cost summarizes the "Net Cost of Government Operations," which is gross cost less earned revenue.

Unreconciled Transactions

"Unreconciled Transactions" are adjustments needed to net position due to unreconciled and unaccounted for differences in the process of consolidating all the agencies' financial statements.

Net Position, Beginning of Period

The "Net Position, Beginning of Period" reflects the net position reported on the prior year's Balance Sheet as of the end of that fiscal year.

Prior Period Adjustments

"Prior Period Adjustments" are revisions to adjust the beginning net position. Refer to Note 17—Prior Period Adjustments for detailed information.

Net Position, End of Period

This amount reflects the net position as of the end of the fiscal year.

Statement of Net Cost

This Statement presents the net cost of fiscal 2000 Government operations. It also shows the cost to carry out national priorities as determined by law.

It categorizes costs by major function. It presents costs in much the same way as does the budget, except that costs are allocated to functions based on Generally Accepted Accounting Principles (GAAP). Thus, this Statement reports costs on an accrual basis and in some cases allocates them differently than the budget. For example, this Statement allocates the cost of pensions and post-retirement health benefits among all the functions that employ workers. The budget categorizes pension payments to civilian retirees, military retirees and beneficiaries as a subfunction under "Income security."

The budget categorizes agency contributions to retirement funds as intragovernmental outlays distributed among all the functions that employ workers. A description of each of the functions and the components of net cost for the activities included in each function is presented in Supplemental Information as "Net cost detail."

This Statement contains the following three components for each function:

- The gross cost of Government operations.
- The revenues earned from the sale of goods and provision of services to the public.
- The net cost of Government operations, which is gross cost less revenue earned.

Gross Cost

"Gross Cost" includes the full cost of all functions. These costs may be directly traced, assigned on a cause-and-effect basis, or reasonably allocated to the function.

Earned Revenue

This is revenue the Government earned by providing goods and services to the public at a price.

Net Cost

The "Net Cost" of Government operations is computed by subtracting "Earned Revenue" from "Gross Cost."

Balance Sheet

The Balance Sheet shows the Government's assets and liabilities. When combined with Stewardship Information, this information presents a more comprehensive understanding of the Government's financial position. All of the line items on the Balance Sheet are described in the Notes to the Financial Statements. For example, the first note provides information on the accounting policies for assets and liabilities.

Assets

Assets included on the Balance Sheet are resources of the Federal Government that remain available to meet future needs. The most significant assets that are reported in the Balance Sheet are loans receivable and inventories, as well as property, plant, and equipment. There are, however, other significant resources available to the

Government that extend beyond the assets presented in this Financial Statement. Those resources include Stewardship Assets, including natural resources (see Stewardship Information on pages 45-53) and the Government's sovereign powers to tax, regulate commerce, and set monetary policy.

Selected assets are highlighted in the Stewardship Information section of this report to demonstrate the Federal Government's accountability for these assets. Stewardship assets include national defense assets, stewardship land, and heritage assets.

Liabilities and Net Position

Liabilities are obligations of the Federal Government resulting from prior actions that will require financial resources. The most significant liabilities reported on the Balance Sheet are Federal debt securities held by the public and accrued pension liabilities for current and retired Federal civilian and military personnel. Liabilities also include social insurance benefits due and payable as of the reporting date.

As with reported assets, the Government's responsibilities and policy commitments are much broader than these reported Balance Sheet liabilities. They include the social insurance programs disclosed in Stewardship Information, a wide range of other programs under which the Government provides benefits and services to the people of this Nation, and certain future loss contingencies.

The magnitude and complexity of social insurance programs, coupled with the extreme sensitivity of projections relating to the many assumptions of the programs, produce a large range of possible results. The Stewardship Responsibilities section describes the social insurance programs, reports long-range estimates that can be used to assess the financial condition of the programs, and explains some of the factors that impact the various programs. Using this information, readers can apply their own judgment as to the condition and sustainability of the individual programs.

Each of the social insurance programs has an associated trust fund to account for its activity. An explanation of the trust funds for social insurance and many of the other large trust funds is included in Note 19—Dedicated Collections. That note also contains information about trust fund receipts, disbursements, and assets.

A broad perspective on the Federal Government's responsibilities is provided by the Current Services Assessment, which also can be found under Stewardship Information. Presented in accordance with the President's 2002 budget, this information estimates Federal expenditures and receipts for fiscal 2001 to 2006, assuming there are no changes to current law.

The Government has entered into contractual commitments requiring the future use of financial resources and has unresolved contingencies where existing conditions, situations, or circumstances create uncertainty about future losses. Commitments as well as contingencies that do not meet the criteria for recognition as a liability on the Balance Sheet, but for which there is at least a reasonable possibility that a loss has been incurred, are disclosed in Note 18—Commitments and Contingencies.

"Net position" is presented as the sum of Balance Sheet assets less Balance Sheet liabilities.

The large negative net position amount does not imply that the Government is insolvent. Because of its sovereign power to tax and borrow, and the country's wide economic base, the Government has unique access to financial resources through generating tax revenues and issuing Federal debt securities. This provides the Federal Government with the ability to meet present obligations and those that are anticipated from future operations.

United States Government
Statement of Operations and Changes in Net Position
for the Year Ended September 30, 2000

(In billions of dollars)

Revenue:	
Individual income tax and tax withholdings	1,635.2
Corporation income taxes	204.3
Unemployment taxes	26.6
Excise taxes	69.3
Estate and gift taxes	28.9
Customs duties	19.4
Other taxes and receipts	56.3
Miscellaneous earned revenues	4.8
Total revenue	2,044.8
Net Cost of Government Operations:	
National defense	397.3
Human resources	1,119.7
Physical resources	121.0
Interest	230.2
Other functions	130.6
Total net cost of Government operations	1,998.8
Excess of revenue over net cost	46.0
Unreconciled transactions affecting the change in net position (Note 16)	7.3
Increase in net position	53.3
Net position, beginning of period	(6,026.2)
Prior period adjustments (Note 17)	35.8
Net position, end of period	(5,937.1)

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

United States Government Statement of Net Cost for the Year Ended September 30, 2000

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
National Defense	408.7	11.4	397.3
Human Resources:			
Education, training, employment, and social services	56.6	3.3	53.3
Health	152.9	1.2	151.7
Medicare	221.3	21.9	199.4
Income security	194.7	4.9	189.8
Social Security	410.1	0.0	410.1
Veterans benefits and services	117.6	2.2	115.4
Total human resources	1,153.2	33.5	1,119.7
Physical Resources:			
Energy	16.2	13.7	2.5
Natural resources and environment	30.5	3.8	26.7
Commerce and housing credit	108.2	77.4	30.8
Transportation	48.6	0.1	48.5
Community and regional development	15.3	2.8	12.5
Total physical resources	218.8	97.8	121.0
Interest	230.2	0.0	230.2
Other Functions:			
International affairs	26.9	3.0	23.9
General science, space, and technology	17.7	0.1	17.6
Agriculture	39.1	3.9	35.2
Administration of justice	37.3	2.9	34.4
General government	23.9	4.4	19.5
Total other functions	144.9	14.3	130.6
Total	2,155.8	157.0	1,998.8

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

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United States Government Balance Sheet as of September 30, 2000

(In billions of dollars)

Assets:	
Cash and other monetary assets (Note 2)	104.9
Accounts receivable (Note 3)	32.3
Loans receivable (Note 4)	207.6
Taxes receivable (Note 5)	23.3
Inventories and related property (Note 6)	185.2
Property, plant, and equipment (Note 7)	298.5
Other assets (Note 8)	59.7
Total assets	911.5
Liabilities:	
Accounts payable (Note 9)	91.0
Federal debt securities held by the public (Note 10)	3,408.5
Federal employee and veteran benefits payable (Note 11)	2,757.8
Environmental and disposal liabilities (Note 12)	301.2
Benefits due and payable (Note 13)	77.8
Loan guarantee liabilities (Note 4)	37.3
Other liabilities (Note 14)	175.0
Total liabilities	6,848.6
Commitments and contingencies (Note 18)	
Net position	(5,937.1)
Total liabilities and net position	911.5

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

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United States Government Stewardship Information for the Year Ended September 30, 2000 (Unaudited)

Stewardship Assets

The Federal Government holds "Stewardship Assets" for the benefit of the Nation. Because the Government has been entrusted with, and made accountable for, these resources and responsibilities, they are recognized in the *Financial Report of the United States Government*.

When acquired, stewardship assets are treated as expenses in the financial statements. This section provides more detailed stewardship information on these resources to highlight their long-term benefit and to demonstrate accountability. This information facilitates the understanding of the operations and financial condition of the Government.

National Defense Assets

"National Defense Assets" consist of the following types of property, plant, and equipment: Department of Defense (DOD) assets used to perform military missions, such as combat operations, peacekeeping, and support of civilian authorities during civil emergencies, and vessels held in a preservation status by the Maritime Administration's National Defense Reserve Fleet. National defense assets are defined in terms of four categories:

- Weapons systems—equipment that launches, releases, carries, or fires a particular piece of ordnance and/or equipment that carries weapons systems-related equipment, materials, or personnel. Examples include aircraft, ships, tracked combat vehicles, and missiles.
- Weapons systems support principal end items—items acquired to support weapons systems that may ultimately be incorporated in weapons systems. Examples include aircraft engines, tank engines, aircraft radar, ship sonar, uninstalled missile motors, gun mounts, and guidance systems.
- Mission support equipment—deployable equipment that: (1) is essential to the effective operation of a weapons system or is used by the military departments to effectively perform their military missions; (2) has an indeterminate or unpredictable useful life due to the manner in which it is used; and (3) is at a very high risk of being destroyed during use or of premature obsolescence. Examples include: surveillance unmanned air vehicles, non-tactical vehicles (e.g., fuel tankers, combat centers, mess vehicles), field meteorological systems, cryptography systems, and field security systems.
- Weapons systems support real property—facilities and structures affixed to the land integral to a weapons system. Examples include ammunition bunkers in active use and missile silos in active use.

The accompanying national defense asset information does not report quantities of weapons systems support real property or mission support property, plant, and equipment although the annual investments in these items are reported.

National Defense Assets as of September 30

(In number of systems or items)	Restated Balance as of September 30, 1999	Additions	Deletions	Balance as of September 30, 2000
Aircraft:				
Combat	7,453	121	130	7,444
Airlift	6,033	81	144	5,970
Other aircraft	2,281	78	67	2,292
Ships:				
Submarines	80	-	6	74
Aircraft carriers	12	-	-	12
Surface combatants	163	3	37	129
Amphibious warfare ships	52	-	5	47
Mine warfare ships	27	-	-	27
Support ships	145	6	12	139
Other ships	994	13	80	927
Small boats	2,327	44	107	2,264
Combat Vehicles:				
Tracked	46,490	183	785	45,888
Wheeled	140,136	3,461	2,794	140,803
Towed	8,584	-	322	8,262
Guided, Self-propelled Ordnance:				
Missiles	431,941	6,100	27,315	410,726
Torpedoes	18,352	-	95	18,257
Space Systems:				
Satellites	89	9	6	92
Reserve fleet vessels	144	1	2	143

The national defense property, plant, and equipment quantities reported above include only items in an "active status." Inactive national defense property, plant, and equipment items (e.g., items awaiting disposal, mothballed ships, and aircraft stored at Davis-Monthan, AFB) are not included in the amounts reported. The amounts reported in the fiscal 1999 national defense property, plant, and equipment report included some items in an "inactive" status. As a result, certain beginning balances have been restated and differ from the balances reported in the fiscal 1999 *Financial Report of the United States Government*. Additionally, the military departments continued to refine the categorization in fiscal 2000 and have included items not reported in the prior year.

DOD does not report the balances of national defense assets as required by Statement of Federal Financial Accounting Standards (SFFAS) No.8. Instead, the investment amounts in national defense assets presented in this report reflect the sum of annual investment amounts reported by each military department. DOD does not currently have cost accounting systems that capture the full costs, as required by SFFAS No. 4, associated with national defense assets. Therefore, the annual investments shown in this report represent annual disbursements for each category of national defense assets.

Mission support property, plant, and equipment includes ordnance support equipment such as ordnance stands; electronics equipment such as test sets, air compressors, and generators; communications equipment such as field communications systems and signal jammers; and other various types of support equipment essential to the conduct of military missions.

Variances between investments reported in fiscal 2000 and prior years are attributable to revised methodologies used in compiling the report. Additionally, some fiscal 1999 amounts have been changed to correct erroneous amounts previously reported.

See the Supplemental Information section for deferred maintenance related to national defense assets.

Investments in National Defense Assets for the Fiscal Years Ended September 30

(In millions of dollars)	Restated Fiscal 1999	Fiscal 2000
Aircraft:		
Combat	6,901	7,889
Airlift	4,354	4,951
Other aircraft	2,662	2,889
Aircraft support principal end items	1,387	1,320
Other aircraft support property, plant, and equipment	1,418	1,030
Ships:		
Surface combatants	3,074	2,920
Submarines	1,409	1,598
Ship support principal end items	852	2,100
Aircraft carriers	1,340	1,465
Amphibious warfare ships	581	571
Support ships	371	249
Mine warfare ships	73	16
Other ships	30	35
Other ship support property, plant, and equipment	7	210
Combat Vehicles:		
Tracked	354	1,491
Wheeled	261	735
Towed	-	28
Combat vehicle support principal end items	1,199	61
Other combat vehicles support property, plant, and equipment	73	78
Guided, Self-propelled Ordnance:		
Missiles	1,374	2,583
Torpedoes	70	47
Guided, self-propelled support principal end items	807	45
Guided, self-propelled ordnance support property, plant, and equipment	222	123
Space Systems:		
Satellites	1,501	1,120
Space systems support principal end items	443	660
Weapons Systems Support Real Property:		
Active ammunition bunkers	19	31
Other:		
Other weapons systems	115	151
Other weapons systems support principal end items	61	87
Other weapons support property, plant, and equipment	42	4
Mission support property, plant, and equipment	5,432	3,945
Reserve fleet vessels	1,905	1,697
Total investments in national defense property, plant, and equipment for fiscal years ended September 30	38,337	40,129

Stewardship Land

"Stewardship Land" refers to federally owned land that is set aside for the use and enjoyment of present and future generations and land on which military bases are located. Except for military bases, this land is not used or held for use in "General Government" operations. Stewardship land is land that the Federal Government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheet. Stewardship land is measured in non-financial units such as acres of land and lakes, miles of parkways, and miles of wild and scenic rivers. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems to encourage animal and plant species and to conserve nature. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

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

Stewardship land acquired during fiscal 2000 amounted to $306.5 million.

United States Government Stewardship Land as of September 30

Agency	Predominate Use	Millions of Acres	Percent-age
Bureau of Land Management	Public land	264.4	40.9
U.S. Forest Service	National Forest system	192.2	29.8
U.S. Fish and Wildlife Service	National wildlife refuge system	88.7	13.7
National Park Service	National park system	78.2	12.1
Department of Defense	Defense facilities	16.8	2.6
Bureau of Reclamation	Water, power, and recreation	5.8	0.9
Total acres		646.1	100.0

Bureau of Land Management

Department of Interior's (DOI) Bureau of Land Management (BLM) manages 264.4 million acres of federally owned land. Congress has charged the BLM with maintaining this land and its resources to best serve the present and future needs of the American people. Toward this end, BLM manages these lands to allow for a combination of uses, including mineral development, outdoor recreation, and natural habitat. Some BLM lands are protected and used for their scenic, scientific, or historical value. The following table describes those holdings.

Bureau of Land Management Public Lands as of September 30

	Number	Acreage (In thousands)	Miles
National wild and scenic river segments	35	1,002	2,048
National wilderness areas	138	5,280	-
Wilderness study areas	618	18,017	-
National conservation areas	9	11,796	-
National scenic areas	1	101	-
Headwaters forest reserve	1	7	-
National recreation areas	1	1,000	-
National historic trails	8	-	3,533
National scenic trails	2	-	568
National recreation trails	26	-	429
Outstanding natural areas	1	-	-
Herd management areas	200	36,070	-
National monuments	7	3,096	-
Areas of critical environmental concern	838	14,045	-
Research natural areas	152	347	-
Lake Todatonten Special Management Area	1	38	-
National natural landmarks	43	599	-
National back-country byways	55	-	2,972
Globally important bird areas	2	-	-
National “multiple use” lands	-	173,000	-
Bureau of Land Management total	2,138	264,398	9,550

U.S. Forest Service

The U.S. Forest Service manages 192.2 million acres of federally owned lands for the sustained use of outdoor recreation, range, timber, watershed, wildlife, and fish.

Forest land contains 155 named National Forests totaling 187.8 million acres.

The U.S. Forest Service reforested 217,125 acres primarily with genetically improved seedlings in fiscal 2000.

Wilderness land contains 34.8 million acres in 38 States and is served by 133,087 miles of trails.

The U.S. Forest Service also manages 20 units of named grasslands on 3.8 million acres and about 4,418 miles of the wild and scenic river system.

U.S. Fish and Wildlife Service

The U.S. Fish and Wildlife Service manages 88.7 million acres of federally owned lands held primarily for wildlife conservation. It has five goals:

- Preserve, restore, and enhance in their natural ecosystems all species of animals and plants endangered or threatened.
- Perpetuate the migratory bird resource.
- Preserve a natural diversity and abundance of fauna and flora.
- Provide an understanding and appreciation of fish and wildlife ecology.

- Provide refuge visitors a safe, wholesome, and enjoyable recreational experience oriented toward wildlife.

The U.S. Fish and Wildlife Service subdivides its management responsibility into the following categories:

- National Wildlife Refuges (530 sites on 87.8 million acres).
- Refuge Coordination areas (50 sites on 197,000 acres).
- Waterfowl Production areas (201 sites on 725,000 acres).
- Fisheries Research Centers (83 sites on 12,000 acres).

National Park Service

The National Park Service manages 78.2 million acres of federally owned lands. These lands are set aside to conserve scenery, nature, historic objects, and wildlife so that current and future generations of Americans can enjoy them.

Other types of park areas include: national rivers, parkways, national lake shores, historic parks, scenic trails, wild and scenic rivers, military parks, reserves, and battlefields.

Summary of Acreage

(In millions of acres)	Acreage
Type of Park Area:	
National parks	50.0
National preserves	21.5
National recreation areas	3.4
National monuments	1.9
National seashores	0.5
Other park areas	0.9
Total acres	78.2

Department of Defense

DOD uses 16.8 million acres of federally owned land for mission essential purposes, including military bases, installations, and training ranges. All land, regardless of its use, provided to DOD from the public domain, or at no cost, is classified as stewardship land.

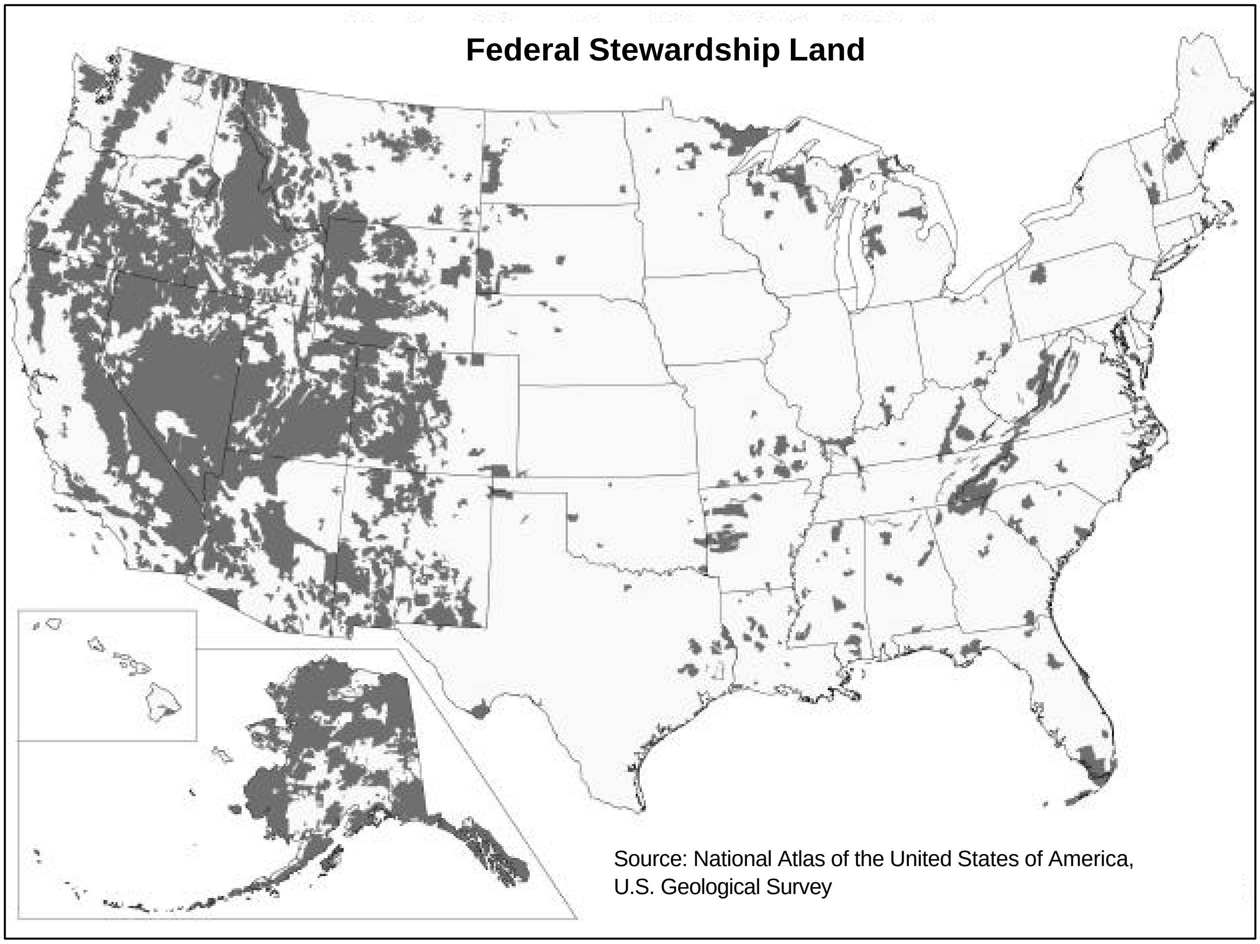
Stewardship land transactions during the year consisted of minor acquisitions and disposals.

Summary of Acreage

(In thousands of acres)	Acreage
Land Use:	
Mission essential purposes	16,818
Parks and historic sites	1
Totals	16,819

Bureau of Reclamation

DOI's Bureau of Recla mation (BOR) manages 5.8 million acres of stewardship land. These lands were withdrawn from the public domain in support of BOR's mandate to provide irrigation water, industrial water, flood control, and power. However, if they do not interfere with project purposes, activities such as boating and camping, fish and wildlife management, or the grazing of livestock may be authorized.



Heritage Assets

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

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

The cost of heritage assets often is not determinable or relevant to their significance. Like stewardship land, the Government does not expect to use these assets to meet its obligations. The most relevant information about heritage assets is non-financial. The public entrusts the Government with these assets and holds it accountable for their preservation. Examples of heritage assets include Mount Rushmore National Memorial, Yosemite National Park, and museum objects on display at the Smithsonian Institution. Examples of heritage assets other than land include: the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as the Vietnam Veterans Memorial, the Jefferson Memorial, and the Washington Monument, as well as art and cultural treasures at the Smithsonian Institution and the Library of Congress (LC).

Many other sites such as the battlefields, historic structures, and national historic landmarks also are placed in this category.

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

The following discussion of the Government’s heritage assets is not all inclusive. Rather, it highlights significant heritage assets reported by Federal agencies.

The Government classifies heritage assets into three broad categories:

- Collection-type.
- Natural.
- Cultural.

“Collection-type Heritage Assets” include objects gathered and maintained for museum and library collections. “Natural Heritage Assets” include national wilderness areas, wild and scenic rivers, natural landmarks, forests, and grasslands. “Cultural Heritage Assets” include historic places and structures, memorials and monuments, national cemeteries, and archeological sites.

Collection-Type Heritage Assets

The Smithsonian Institution holds some of the most prominent Federal museum collections. The Smithsonian acquires, protects, and preserves approximately 140 million individual objects for public exhibition, education, and research.

Similarly, the LC holds the world’s largest library collection. That collection comprises more than 115 million items. The LC receives two copies of every book, pamphlet, map, print, photograph, and piece of music registered for copyright in the United States.

The National Archives holds more than 2 million cubic feet of records. These records ensure ready access to essential information documenting the rights of citizens, actions of Federal officials, and the effects of those actions on the national experience. These records include text and legislative records; cartographic and architectural records; motion picture, sound, and video records; and still pictures and graphics. The National Archives also maintains historically important documents such as the U.S. Constitution and the Louisiana Purchase Treaty.

Collection-type heritage assets acquired in fiscal 2000 amounted to $61.4 million.

Natural Heritage Assets

Congress has designated several “wilderness areas” to preserve their natural conditions. DOI manages approximately 70 million acres of these wilderness areas comprising almost 68 percent of the Nation’s 104.7 million wilderness acres. The Cebolla Wilderness in New Mexico is one such area.

The “national wild and scenic rivers system” includes protected free-flowing rivers. The Government protects these areas because of their fish and wildlife, or for their scenic, recreational, geologic, historic, or cultural value. DOI manages 56 percent of these 11,292 river miles, including the Bluestone National Scenic River in West Virginia.

The Government also sets aside natural landmarks that exemplify a region’s natural characteristics. The National Park Service manages 18 national natural landmarks, such as the Garden of the Gods in Colorado.

The U.S. Forest Service manages 155 National Forests and 20 national grasslands covering over 191.7 million acres. These areas encompass significant heritage resources. Examples include the White Mountain National Forest in New Hampshire and the Thunder Basin National Grassland in Wyoming.

Natural heritage assets acquired in fiscal 2000 amounted to $106.8 million.

See the Stewardship Land section for the total acreage of some natural heritage assets such as National Forests.

Cultural Heritage Assets

The National Register of Historic Places lists historic sites and structures. This is America's official list of cultural resources worthy of preservation. Official properties include districts, sites, buildings, structures, and objects significant to American history. It also includes significant architectural, archaeological engineering, and cultural properties. Forest Service land encompasses 887 such properties.

The Nation's monuments and memorials include the Washington Monument, the Vietnam Veterans Memorial, and the Jefferson Memorial in Washington, D.C. The National Park Service manages these. Also, the American Battle Monuments Commission administers, operates, and maintains 24 permanent American Military Cemeteries on foreign soil and 27 stand alone memorials, monuments, and markers around the world. This includes the Belleau Wood Marine Monument in France.

Archeological sites contain the remains of human activity. DOI manages numerous archaeological sites. The National Park Service manages 63,000 archeological sites, the Bureau of Land Management, the U.S. Fish and Wildlife Service and the Bureau of Reclamation manages approximately 258,000 archaeological and historical properties. The ancient earthen mounds at the Hopewell Culture National Historic Site in Ohio are a notable example.

National cemeteries include the Arlington National Cemetery in Virginia and the Fort Logan National Cemetery in Colorado. The Department of the Army (Army) manages the Arlington National Cemetery. The Department of Veterans Affairs (VA) manages Fort Logan National Cemetery and other cemeteries.

Stewardship Responsibilities

"Stewardship Responsibilities" provides information on the social insurance programs: Social Security, Medicare, Railroad Retirement, Black Lung and Unemployment Insurance. Its purpose is to assist the American people in evaluating the financial condition and sustainability of these programs.

Social Insurance Update

The following table gives financial report users updated information on selected financial aspects of the Social Security and Medicare programs that became available subsequent to the preparation of the related data presented in the detailed social insurance disclosures on pages 55 to 76.

Specifically, the social insurance programs detailed analysis and assumptions that are included on pages 76 to 78 were prepared based on estimates as of January 1, 2000. On March 19, 2001, the board of trustees for the Social Security and Medicare trust funds published annual reports that present information for these programs as of January 1, 2001. The table below compares selected key data elements from these sources.

Comparison of Trustees' Reports Updated Estimates with the Financial Report Estimates

	Trustees' Report Estimates as of January 1, 2001	Financial Report Estimates as of January 1, 2000
First Year Expenditures Exceed Tax Revenue:		
Social Security (OASI and DI)	2016	2015
Federal Old-Age and Survivors Insurance (OASI)	2016	2016
Federal Disability Insurance (DI)	2008	2007
Federal Hospital Insurance (Medicare Part A)	2016	2010
Year Trust Fund Assets Are Exhausted:*		
Social Security	2038	2037
Federal Old-Age and Survivors Insurance	2040	2039
Federal Disability Insurance	2026	2023
Federal Hospital Insurance	2029	2025
Actuarial Deficit as a Percentage of Taxable Payroll Over the 75-Year Projection Period:		
Social Security	1.86%	1.89%
Federal Old-Age and Survivors Insurance	1.53%	1.53%
Federal Disability Insurance	0.33%	0.37%
Federal Hospital Insurance	1.97%	1.21%
Annual Deficit as a Percentage of Taxable Payroll for 2075:		
Social Security	6.05%	6.18%
Federal Old-Age and Survivors Insurance	5.33%	5.40%
Federal Disability Insurance	0.72%	0.78%
Federal Hospital Insurance	7.35%	3.28%
Present Value of Resources Needed Over the 75-Year Projection Period:		
Social Security	Not Reported	$3,845 billion
Federal Hospital Insurance	Not Reported	$2,699 billion

***** See page 59 for more information on how trust funds are financed.

The table above presents several key data elements that are indicators of the financial status of the Social Security and Medicare programs. The First Year Expenditures Exceed Tax Revenue represents the point at which the trust funds would have to start using interest income to make payments. Interest income is paid in the form of Treasury securities. In order to use the interest, the trust funds would have to redeem the securities. To finance redemption, the Government must raise taxes, borrow from the public, cut spending for other programs, or some combination thereof. The Year Trust Fund Assets Are Exhausted represents the point at which all trust fund assets (Treasury securities) have been redeemed. After this date, these respective programs will not have adequate resources to pay promised benefits or obligations in a timely manner. At these points in time, 2038 for Social Security (OASDI) and 2029 for Medicare HI, tax income is estimated to cover 73 percent and 68 percent of these programs' expenditures, respectively. The Actuarial Deficit as a Percentage of Taxable Payroll Over the 75-Year Projection period and the Annual Deficit for 2075 can be interpreted as the percentage that, if added to the current scheduled tax rates, would cover projected trust fund shortfalls for the respective period. The table presents the increases that would be needed in the payroll tax rates (1) over the 75-year period to keep the trust fund in balance, and (2) in year 2075 to cover projected cash shortfalls for that 1-year period. The Present Value of Resources

Needed Over the 75-Year Projection Period represents the discounted excess of projected cash expenditures (outflow) over cash income (inflow) during the 75-year projection period. This is the current amount of funds needed to cover projected shortfalls, excluding trust fund balances, over the 75-year period.

In the 2001 Trustees' Reports, the Trustees for the Social Security (OASDI) and Federal Hospital Insurance (Medicare Part A) programs reported near-term improvements in the financial status of these programs, yet they also cautioned that long-term sustainability issues need to be addressed. The updated projections have resulted in improved estimates for when the trust funds' expenditures are expected to exceed tax revenue and when the trust funds are projected to be exhausted. In particular, the Federal Hospital Insurance is projected to remain solvent until 2029, an improvement of 4 years over last year's report, reflecting both stronger-than-expected economic growth and lower-than-expected program costs due to several factors such as low increases in health care costs generally, and reduced utilization of skilled nursing facility services in 2000.

The overall improvement in the Social Security Trustees' estimates of the financial status of the Social Security program presented in the table above resulted primarily from changes in the demographic assumptions. The improvement resulting from these demographic changes was partially offset by the inclusion of year 2075 in the 75-year valuation period, because of the relatively large negative annual balance in that year. The demographic assumptions used in the Trustees' projections as of January 1, 2001, were based on more recent data. They included the following changes for early years of the projection period, each of which improved the long-range projections: (1) a higher birth rate, (2) a higher initial death rate that declines less in years through 2026 than previously estimated, and (3) a somewhat higher average age for emigrants from the United States.

The projections for the long-range sustainability of the Federal Hospital Insurance program both over the 75-year projection period and in year 2075 worsened dramatically since last year's report. Changes to the Federal Hospital Insurance actuarial estimates are primarily attributable to two factors: an increase in the long-term health care cost growth rate and changes in the hospital assumptions. Based on recommendations of the 2000 Medicare Technical Review Panel, the Medicare Trustees adopted a health care cost growth rate that assumes future per-beneficiary costs will grow at a rate 1 percentage point above per capita GDP growth for the last 50 years of the 75-year projection period. Previously, the projections were based on an assumption that in the long run, average per-beneficiary costs would increase at about the same rate as average hourly earnings. This change results in a substantially higher expenditure level in the later years of the projection period. The 2000 Medicare Technical Panel also recommended changes in the hospital assumptions, that would reflect an increase in the average complexity – and associated cost – of cases admitted to hospital – referred to as case mix. This change prompted an increase in the actuarial deficit that affects the first 25 years of the period.

Social Insurance

The social insurance programs were developed to carry out the responsibilities of the Government to its citizens. Because taxpayers rely on social insurance in their long term planning, social insurance programs should show their sustainability as currently constructed, and what their effect will be on the Government's financial condition. The resources needed to run these programs are raised through taxes and fees collections. Eligibility for benefits rest in part on earnings and time worked by the individuals. Social insurance programs sometimes are intentionally redistributed toward lower-wage workers. Finally social insurance programs have uniform sets of entitling events, and schedules that are applied to all participants.

United States Statement of Social Insurance

The table below presents several key data elements that are indicators of the status of the Social Security and Medicare programs. The present value of long-range actuarial projections are based on estimates of the range of persons who are participants or eventually will participate in the programs as contributors or beneficiaries during a projection period of time sufficient to illustrate the sustainability of the program. The projection includes, current workers, retirees, survivors, disabled persons not having attained retirement age, as well as the participants that have attained retirement age, and those expected to become new participants in the future.

United States Government Statement of Social Insurance Present Value of Long-Range Actuarial Projections[1]

(In billions of dollars)	Contributions and Earmarked Taxes[2]	Benefit Payments[3]	Benefit Payments in Excess of Contributions and Earmarked Taxes
Participants Who Are Currently Receiving Benefits:			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	266	4,020	3,754
Federal Hospital Insurance (Medicare Part A)	97	1,681	1,584
Federal Supplementary Medical Insurance (Medicare Part B)	234	1,051	817
Railroad retirement	2	27	25
Black Lung (Part C)[4]	8	4	(4)
Participants Who Are Not Currently Receiving Benefits:			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	11,335	17,217	5,882
Federal Hospital Insurance (Medicare Part A)	3,757	6,702	2,945
Federal Supplementary Medical Insurance (Medicare Part B)	1,527	6,094	4,567
Railroad retirement	26	39	13
Future Participants: [5]			
Federal Old-Age, Survivors and Disability Insurance (Social Security)	10,088	4,297	(5,791)
Federal Hospital Insurance (Medicare Part A)	3,179	1,349	(1,830)
Federal Supplementary Medical Insurance (Medicare Part B)	404	1,514	1,110
Railroad retirement	40	10	(30)

	Valuation Period	Valuation Date	Net Present Value of Negative Cashflow[6]
Federal Old-Age, Survivors and Disability Insurance (Social Security)	1/1/2000 – 12/31/2074	1/1/2000	3,845
Federal Hospital Insurance (Medicare Part A)	1/1/2000 – 12/31/2074	1/1/2000	2,699
Federal Supplementary Medical Insurance (Medicare Part B)	1/1/2000 – 12/31/2074	1/1/2000	6,494
Railroad retirement	9/30/2000 – 12/31/2073	12/31/1998	8
Black Lung (Part C)	9/30/2000 – 9/30/2040	6/30/2000	(4)

The following notes are an integral part of this financial statement.

Notes to the Statement of Social Insurance

[1] Present values are computed on the basis of the economic and demographic assumptions believed most likely to occur (the intermediate assumptions) as set forth in the related trustees' reports.

[2] Contributions and earmarked taxes consist of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income taxation of OASDI and railroad retirement benefits; monthly Medicare Part B premiums paid by, or on behalf of, beneficiaries; railroad work-hour tax; and excise tax on coal (Black Lung). Contributions and earmarked taxes for the Medicare Part B program presented in this report are presented on a consolidated perspective (interest payments and other intra-governmental transfers have been eliminated). HCFA's 2000 Annual Report presents income from the trust fund's perspective, not a Governmentwide perspective. Therefore, HCFA's Annual Report includes $6,494 billion for the present value of transfers from the general fund of the Treasury to the Medicare Part B Trust Fund that have been eliminated in this *Financial Report of the United States Government*.

[3] Benefit payments include administrative expenses.

[4] Black Lung disability benefits for current and future miners are not expected to be material.

[5] Includes births during the period.

[6] The net present value of negative cashflow is the current amount of funds needed to cover projected shortfalls, excluding trust fund balances, over the 75-year period. The trust fund balances at the beginning of the valuation period that were eliminated for this consolidation were: $896 billion - Social Security, $141 billion - Medicare Part A, $45 billion Medicare Part B, $17 billion – Railroad Retirement and Black Lung Trust Fund had a negative balance of $6.7 billion.

The projection period for new entrants covers the next 75 years for the Social Security and Medicare programs. The projection period for current participants (or "closed group") would theoretically cover all of their working and retirement years, a period that could be greater than 75 years in a few instances. As a practical matter, the present values of future payments and contributions for/from current participants beyond 75 years are not material.

The actuarial present value of the excess of future benefit payments to current participants (that is, to the "closed group" of participants) over future contributions and tax income from them or paid on their behalf is calculated by subtracting the actuarial present value of future contributions and tax income by and on behalf of current participants from the actuarial present value of the future benefit payments to them or on their behalf.

Program Sustainability

Social Security (OASDI)

The OASDI program does not meet the test of close actuarial balance over the full 75-year projection period. Under the intermediate assumptions (best estimates) of the Board of Trustees of the Federal OASDI trust funds, OASDI income from contributions on taxable earnings and from income taxes on benefits is expected to exceed total expenditures for this year and each of the next 14 calendar years. Starting in about 2010, however, OASDI costs, relative to taxable earnings, are expected to begin increasing rapidly as the "baby-boom" generation reaches retirement age. In contrast, the program's income from contributions payable on taxable earnings and income taxes on benefits will remain a relatively constant percentage of taxable payroll.

In view of the size of the financial shortfall in the OASDI program over the next 74 years, the Board of Trustees of the Federal OASDI Trust Funds urges that the long-range deficits of both the OASI and DI Trust Funds be addressed in a timely way.

Medicare

Medicare has generally been viewed as a program in greater financial difficulty than Social Security because it will combine the rising costs of health care over time with the increase in beneficiaries as baby boomers become eligible. The approach of the last two decades, seeking improvements in the efficiency and effectiveness of health care delivery, will continue to be an important contributor to Medicare's future. The challenge facing the future financing of this program is how we will as a society share the costs of health care for a much larger aging population.

The Medicare Part A program is substantially out of financial balance in the long range. Under the intermediate assumptions of the Board of Trustees of the Medicare Part A Trust Fund, income is projected to continue to moderately exceed expenditures for the next 17 years but to fall short by steadily increasing amounts in 2017 and later. The Medicare Part A program could be brought into actuarial balance over the next 25 years with relatively minor changes, such as either reducing outlays or increasing income by 4 percent immediately (or some combination of the two) throughout this 25-year period.

The long-range outlook, however, remains unfavorable, in large part as a result of the impending retirement of the baby boom generation. Over the full 75-year projection period, substantially greater changes in income and/or outlays are needed to bring the program into actuarial balance.

These projections indicate that without additional legislation, the fund would be exhausted in the future—initially producing payment delays, but very quickly leading to a curtailment of health care services to beneficiaries. In its 2000 annual report to Congress, the Board of Trustees of the Medicare Part A Trust Fund urges the Nation’s policy makers to address the remaining financial imbalance facing the Medicare Part A Trust Fund by taking “further effective and decisive action, building on the strong steps taken in recent reforms.” They also state “Consideration of further reforms should occur in the relatively near future.”

The recent improvements in projected expenditures for Medicare Part B, while welcome, are not sufficiently large to diminish serious concerns with expenditure growth. The Board of Trustees of the Medicare Part B Trust Fund note that program costs have generally grown faster than the GDP and that this trend is expected to continue under present law. The projected increases are initially attributable in part to assumed continuing growth in the volume and intensity of services provided per beneficiary. Starting in 2010, the retirement of the post-World War II baby boom generation will also have a major influence on the growth in program costs.

Prior to the Balanced Budget Act of 1997, Medicare Part A Trust Fund assets were projected to be exhausted in the very near future. The urgency of this situation prompted considerable attention and led directly to the provisions in the Act to slow Medicare Part A expenditure growth. In contrast, the financing provisions for Medicare Part B prevent such crises. As a result, there has been substantially less attention directed toward the financial status of the Medicare Part B program than to the Medicare Part A program, even though Medicare Part B expenditures have increased faster than Medicare Part A expenditures in most years and are expected to continue to do so in the future.

Given the past and projected cost of the Medicare Part B program, the Board of Trustees of the Medicare Part B Trust Fund urges the Nation’s policy makers to consider effective means of controlling Medicare Part B costs in the near term. For the longer term, legislative proposals need to be developed to address the large increases in Medicare Part B costs associated with the baby boom’s retirement in partnership with Medicare Part A cost increases.

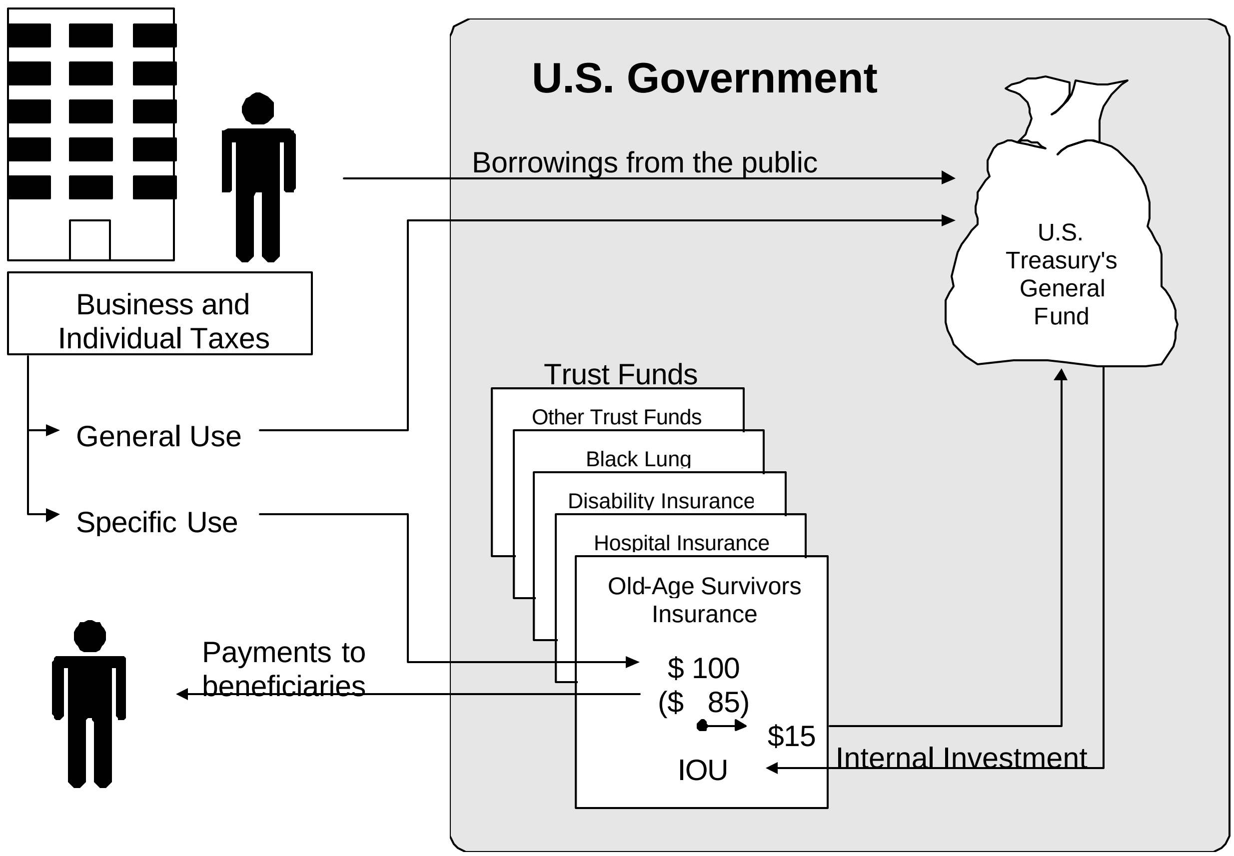
Railroad Retirement

The Railroad Retirement program is projected to have a slight negative cashflow on a consolidated basis that is expected to balance by 2065. This negative cash flow will be financed through the redemption of Treasury securities that resulted from past program surpluses. The long-term stability of the program, however, is still questionable. Under the current financing structure, actual levels of railroad employment over the coming years will largely determine whether corrective action is necessary.

Black Lung

The Black Lung Part C disability program’s net present value of future benefit payments for the 40-year period ending September 30, 2040, is $3.5 billion. The net present value of future excise taxes for the 40-year period is $8.2 billion, which results in a $4.7 billion excess of excise taxes over benefit payments. These projections, made over the 40-year period ending September 30, 2040, indicate that cash inflows from excise taxes will exceed cash outflows for benefit payments and administrative expenses (excluding interest and principal payments on intra-governmental debt) for each period projected.

Trust Fund Financing



The Government collects taxes from business and individuals. Each type of tax collected is classified for "General use" or for "Specific use." The taxes collected for general use are included in the general fund and are used to fund the Government's operations.

The taxes collected for specific use are credited to the corresponding trust fund, which will use these funds to meet a particular Government purpose. The beneficiaries from these earmarked trust funds are paid directly from the balance of each of the corresponding trust funds. If the collections from taxes and other sources exceed outlays to the beneficiaries, the excess collections are invested, generally in Treasury securities, which means that the excess collections are "loaned" to the Treasury's general fund. The reason for this is that the trust funds generally are not permitted to hold the excess cash collected. Generally, all excess collections as well as interest earning must be invested by the trust funds in Treasury securities or Government-guaranteed securities. Therefore, the trust fund balances do not represent cash. These balances are the sum of all specific use collections plus interest and other receipts, less payments to beneficiaries over the life of the fund.

When payments to beneficiaries exceed receipts, the trust funds redeem a commensurate amount of their Federal debt securities holdings.

In addition to earmarked taxes, trust funds receive income from the interest earned on investments in Federal debt securities and, in some cases, from other sources as well.

Social Security

Congress passed the Social Security Act in 1935. The Act, as subsequently amended, includes programs that provide retirement and disability benefits. Congress established two trust funds for Social Security: The Federal Old-Age and Survivors Insurance (OASI) and the Federal Disability Insurance (DI) Trust Funds (combined as

OASDI). OASI pays retirement and survivors benefits and DI pays benefits to disabled workers. At the end of calendar year 1999, OASDI benefits were paid to approximately 45 million beneficiaries. Revenue to the combined OASDI funds consists primarily of taxes on earnings paid by employees, their employers, and the self-employed. OASDI also receives revenue from the income taxes on some Social Security benefits and interest on its investments in Treasury securities. Social Security revenues not needed to pay current benefits or administrative expenses are invested in special-issue Treasury securities. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law bases the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, on the workers' lifetime earnings histories.

The Board of Trustees of the OASI and DI Trust Funds provides in its annual report to the President and Congress short-range (10 year) and long-range (75 year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Board of Trustees uses three alternative sets of economic and demographic assumptions to show the range of possibilities. Assumptions are made about many economic and demographic factors, including gross domestic product, earnings, the CPI, the unemployment rate, the fertility rate, immigration, mortality, and disability incidence and terminations. The assumptions used in the accompanying tables, generally referred to as the "intermediate assumption," reflect the best estimate of expected future experience, under current law.

Cashflow Projections

The present values of actuarial estimates as shown in the following sections were computed as of January 1, 2000, the beginning of the valuation period. The actuarial estimated contributions equal the sum of the present value of all estimated non-interest income during the period. The actuarial estimated expenditures equal the sum of the present value of all estimated payments during the valuation period. These estimates were prepared using the financing method deemed the most appropriate by the Congress and the Board of Trustees. Estimates assume the program will cover future workers as they enter the labor force.

The primary receipts of OASDI are funds appropriated under permanent authority based on contributions payable by workers, their employers, and individuals with self-employment income. All contributions, or taxes, are collected by the IRS and deposited to the trust fund. Another source of income is interest received on the investments held by the trust funds, which is eliminated in this consolidated report. The primary expenditures are for OASDI benefit payments and for expenses related to administration of the OASDI programs.

Under current legislation and using intermediate assumptions, the DI and OASI Trust Funds are projected to be exhausted in 2023 and 2039, respectively. Combined OASDI expenditures will exceed current tax income beginning in 2015 and will exceed total current income (including current interest income) for calendar years 2025 and later. Thus, current tax income plus a portion of annual interest income will be needed to meet expenditures for the years 2015 through 2024. Thereafter, in addition to current tax income and current interest income, a portion of the principal (combined OASDI assets) will be needed each year until the trust fund assets are totally exhausted in 2037. At that point, current tax income will be sufficient to pay only approximately 72 percent of the benefits due.

Chart 1 shows actuarial estimates of combined OASDI annual income, income excluding interest, and expenditures for 1960-2074 in nominal dollars. The estimates are for the open group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. These estimates also include expenditures made to, and on behalf of, such workers during that period.

Beginning in 2015, estimated expenditures start to exceed income, (excluding interest). This occurs because of a variety of factors, including the retirement of the baby boom generation, the relatively small number of people born during the subsequent period of low birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. At that time, to meet all OASDI expenditures on a timely basis, the trust funds would begin to redeem assets (Treasury securities). To finance the expenditures that led to this redemption, the Government will need to raise taxes, borrow from the public, cut spending for other programs, change the laws under which the Social Security program provides benefits, or some combination thereof.

Chart 1—Estimated OASDI Income (Excluding Interest) and Expenditures 1960-2074

(In billions of dollars)

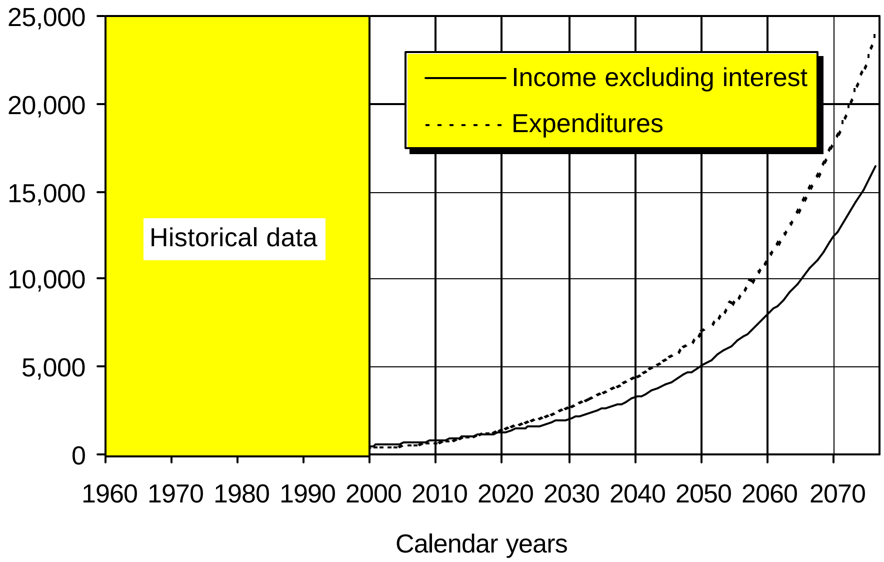


Chart 2 shows estimated annual income excluding interest and expenditures expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent of taxable payroll), and the 12.4 percent that is paid on taxable self-employment income. Because estimated annual income excluding interest consists primarily of payroll taxes, when expressed as a percentage of taxable payroll, it is close in magnitude to the OASDI payroll tax rate. The amount by which the income exceeds the tax rate reflects revenue transferred to the trust funds based on Federal income-taxation of OASDI benefits. When estimated expenditures are compared to income as percentages of taxable payroll, they necessarily reflect a similar pattern as when compared in current dollars. Whether expressed as percentages of taxable payroll or in current dollars, prior to 2015, estimated annual expenditures are less than estimated annual income, excluding interest, whereas thereafter they are more.

Chart 2—Estimated OASDI Income (Excluding Interest) and Expenditures as a Percentage of Taxable Payroll 1960-2074

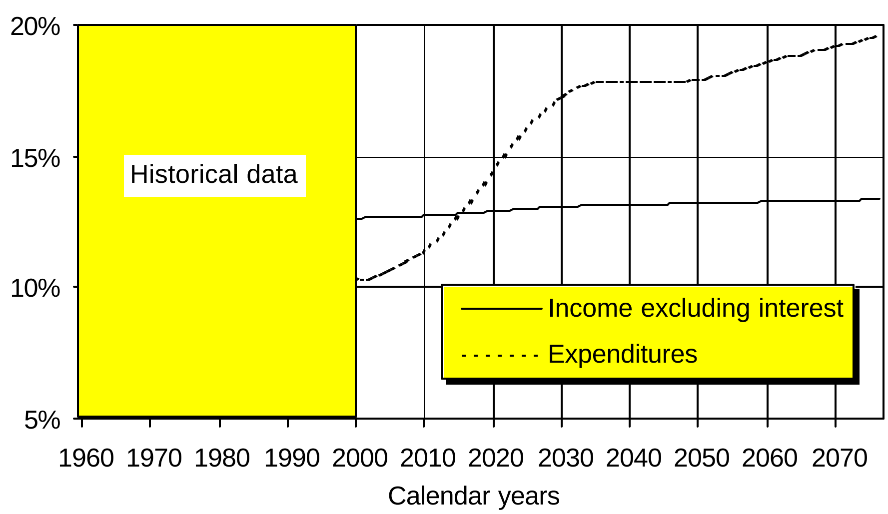
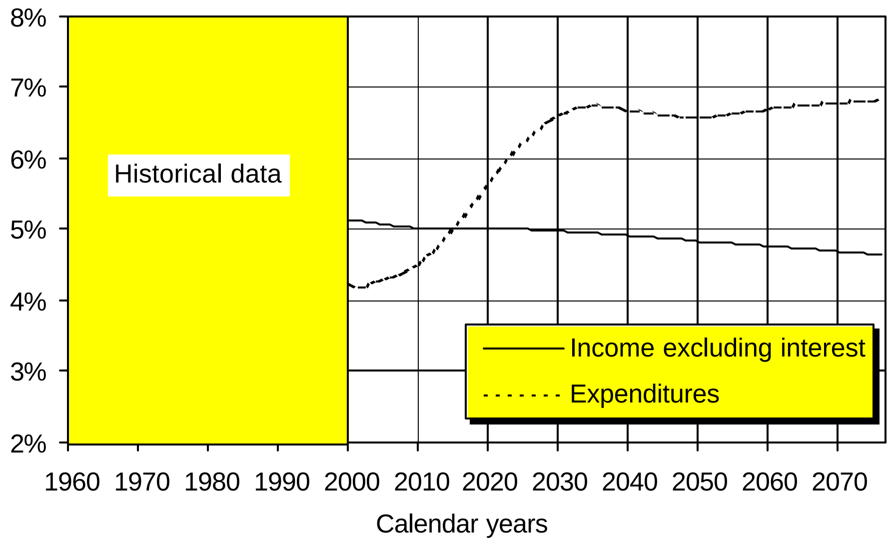


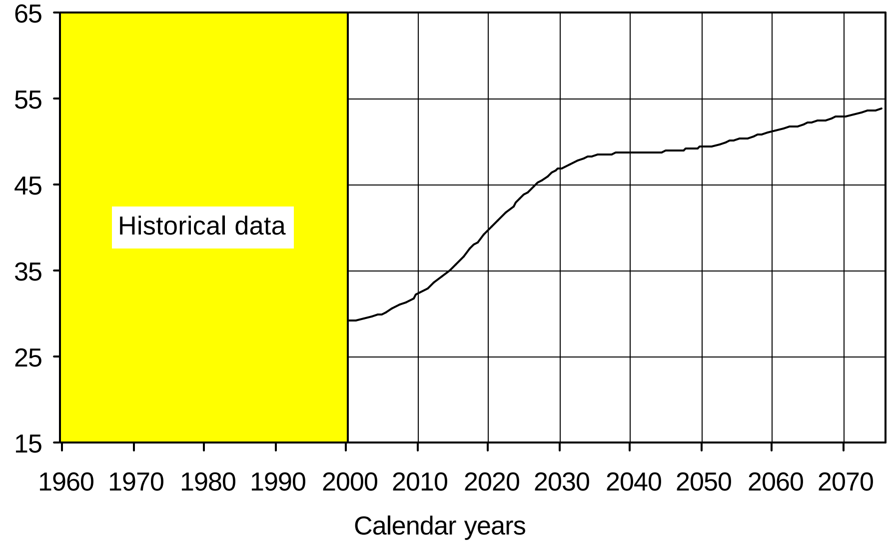
Chart 3 shows estimated annual income, excluding interest, and expenditures, expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the GDP, which represents the total value of goods and services produced in the United States, provides a measure of the size of the OASDI program in relation to the capacity of the national economy to sustain it.

Chart 3—Estimated OASDI Income (Excluding Interest) and Expenditures as a Percentage of GDP 1960-2074



As shown in Chart 4, there were about 30 OASDI beneficiaries for every 100 covered workers in 1998. As indicated, this ratio is expected to increase substantially in the future. The most rapid increase will occur as the relatively large number of persons born during the baby boom (from the end of World War II through the mid-1960s) reaches retirement age and begins to receive benefits. At the same time, the relatively small number of persons born during the subsequent period of low fertility rates will comprise the labor force. Between 2030 and 2050, the number of workers per beneficiary is estimated to remain relatively stable as the baby-boom generation diminishes in size. After 2050, this ratio is estimated to continue to increase at a slower pace, reflecting the increasing numbers of beneficiaries due to projected increases in life expectancy. Under the intermediate assumption, by the end of the 75-year projection period, the number of workers per beneficiary is projected to increase to 54 OASDI beneficiaries for every 100 covered workers.

Chart 4—Number of Beneficiaries per 100 Covered Workers 1960-2074



Actuarial Assumptions and Sensitivity Analysis

Actual future income from OASDI payroll taxes and other sources, and actual future expenditures for benefits and administrative expenses, will depend upon a large number of factors: the size and composition of the population that is receiving benefits, the level of monthly benefit amounts, the size and characteristics of the work force covered under OASDI, and the level of workers' earnings. These factors will depend in turn upon future marriage and divorce rates, birth rates, death rates, migration rates, labor force participation and unemployment rates, disability incidence and termination rates, retirement age patterns, productivity gains, wage increases, cost-of-living increases, and many other economic and demographic factors.

While it is reasonable to assume that actual trust fund experience will fall within the range defined by the three alternative sets of assumptions used in this report, no definite assurance can be given that this will occur because of the uncertainty inherent in projections of this type and length. In general, a greater degree of confidence can be placed in the assumptions and estimates for the earlier years than for the later years. Nonetheless, even for the earlier years, the estimates are only an indication of the expected trend and potential range of future program experience.

The assumptions vary, in most cases, from year to year during the first 5 to 30 years before reaching their ultimate values for the remainder of the 75-year projection period. The following table summarizes the ultimate values assumed for the key economic and demographic factors underlying the actuarial estimates shown in this report.

The following present value charts and amounts are presented for analysis of the major assumptions impacting estimates in OASDI future cashflows. Present value amounts attempt to demonstrate what future cashflow amounts would be if shown in today's dollars. This is done by discounting, or removing, the increase in these cashflows that is caused by interest, sometimes referred to as inflation. Even small changes in the estimated amount of future interest over the next 75 years has dramatic impact on present value calculations. Given the cashflow estimates between the high and low interest-rate assumptions, the present value of OASDI expenditures over income ranges from $5,618 billion to $2,755 billion using ultimate annual real interest rates of 2.2 percent to 3.7 percent, respectively, compared to $3,845 billion using the intermediate ultimate annual real interest rate of 3.0 percent. These interest rate assumptions do not impact the future cashflow in the OASDI program. If these charts were presented in nominal dollars they would reflect a pattern similar to the present value charts shown here.

Charts of cashflows with varying assumptions that have not been adjusted for interest, as well as other assumptions that are not expected to have a material impact on OASDI, can be found in Social Security's Performance and Accountability Report and on the web at www.ssa.gov/finance.

Social Security Intermediate Assumptions

Year	Total Fertility Rate[1]	Age-Sex-Adjusted Death Rate[2] (per 100,000, per year)	Period Life Expectancy at Birth[3]		Ultimate Net Annual Immigration (Persons per Year)	Real-Wage Differential[4] (Percentage Points)	Average Annual Percentage Change In:			Average Annual Interest Rate[7]
			Male	Female			Average Annual Wage in Covered Employment	CPI[5]	Real GDP[6]	
2000	2.05	796.3	73.9	79.6	900,000	1.5	4.6	3.1	3.5	6.7%
2005	2.03	767.0	74.7	80.0	900,000	1.0	4.2	3.3	2.0	6.2%
2010	2.01	744.2	75.4	80.4	900,000	1.0	4.3	3.3	2.1	6.3%
2020	1.97	692.7	76.4	81.1	900,000	1.0	4.3	3.3	1.7	6.3%
2030	1.95	640.6	77.4	82.0	900,000	1.0	4.3	3.3	1.7	6.3%
2040	1.95	594.8	78.3	82.7	900,000	1.0	4.3	3.3	1.7	6.3%
2050	1.95	554.5	79.1	83.5	900,000	1.0	4.3	3.3	1.7	6.3%
2060	1.95	518.7	79.9	84.1	900,000	1.0	4.3	3.3	1.7	6.3%
2070	1.95	486.9	80.7	84.8	900,000	1.0	4.3	3.3	1.7	6.6%

[1]The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2024.

[2]The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1990, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[3]The period life expectancy for any year is the average number of years of life remaining for a group of persons if that group were to experience the death rates by age observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[4]The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI).

[5]The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).

[6]The real gross domestic product (GDP) is the value of total output of goods and services, expressed in 1996 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[7]The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special-issue Treasury obligations sold only to the trust funds in each of the 12 months of the year.

Death Rates

The assumptions regarding future death rates have the greatest impact on estimated future cashflows in the OASDI program. The following table shows the present values of the estimated OASDI expenditures in excess of income for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the percentage decrease assumed to occur during 1999-2074 in death rates by age, sex, and cause of death. The decreases assumed for this period, summarized as changes in the age-sex-adjusted death rate, are 18, 41, and 61 percent, where 41 percent is the intermediate assumption in the 2000 Trustees' Report. These assumptions do not apply uniformly to all ages. Some variation by age was assumed in recognition of historical patterns and to ensure that, in terms of the financial status of the OASDI program, estimates based on the summarized 18-percent and 61-percent reduction assumptions would be more optimistic and more pessimistic, respectively, than those based on the intermediate assumption.

As the following table demonstrates, if the reductions in death rate are changed from 41 percent, the Trustees' intermediate assumption, to 18 percent, meaning that people die younger, then the shortfall for the period of estimated OASDI income relative to expenditures would decrease to $2,701 billion from $3,845 billion; if the reductions are changed to 61 percent, meaning that people live longer, then the shortfall would increase to $5,146 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Death Rate Assumptions Valuation Period: 2000-2074

Reduction in age-sex adjusted death rates	18 percent	41 percent	61 percent
Expenditures in excess of income (In billions of present-value dollars)	$2,701	$3,845	$5,146

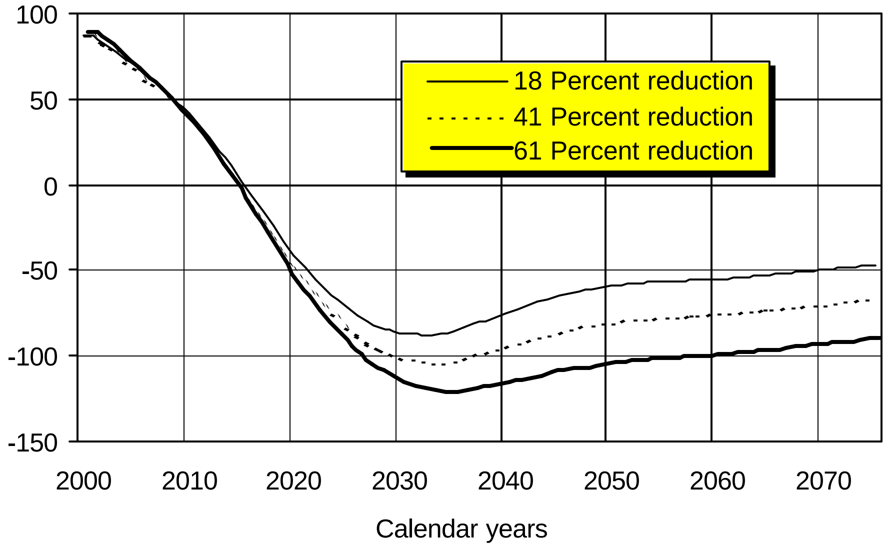
In the early years, relatively little difference is discernible among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher expenditures, expenditures increase more than income. For any given year, reductions in death rates at the retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). Although reductions at age 50 to retirement eligibility age add significantly to the number of covered workers, the increased payroll tax income is not large enough to offset the additional retirement and disability benefits resulting from the increased number of people surviving to age 50 and over. At ages under 50, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 5 shows the present value of the estimated annual OASDI net cashflow using the death rate assumptions presented above. The three patterns of the present values shown in Chart 5 are similar. The present values decrease steadily through the early 2030s. They remain positive through 2015, 2014, and 2013 for assumptions of reductions of 18, 41, and 61 percent, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030s (2033, 2034, and 2035 for assumptions of reductions of 18, 41, and 61 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 5—Present Value of Estimated OASDI Net Cashflow with Various Death Rate Assumptions 2000-2074

(In billions of dollars)



Real-Wage Differential

The following table shows the present values of the estimated excess of OASDI expenditures in excess of income for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.5, 1.0, and 1.5 percentage points, where 1.0 percentage point is the intermediate assumption in the 2000 Trustees' Report. The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual CPI. In each case, the ultimate annual increase in the CPI is assumed to be 3.3 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.8, 4.3, and 4.8 percent, respectively.

As the following table demonstrates, if the ultimate real-wage differential is changed from 1.0 percentage point, the Trustees' intermediate assumption, to 0.5 percentage point, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,252 billion from $3,845 billion; if the ultimate real-wage differential was changed from 1.0 to 1.5 percentage points, then the shortfall would decrease to $3,263 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Real-Wage Assumptions Valuation Period: 2000-2074

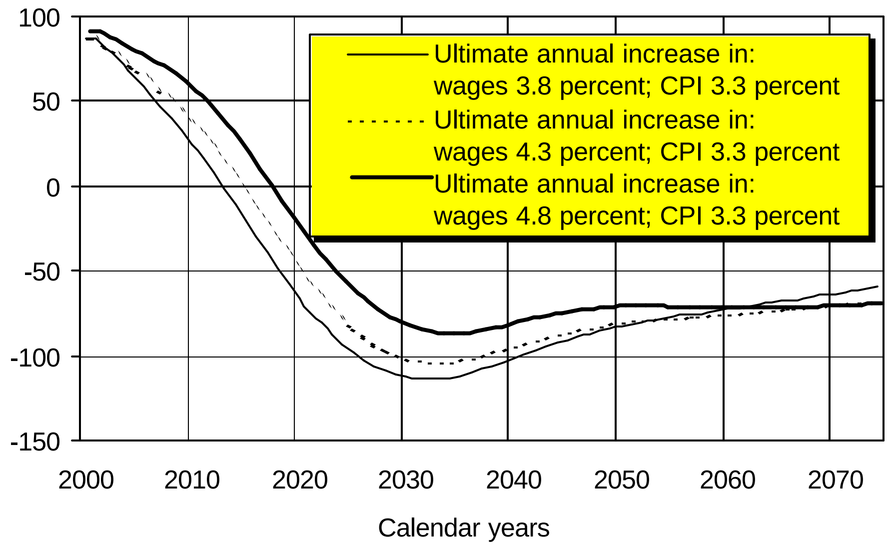
Ultimate percentage change in wages, CPI	3.8% - 3.3%	4.3% - 3.3%	4.8% - 3.3%
Expenditures in excess of income (In billions of present-value dollars)	$4,252	$3,845	$3,263

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher (less negative in later years) for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small while the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly.

Chart 6 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the ultimate real-wage differential shown above. The three patterns of the present values shown in Chart 6 are similar. The present values decrease steadily through the early 2030s. They remain positive through 2012, 2014, and 2016 for assumed ultimate real-wage differentials of 0.5, 1.0, and 1.5 percentage points, respectively. Thereafter, they are negative. Present values based on all three assumptions begin to increase (become less negative) in the 2030s (2033, 2034, and 2035 for assumed ultimate real-wage differentials of 0.5, 1.0, and 1.5 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 6—Present Value of Estimated OASDI Net Cashflow with Various Real-Wage Assumptions 2000-2074

(In billions of dollars)



Total Fertility Rate

The following table shows the present value of the estimated excess of OASDI expenditures over income for the 75-year period, using various assumptions about the ultimate total fertility rate. These assumptions are 1.7, 1.95, and 2.2 children per woman, where 1.95 is the intermediate assumption in the 2000 Trustees' Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2024.

As the following table demonstrates, if the ultimate total fertility rate is changed from 1.95 children per woman, the Trustees' intermediate assumption, to 1.7, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,252 billion from $3,845 billion; if the ultimate total fertility rate was changed to 2.2, then the shortfall would decrease to $3,437 billion.

Present Value of Estimated OASDI Expenditures in Excess of Income with Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2000-2074

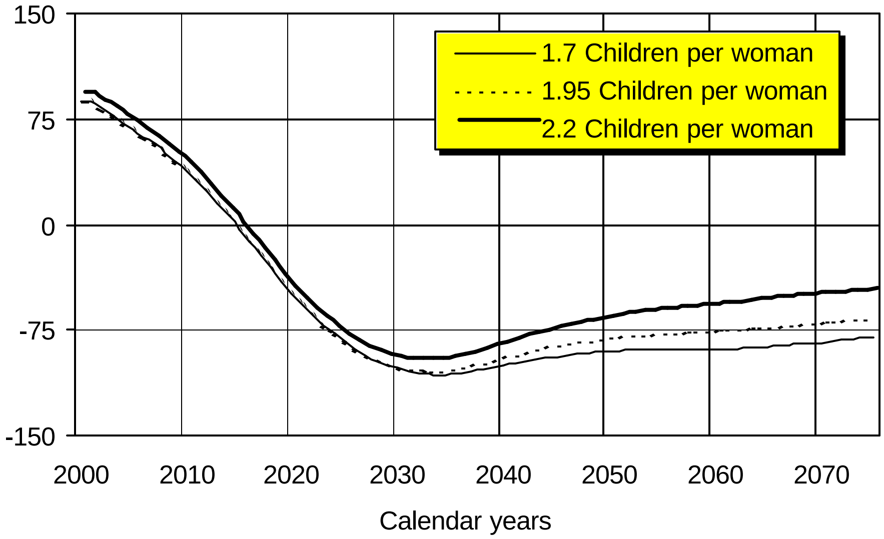
Ultimate total fertility rate (children per woman)	1.7	1.95	2.2
Expenditures in excess of income (In billions of present-value dollars)	$4,252	$3,845	$3,437

Very little difference is discernible among the estimates of annual net cashflow based on the three ultimate total fertility rates throughout this period. In particular, it is difficult to discern from Chart 7 that annual net cashflow based on higher fertility rates is lower in the early years, although higher thereafter. In the early years, more births are assumed to result in fewer women in the labor force and more children receiving OASDI benefits. Thus, in the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2027 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from that year on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 7 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the total fertility rate shown above. The present values decrease steadily through the early 2030s. They remain positive through 2014 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030s (2035 for 1.7 and 2034 for the others). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2035 than it would to cover the annual deficit in 2034.

Chart 7—Present Value of Estimated OASDI Net Cashflow with Various Ultimate Total Fertility Rate Assumptions 2000-2074

(In billions of dollars)



Consumer Price Index

The following table shows the present values of the estimated excess of OASDI expenditures over income for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 2.3, 3.3, and 4.3 percent, where 3.3 percent is the intermediate assumption in the 2000 Trustees' Report. In each case, the ultimate real-wage differential is assumed to be 1.0 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.3, 4.3, and 5.3 percent, respectively.

As the following table demonstrates, if the ultimate annual increase in the CPI is changed from 3.3 percent, the Trustees' intermediate assumption, to 2.3 percent, then the shortfall for the period of estimated OASDI income relative to expenditures would increase to $4,148 billion from $3,845 billion; if the ultimate annual increase in the CPI was changed to 4.3 percent, then the shortfall would decrease to $3,530 billion. This seemingly counter-intuitive result—that higher CPI increases result in decreased shortfalls, and vice versa—occurs because varying CPI increases while retaining the same annual real-wage differentials affect earnings (and, therefore, taxes) sooner than benefits (and, therefore, expenditures). See the discussion below for a more complete explanation.

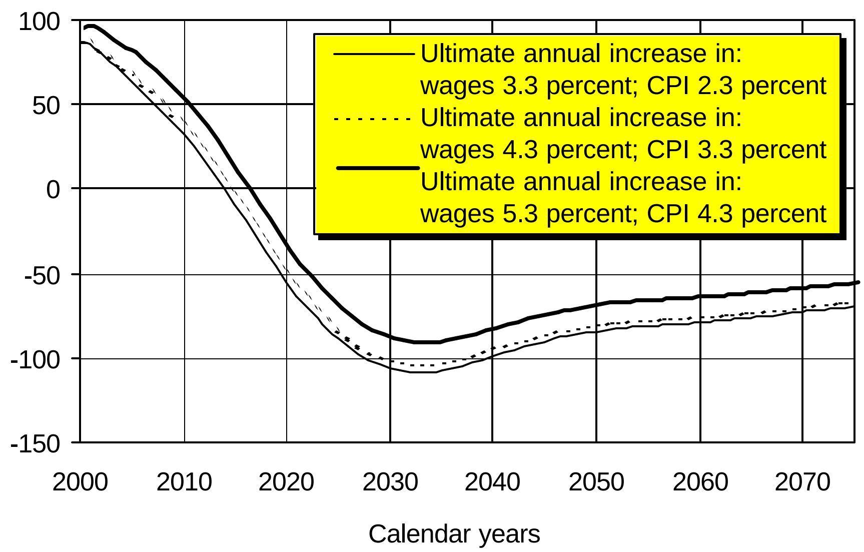
Present Value of Estimated OASDI Expenditures in Excess of Income with Various CPI-Increase Assumptions Valuation Period: 2000-2074			
Ultimate percentage change in wages, CPI	3.3% - 2.3%	4.3% - 3.3%	5.3% - 4.3%
Expenditures in excess of income (In billions of present-value dollars)	$4,148	$3,845	$3,530

Theoretically, if expenditures were increased each year by the same percentage as income, the magnitude of annual net cashflow would increase—positive annual net cashflow would become more positive, and negative annual net cashflow would become more negative. Also, if positive net cashflow were followed by negative net cashflow (or vice versa), the year in which the annual net cashflow would cross zero would be unaffected by altering the assumed rate of change in the CPI. As a result, the patterns would cross each other at that time.

In practice, however, larger increases in the CPI cause income to increase sooner, and thus by more in each year, than expenditures. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Thus, the theoretical results described above are shifted by the relatively large effect on income—positive annual net cashflow is even more positive, and negative annual net cashflow is less negative or becomes positive. Chart 8 shows the present value of the estimated annual OASDI net cashflow using the same assumptions about the ultimate annual increase in the CPI shown above. The present values decrease steadily through 2033 before beginning to increase. They remain positive through 2014 (2015 for assumed ultimate annual increase in the CPI of 4.3 percent) and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in 2034. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

Chart 8—Present Value of Estimated OASDI Net Cashflow with Various Consumer Price Index Assumptions 2000-2074

(In billions of dollars)



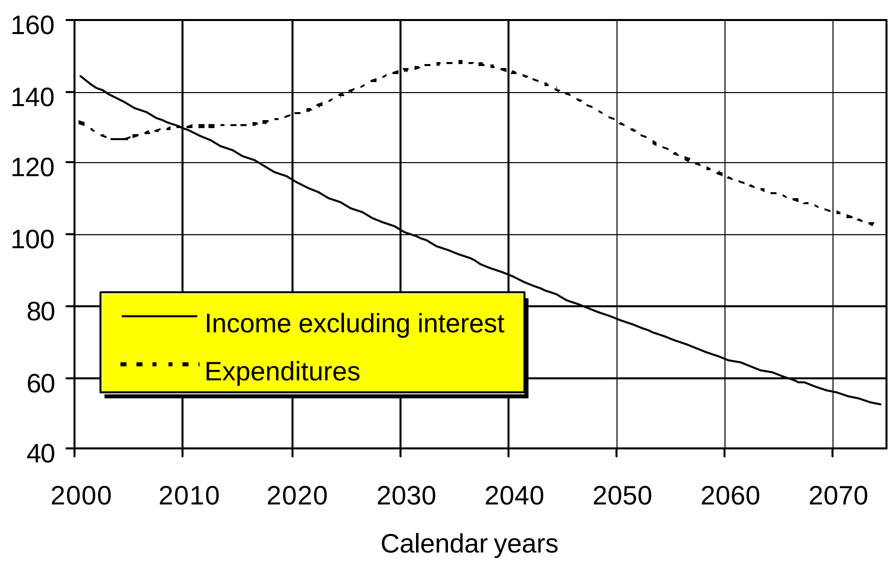
Hospital Insurance Medicare Part A

Federal Hospital Insurance (Medicare Part A) Trust Fund revenue consists primarily of taxes on earnings paid by employees, their employers, and the self-employed. The Fund also receives revenue from part of the taxation of Social Security benefits and from interest on its investments in Treasury securities. Revenues not needed to pay current benefits of the Medicare Part A program or administrative expenses are invested in special issue Treasury securities.

The present values of actuarial estimates were computed as of the beginning of the valuation period, January 1, 2000. The contributions consist of the sum of the present value of various program income items expected to be received through fiscal 2074. The expenditure consists of the sum of the present value of estimated payments through fiscal 2074, claims incurred through September 30, 2000, that were unpaid as of that date, and administrative expenses related to those claims. Under intermediate assumptions from the 2000 Trustees' Report, and based on current legislation in place, the fund is projected to be exhausted in calendar year 2025.

Chart 9¾ Present Value of Estimated Medicare Part A Income (Excluding Interest) and Expenditures 2000-2074

(In billions of dollars)

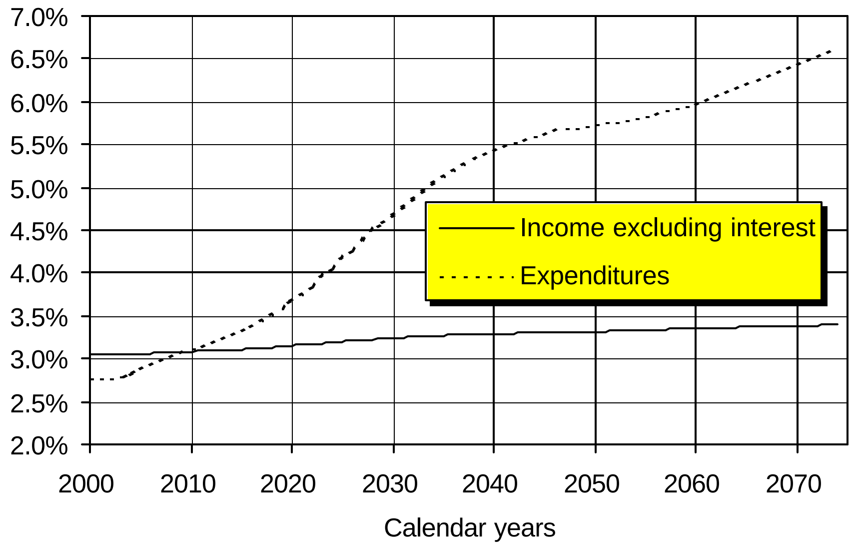


Medicare Part A Cashflow as a Percent of Taxable Payroll

Each year, estimates of the financial and actuarial status of the Medicare Part A program are prepared for the next 75 years. Because of the difficulty in comparing dollar values for different periods without some type of relative scale, income and expenditure amounts are shown relative to the earnings in covered employment that are taxable under the Medicare Part A program (referred to as "taxable payroll").

Chart 10 illustrates income excluding interest and expenditures as a percent of taxable payroll over the next 75 years. Although the long-range financial outlook for the Medicare Part A program has improved substantially in recent years as a result of the Balanced Budget Act of 1997, favorable economic conditions, and efforts to curb fraud and abuse, the program remains seriously underfunded through 2074. This is due in part to health care cost increases that exceed wage growth; a more significant cause, however, is the impending retirement of those born during the 1945-1965 baby boom.

Chart 10¾ Estimated Medicare Part A Income (Excluding Interest) and Expenditures as a Percentage of Taxable Payroll 2000-2074

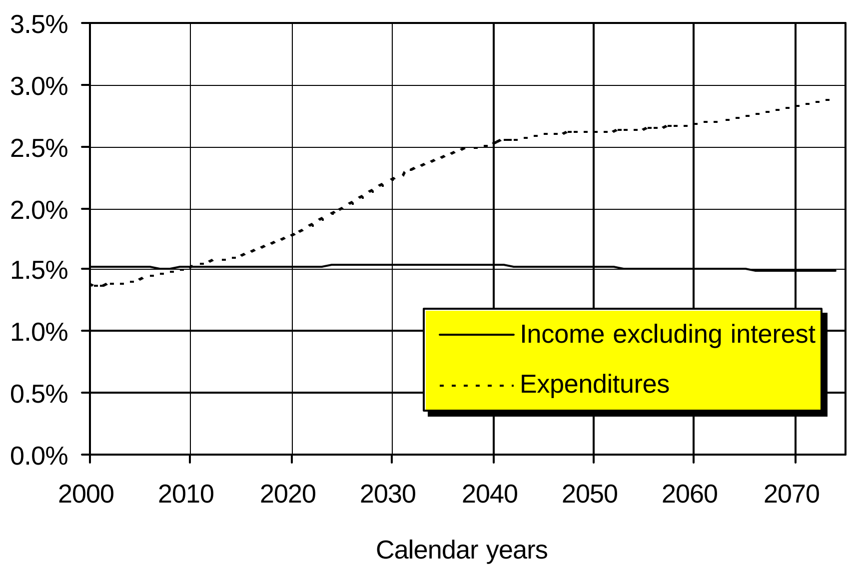


Medicare Part A and Supplementary Medical Insurance (Medicare Part B) Cashflow as a Percent of Gross Domestic Product (GDP)

Expressing Medicare incurred disbursements as a percentage of GDP gives a relative measure of the size of the Medicare program compared to the general economy. GDP represents the total value of goods and services produced in the United States. This measure provides an idea of the relative financial resources that will be necessary to pay for Medicare services.

Chart 11 shows income excluding interest and expenditures for the Medicare Part A program over the next 75 years expressed as a percentage of GDP. In 1999, the expenditures were $131.4 billion, which was 1.40 percent of GDP. This percentage increases steadily throughout the entire 75-year period.

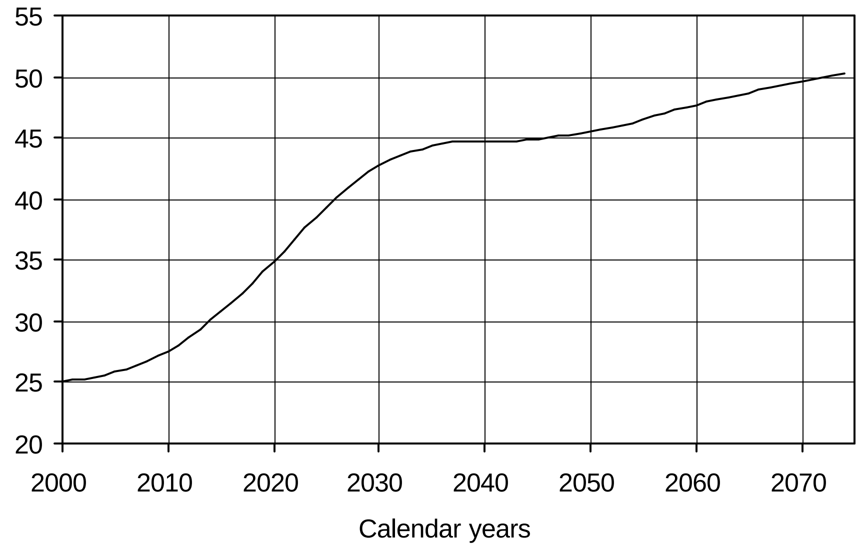
Chart 11¾ Estimated Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP 2000-2074



Worker-to-Beneficiary Ratio

Another way to evaluate the long-range outlook of the Medicare Part A program is to examine the projected number of Medicare Part A beneficiaries per 100 covered workers. Chart 12 illustrates this ratio over the next 75 years. For the most part, current benefits are paid for by current workers. The retirement of the baby boom generation will therefore be financed by the relatively smaller number of persons born after the baby boom. In 1999, a group of 100 workers provided benefits for 25 beneficiaries. In 2030, however, after the last baby boomer turns 65, a group of 100 workers will provide benefits to 43 beneficiaries. The projected ratio continues to increase until there are 50 beneficiaries per 100 workers in 2074.

Chart 12¾ Number of Medicare Part A Beneficiaries per 100 Covered Workers 2000-2074



Actuarial Assumptions and Sensitivity Analysis

In order to make projections regarding the future financial status of the Medicare Part A and Medicare Part B programs, various assumptions have to be made. First and foremost, the estimates presented here are based on the assumption that the programs will continue under present law. In addition, the estimates depend on many economic and demographic assumptions, including changes in wages and the CPI, fertility rates, immigration rates, and interest rates. In most cases, these assumptions vary from year to year during the first 5 to 30 years before reaching their ultimate values for the remainder of the 75-year projection period.

The following chart and amounts are presented for analysis of the major assumptions impacting estimates in Medicare's future cashflows. Present value amounts attempt to demonstrate what future cashflow amounts would be if shown in today's dollars. This is done by discounting, or removing, the increase in these cashflows that is caused by interest, sometimes referred to as inflation. Even small changes in the estimated amount of future interest over the next 75 years has dramatic impact on present value calculations. Given the cashflow assumptions between the highest and lowest expected interest assumptions, the present value of Medicare Part A expenditures over income ranges from $3,847 billion to $1,917 billion using interest rates of 2.2 percent to 3.7 percent, respectively.

Charts of cashflows with varying assumptions that have not been adjusted for interest as well as other assumptions that are not expected to have a material impact on Medicare can be found in the Health Care Financing Administration's (HCFA's) Performance and Accountability Report and on the web at www.hcfa.gov.

The following table shows some of the underlying assumptions used in the projections of Medicare spending displayed in this report. Further details on these assumptions are available in the OASDI, Medicare Part A, and Medicare Part B Trustees' Reports for 2000.

Medicare Intermediate Assumptions

Year	Fertility Rate[1]	Net Immigration	Real Wage Differential[2]	Annual Percentage Change in: Wages	CPI	GDP	Real Interest Rate[3]
2000	2.05	900,000	1.5	4.6	3.1	3.5	3.6
2005	2.03	900,000	1.0	4.2	3.3	2.0	2.9
2010	2.01	900,000	1.0	4.3	3.3	2.1	3.0
2020	1.97	900,000	1.0	4.3	3.3	1.7	3.0
2030	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2040	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2050	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2060	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2070	1.95	900,000	1.0	4.3	3.3	1.7	3.0

[1] Average number of children per woman.
[2] Difference between percentage increase in wages and the CPI.
[3] Average rate of interest earned on new trust fund securities, above and beyond rate of inflation.

Estimates made in prior years have sometimes changed substantially because of revisions to the assumptions, which are due either to changed conditions or to more recent experience. Furthermore, it is important to recognize that actual conditions are very likely to differ from the projections presented here, since the future cannot be anticipated with certainty. In order to illustrate the magnitude of the sensitivity of the long-range projections, four of the key assumptions were varied individually to determine the impact on the Medicare Part A actuarial present values and net cashflow. The assumptions that were varied are health care cost factors, the fertility rate, and real-wage differential.

The sensitivity of the projected Medicare Part A net cashflow to variations in future mortality rates is also of interest. At this time, however, relatively little is known about the relationship between improvements in life expectancy and the associated changes in health status and per-beneficiary health expenditures. As a result, it is not possible at present to prepare meaningful estimates of the Medicare Part A mortality sensitivity. HCFA is sponsoring a current research effort that is expected to provide the information necessary to produce such estimates.

For this analysis, the intermediate economic and demographic assumptions in the *2000 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* are used as the reference point. Each selected assumption is varied individually to produce three scenarios. All present values are calculated as of January 1, 2000, and are based on estimates of income and expenditures during the 75-year projection period.

Health Care Costs

The following table shows the net present value of cashflow during the 75-year projection period under three alternative assumptions of the annual growth rate in the aggregate cost of providing covered health care services to beneficiaries. These assumptions are that the ultimate annual growth rate in such costs, relative to taxable payroll, will be 1 percent slower than the intermediate assumptions, the same as the intermediate assumptions, and 1 percent faster than the intermediate assumptions. In each case, the taxable payroll will be the same as that which was assumed for the intermediate assumptions.

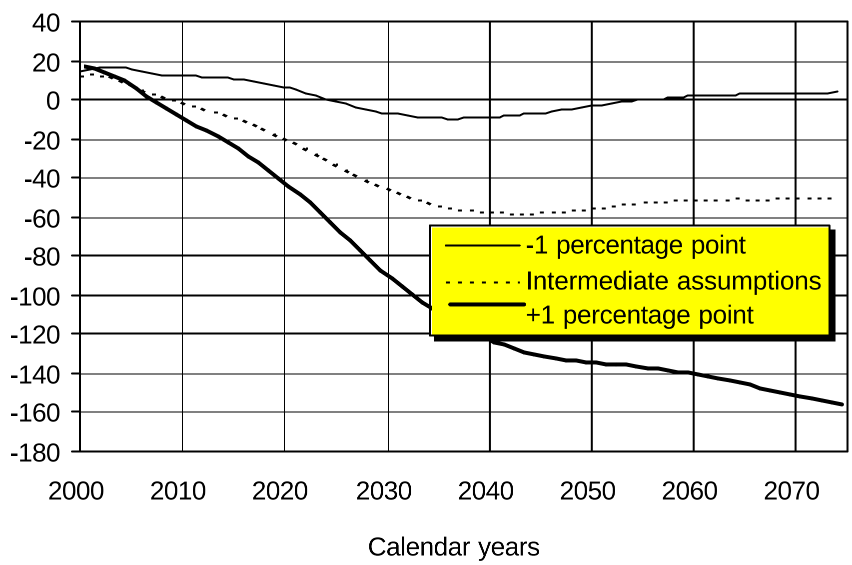
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Health Care Cost Assumptions			
Annual cost/payroll relative growth rate	-1 percentage point	Intermediate assumptions	+1 percentage point
Expenditures in excess of income (In billions of present-value dollars)	-$129	$2,700	$7,236

The above table demonstrates that if the ultimate growth rate assumption is 1 percentage point lower than the intermediate assumptions, the deficit of income over expenditures actually becomes a surplus of $129 billion. On the other hand, if the ultimate growth rate assumption is 1 percentage point higher than the intermediate assumptions, the deficit increases substantially to $7,236 billion.

Chart 13 shows projections of the net cashflow under the three alternative annual growth rate assumptions presented above.

Chart 13—Present Value of Estimated Medicare Part A Net Cashflow with Various Health Care Cost Assumptions 2000–2074

(In billions of dollars)



This assumption has a dramatic impact on projected Medicare Part A cashflow. The assumptions analyzed thus far have affected Medicare Part A income and costs simultaneously. However, several factors, such as the utilization of services by beneficiaries or the relative complexity of services provided, can affect costs without affecting tax income. As Chart 13 indicates, the financial status of the Medicare Part A program is extremely sensitive to the relative growth rates for health care service costs versus taxable payroll.

Fertility Rate

The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The table below shows the net present value of cashflow during the 75-year projection period under three alternative ultimate fertility rate assumptions: 1.7, 1.95, and 2.2 children per woman.

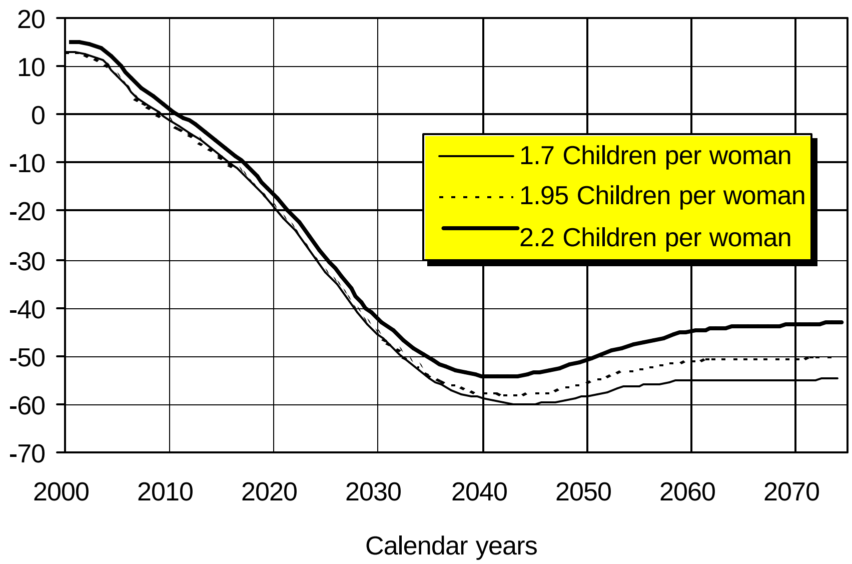
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Fertility Rate Assumptions			
Ultimate fertility rate	1.7	1.95	2.2
Expenditures in excess of income (In billions of present-value dollars)	$2,830	$2,700	$2,575

The table above demonstrates that if the assumed ultimate fertility rate is decreased from 1.95 to 1.7, the projected deficit of income over expenditures increases from $2,700 billion to $2,830 billion. On the other hand, if the ultimate fertility rate is increased from 1.95 to 2.2 children per woman, the deficit decreases to $2,575 billion.

Chart 14 shows projections of the net cashflow under the three alternative fertility rate assumptions presented above.

Chart 14¾ Present Value of Estimated Medicare Part A Net Cashflow with Various Ultimate Fertility Rate Assumptions 2000-2074

(In billions of dollars)



As the first 25 years of Chart 14 indicate, the fertility rate assumption has only a negligible impact on projected Medicare Part A cashflows. This result is because higher fertility in the first year only affects the labor force after roughly 20 years (increasing Medicare Part A payroll taxes slightly) and has virtually no impact on the number of beneficiaries within this period. However, after that period the changes are somewhat greater.

Real-Wage Differential

The following table shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-wage differential assumptions: 0.5, 1.0, and 1.5 percentage points. In each case, the CPI is assumed to be 3.3 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.8, 4.3, and 4.8 percent, respectively.

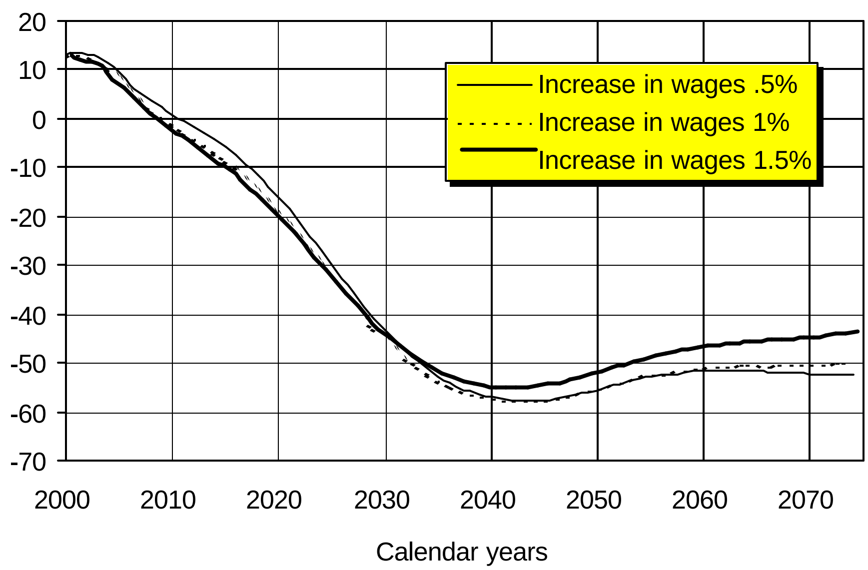
Present Value of Estimated Medicare Part A Expenditures in Excess of Income under Various Real-Wage Assumptions			
Ultimate percentage increase in wages - CPI	3.8 - 3.3	4.3 - 3.3	4.8 - 3.3
Ultimate percentage increase in real-wage differential	0.5	1.0	1.5
Expenditures in excess of income (In billions of present value dollars)	$2,745	$2,700	$2,646

The above table demonstrates that if the ultimate real-wage differential assumption is decreased from 1.0 percentage point to 0.5 percentage point, the deficit of income over expenditures increases from $2,700 billion to $2,745 billion. On the other hand, if the ultimate real-wage differential assumption is increased from 1.0 percentage point to 1.5 percentage points, the deficit decreases to $2,646 billion.

Chart 15 shows projections of the net cashflow under the three alternative real-wage differential assumptions presented below.

Chart 15¾ Present Value of Estimated Medicare Part A Net Cashflow with Various Real-Wage Assumptions 2000-2074

(In billions of dollars)



As Chart 15 indicates, this assumption has a fairly large impact on projected Medicare Part A cashflow very early in the projection period. Higher real-wage differential assumptions immediately increase both Medicare Part A expenditures for health care and wages for all workers. Though there is a full effect on wages and payroll taxes, the effect on benefits is only partial, since not all health care costs are wage-related.

Federal Supplementary Medical Insurance Medicare Part B

The Medicare Part B program differs fundamentally from the Medicare Part A program in regard to the way it is financed. In particular, Medicare Part B financing is not at all based on payroll taxes but instead on monthly premiums and income from the general fund of the U.S. Treasury. General fund transfers account for approximately 75 percent of the Medicare Part B Trust Fund's income.

Since the income to the Medicare Part B Trust Fund from beneficiary premiums and the general fund is adjusted annually to match expected costs, the trust fund is always in actuarial balance. By law, Medicare Part B income and expenditures will continue to be virtually the same. But as shown in the trust fund illustration on page 59, transfers from the general fund of the U.S. Treasury draw from the same resources as any other social insurance program that is experiencing a negative cashflow. Moreover, the general fund transfers occur from one account of the Federal Government to another and do not represent an external, earmarked source of tax or other revenue. Therefore, for the purposes of this report, with the objective of presenting the financial operations of these programs from a Governmentwide consolidated perspective, transfers from the general fund of the Treasury are excluded. This is the same reason that interest earned on Treasury securities is eliminated for this and all other social insurance programs—again, because such payments represent intragovernmental transfers.

The elimination of this major revenue source to the Medicare Part B Trust Fund produces information that appears to be significantly different from that presented in HCFA's Annual Performance and Accountability Report, as well as the annual Trustees' Report on the Medicare Part B Trust Fund. From the perspective of the financial status of the Medicare Part B Trust Fund (as shown in the HCFA financial statement and the Trustees' report), it is appropriate to consider all sources of income to the fund. Thus, the accounting treatment of Medicare Part B general revenues (and trust fund interest earnings) appropriately varies depending on whether an overall consolidated or trust fund perspective is shown.

Chart 16 shows the actuarial estimates of Medicare Part B premiums and disbursements for each of the next 75 years, in nominal dollars. Income includes monthly premiums paid by, or on behalf of, beneficiaries. Disbursements include benefit payments as well as administrative expenses.

Estimated Medicare Part B Premiums and Expenditures

Chart 16¾ Medicare Part B Income, Premiums, and Expenditures 2000-2074

(In billions of dollars)

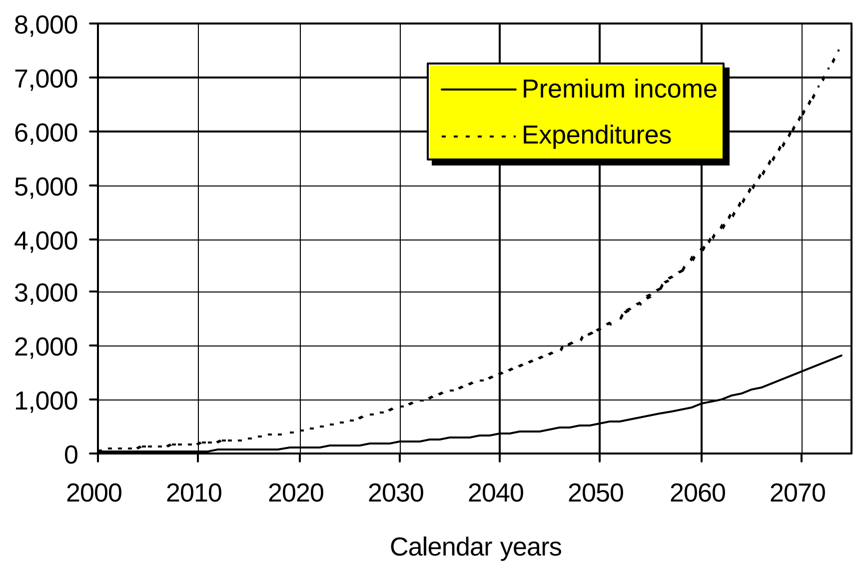
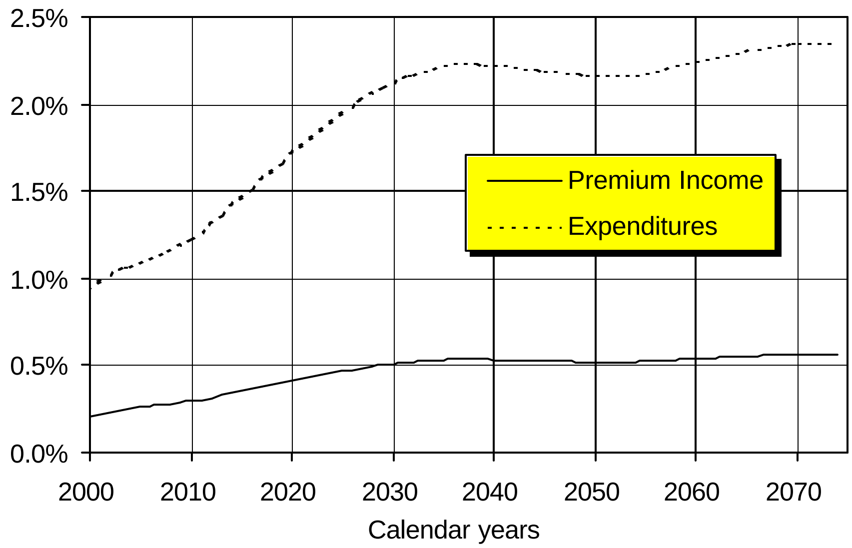


Chart 17 shows expenditures for the Medicare Part B program over the next 75 years expressed as a percentage of GDP. In 1999, Medicare Part B expenditures were $80.5 billion, which was 0.89 percent of GDP. This percentage is projected to increase steadily through 2035, reflecting growth in the price, utilization, and intensity of Medicare Part B services that is expected to exceed GDP growth for many years, together with the effects of the baby boom retirement. After 2035 it levels off because Medicare Part B projections by assumption are tied directly to GDP and because the relatively fewer number of persons born after the baby boom will be eligible for Medicare Part B benefits. Medicare Part B premium increases during the initial 25-year period are assumed to gradually decline in the last 12 years to the same rate as GDP per capita and then to continue at the same rate as GDP per capita in the last 50 years.

Chart 17¾ Estimated Medicare Part B Premiums and Expenditures as a Percent of GDP 2000-2074



Actuarial Assumptions and Sensitivity Analysis

The Medicare Part B program's actuarial assumptions are the same as those used in Medicare Part A, presented on page 72-73. Since the unique funding mechanism of Medicare Part B allows its trust fund to remain in actuarial balance, the data on various sensitivity analysis are not routinely compiled. It is planned that future editions of the *Financial Report of the United States Government* will regularly contain this information.

Railroad Retirement

Railroad retirement pays full annuities when eligible persons reach full retirement age with 10 years of service or age 62 with 30 years of service. It pays reduced annuities to eligible beneficiaries who are age 62 with 10 to 29 years of service, or age 60 with 30 years of service. The Railroad Retirement program pays disability annuities based on total or occupational disability. It also pays annuities to spouses, divorced spouses, widow(er)s, remarried widow(er)s, surviving divorced spouses, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as Social Security beneficiaries.

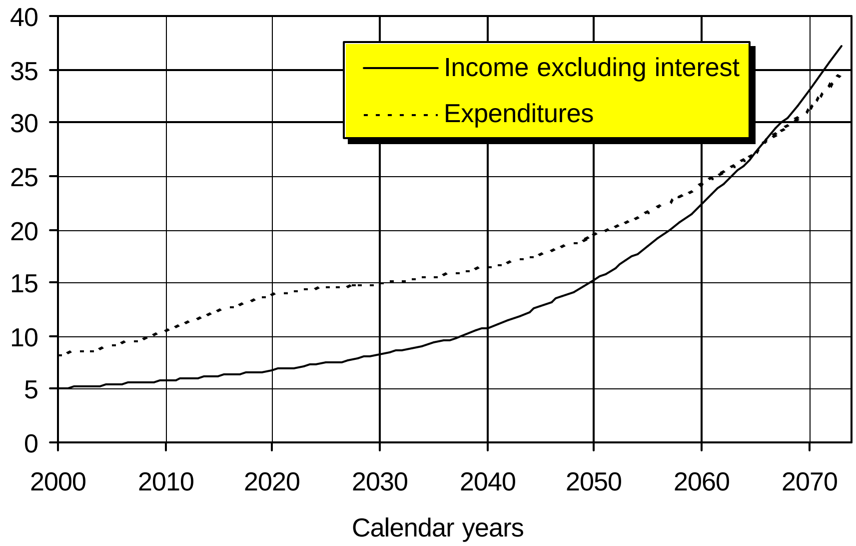
The Railroad Retirement Board (RRB) and Social Security Administration (SSA) share jurisdiction over the payment of retirement and survivor benefits. RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service. Additionally, for survivor benefits, RRB requires that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA. SSA treats them as Social Security credits.

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

Other sources of program income include: financial interchanges with the Social Security trust funds; interest on investments; Federal income taxes on railroad retirement benefits; and appropriations (provided after 1974 as part of a phaseout of certain vested dual benefits).

Chart 18—Estimated Railroad Retirement Income (Excluding Interest) and Expenditures 2000–2073

(In billions of dollars)



Income and Benefits as a Percentage of Tier II Payroll (Intermediate Assumptions) September 30, 2000 – December 31, 2073

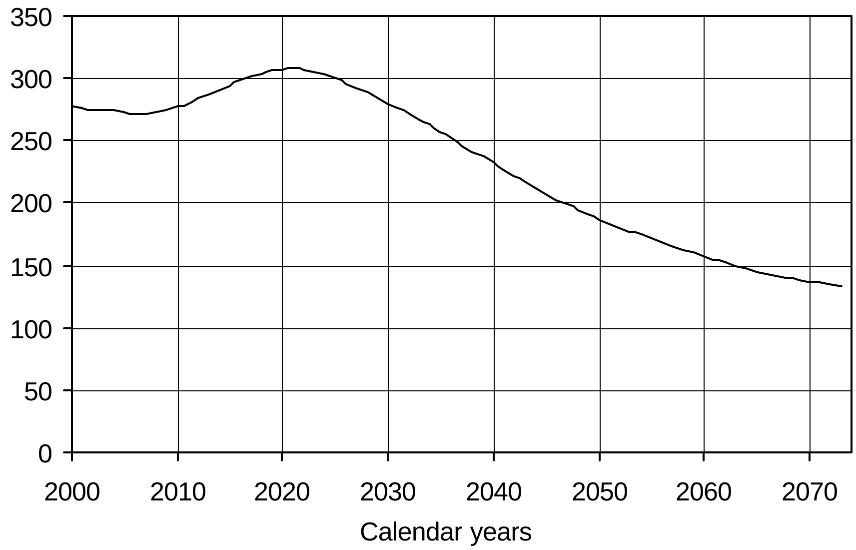
(In billions of present value dollars)

Present Value of Income:

Retirement taxes	21.00
Income taxes on benefits	2.02
Total future income, excluding intragovernmental transfers	23.02

Present Value of Benefits:	**Tier II**	**Tier I Liability**	**Total Benefits**
Retired and deceased	7.01	2.34	9.35
Active	9.22	3.26	12.48
Inactive	0.52	0.24	0.76
Future entrants	2.30	0.96	3.26
Total benefit payments	19.05	6.80	25.85

Chart 19—Number of Railroad Retirement Beneficiaries per 100 Covered Workers 2000-2073



Railroad Retirement Intermediate Assumptions

Year	Average Employment	Percentage Increase over Prior Year: Earnings	Percentage Increase over Prior Year: Cost of Living	Interest Rate
2000	249,000	4.0	2.4	6.0
2005	220,000	4.0	3.2	6.0
2010	195,000	4.0	3.2	6.0
2020	156,000	4.0	3.2	6.0
2030	129,000	4.0	3.2	6.0
2040	116,000	4.0	3.2	6.0
2050	113,000	4.0	3.2	6.0
2060	113,000	4.0	3.2	6.0
2070	113,000	4.0	3.2	6.0

Estimated Expenditures in Excess of Income with Various Employment Assumptions Valuation Period 2000-2073

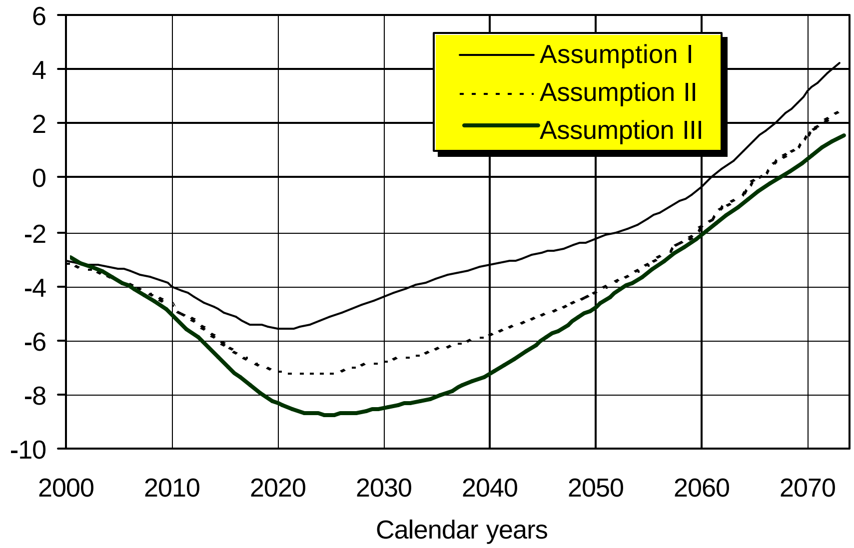
Average yearly employment at end of valuation period	165,000	113,000	73,000
Expenditures in excess of income (In billions of nominal dollars)	$189	$310	$385

The average railroad employment is assumed to be 255,000 in 1999 under each of the three employment assumptions. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 45,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (1.5 percent for assumption I and 3.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 4.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Chart 20—Railroad Retirement Net Cashflow with Various Employment Assumptions 2000–2073

(In billions of dollars)



Black Lung (Part C)

The Black Lung Disability program compensates eligible coal miners who are disabled because of employment-related pneumoconiosis (black lung disease). The program provides both medical and survivor benefits. Under Part C, the Black Lung Disability Trust Fund (BLDTF) provides benefit payments to eligible disabled miners when no responsible mine operator can be assigned the liability. The Department of Labor (DOL) administers Part C of the Black Lung Disability Benefits program.

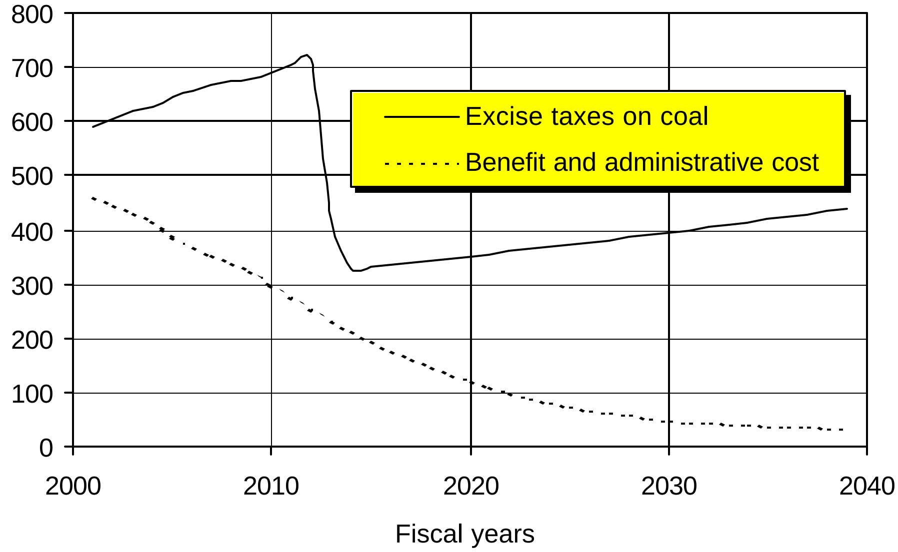
Excise taxes on coal mine operators, based on the sale of coal, partially fund the black lung disability payments and the related administrative and interest costs. Intragovernmental advances to the BLDTF, which must be repaid with interest, fund the shortfall.

Under current conditions, analysts project that scheduled reduction in taxes on coal sales will decrease cash inflows for the year 2014 and beyond. Between the years 2013 and 2015, projections estimate a 54-percent decrease in excise tax collections. By the year 2040, the rate reduction is expected to decrease cash inflows by a total of more than $12.6 billion.

Chart 21 shows the estimated Black Lung expenditures (excluding interest payments) and excise tax collections for the period 2000 through 2040. Under the intermediate assumptions for the next 40 years, the Black Lung Trust Fund will collect $18.8 billion in excise taxes on coal and pay $11.6 billion for benefit payments. However, this favorable cashflow will not be sufficient to repay the intra-governmental debt that resulted from previous deficits.

Chart 21—Estimated Black Lung Expenditures and Excise Tax Collections 2000-2040

(In millions of dollars)



Unemployment Insurance

The Unemployment Insurance program was created in 1935 to provide temporary, partial wage replacement to unemployed workers who lose their jobs through no fault of their own. The program is administered through a unique system of Federal and-State partnerships, established in Federal law but executed through conforming State officials. The Department of Labor provides broad policy guidance and program direction, while program details such as benefit eligibility, duration and amount of benefits are established through individual State unemployment insurance statutes, administered through State unemployment insurance agencies.

The program is financed through the collection of Federal and State unemployment taxes which are deposited in the Unemployment Trust Fund and reported as Federal tax revenue. The fund was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for Federal and State administration of the unemployment insurance program, veterans employment services, State employment services, and the Federal share of extended unemployment insurance benefits. Federal unemployment taxes also are used to maintain a loan account within the Unemployment Trust Fund, from which insolvent States may borrow funds to pay benefits.

Estimated Unemployment Trust Fund Contributions and Expenditures
September 30, 2000 – September 30, 2010
(Expected Economic Conditions)

Contributions to September 30, 2010	346.6
Expenditures to September 30, 2010	376.7
Expenditures in Excess of Contributions (In billions of nominal dollars)	30.1

Charts 22 through 24 demonstrate the effect on accumulated Unemployment Trust Fund assets of projected total cash inflows and cash outflows over a 10-year period ending September 30, 2010, under expected economic conditions, and mild recessionary and deep recessionary unemployment scenarios. Each scenario uses an open group, which includes current and future participants of the Unemployment Insurance programs.

For expected economic conditions, the estimates are based on an expected unemployment rate of 4.12 percent during fiscal 2001, increasing to 5.10 percent in fiscal 2007 and thereafter. Under the mild recessionary scenario, the expected unemployment rate will peak at 7.43 percent in fiscal 2004, and for the deep recession scenario the expected unemployment rate will rise to 10.15 percent in fiscal 2005.

Chart 22—Estimated Unemployment Fund Cashflow Using Expected Economic Conditions 2001-2010

(In billions of dollars)

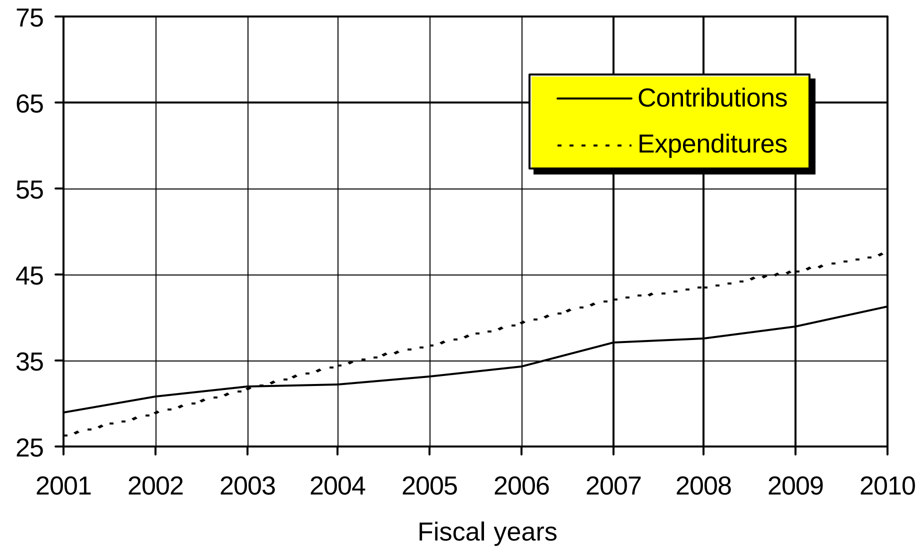


Chart 23—Estimated Unemployment Fund Cashflow Using a Mild Recessionary Unemployment Rate 2001-2010

(In billions of dollars)

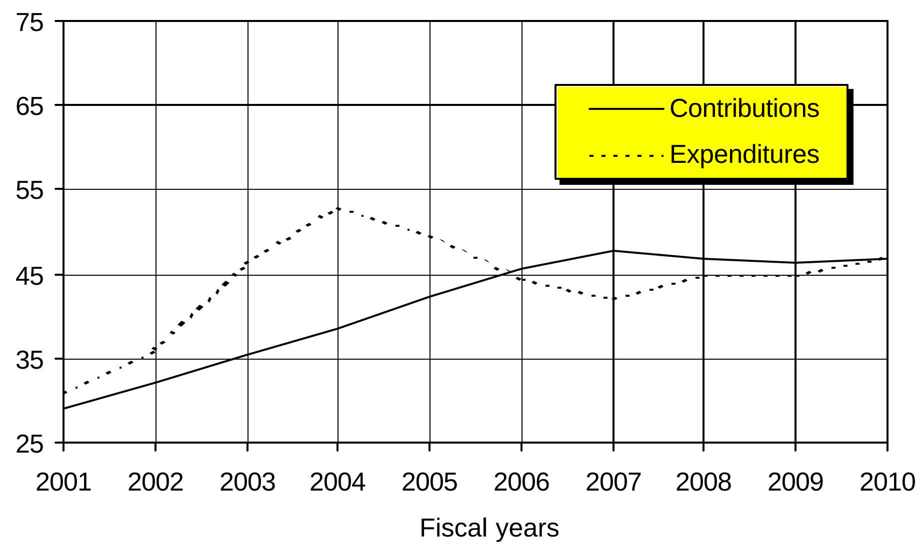
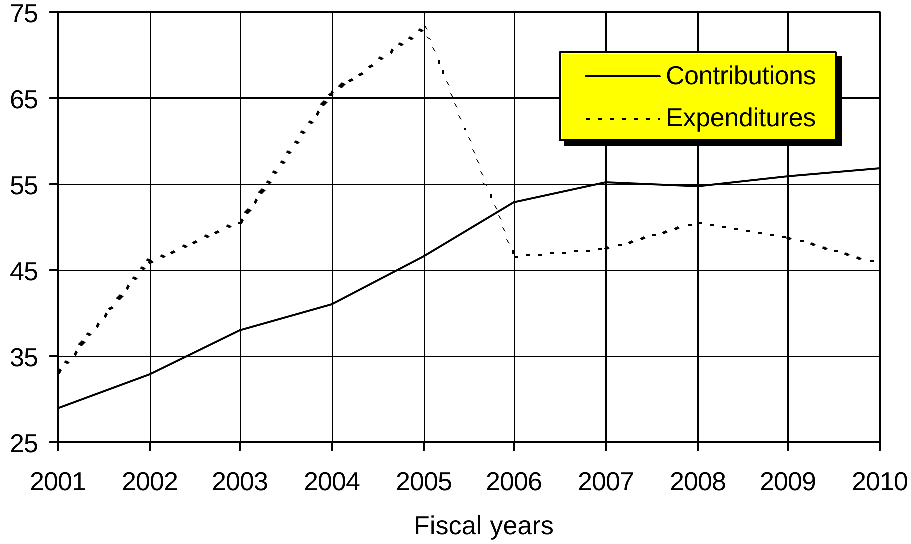


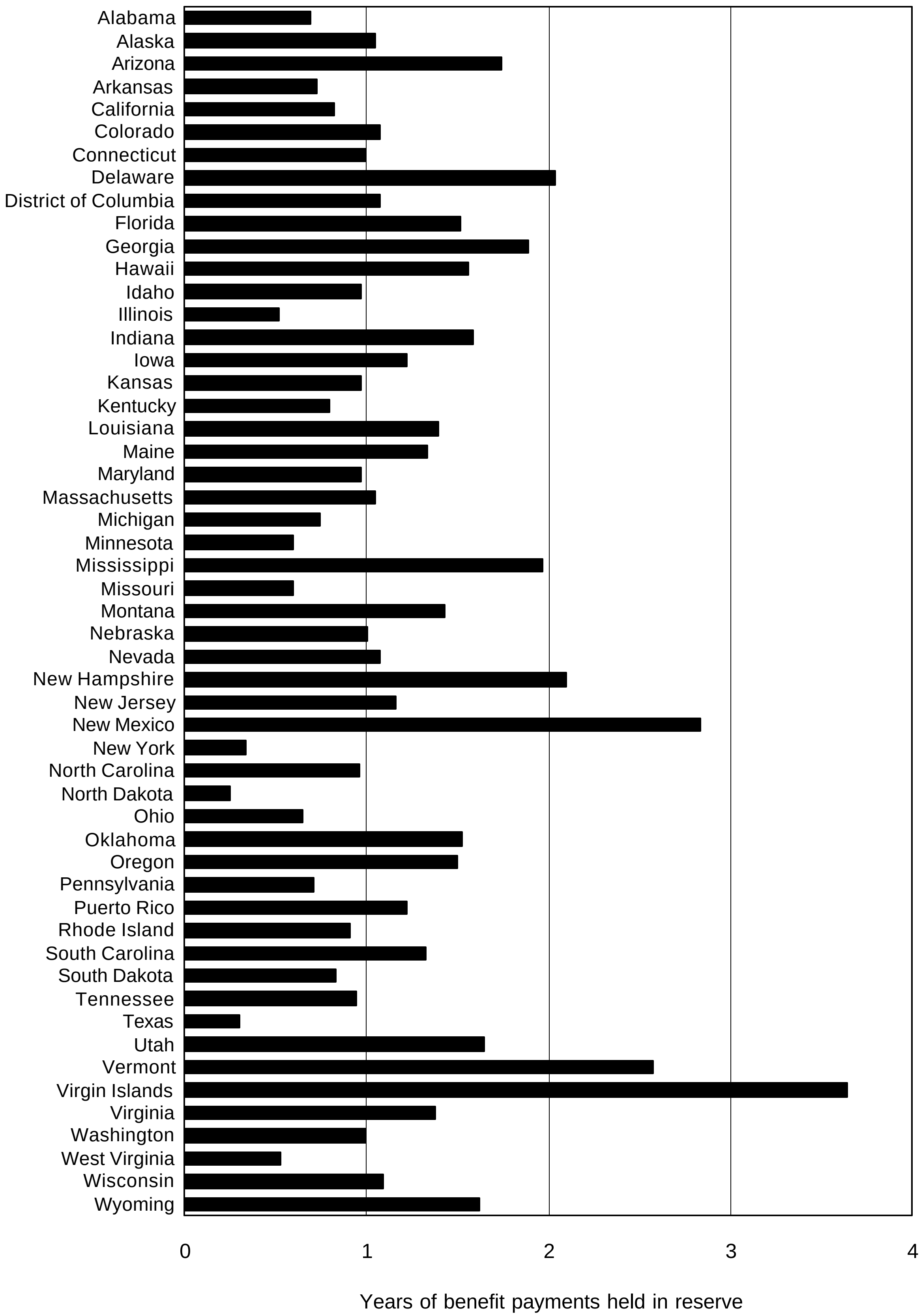
Chart 24—Estimated Unemployment Fund Cashflow
Using a Deep Recessionary Unemployment Rate
2001-2010
(In billions of dollars)



Unemployment Trust Fund Solvency

Chart 25 shows the adequacy of each State's accumulated Unemployment Trust Fund assets to provide for future unemployment benefits. To be considered minimally solvent, a State's reserve balance should provide for one year's projected benefit payment needs based on the highest level of benefit payments experienced by the State.

Chart 25—Unemployment Trust Fund Solvency



Stewardship Investments

"Stewardship Investments" focus on Government programs aimed at providing long-term benefits by improving the Nation's productivity and enhancing economic growth. These investments can be provided through direct Federal spending or grants to state and local governments for certain education and training programs, research and development, and federally financed but not federally owned property, such as bridges and roads. When incurred, these investments are included as expenses in determining the net cost of operations.

Non-Federal Physical Property

The Federal Government makes grants and provides funds for the purchase, construction, and/or major renovation of state and local government physical properties. Cost for non-Federal physical property programs are included as expenses in the Statement of net Cost and are reported as investments in the table below, and are measured on the same accrual basis of accounting used in the *Financial Report of the United States Government* statements.

Investments in Non-Federal Physical Property for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Federal Surface Transportation programs	22.9	25.0
Federal Transit Administration formula grants	4.1	5.0
Environmental Protection Agency	2.2	2.7
Air transportation	1.6	1.4
Investments from all other programs	3.0	4.0
Investments in non-Federal physical property	33.8	38.1

The Federal Highway Administration reimburses States for construction costs on projects related to the Federal Surface Transportation programs. Improvements to national highways, interstate systems, surface transportation, as well as congestion mitigation and air quality improvement, are backed by these efforts. States contribute 10 percent of the cost for interstate system improvements and 20 percent of costs for other construction.

The Environmental Protection Agency (EPA) provides infrastructure assistance to State and tribal governments. This assistance is in the form of grants for the construction of wastewater and drinking water treatment facilities and ground water protection.

Meanwhile, formula grants assist urban and non-urban areas. States and localities use these grants for a variety of mass transit purposes including planning, construction of facilities, and purchases of railcars and buses. Funding also pays for transportation for the elderly and disabled.

Under the Airport Improvement program (AIP), the Federal Aviation Administration (FAA) makes project grants for airport planning and development to maintain a safe and efficient Nationwide system of public-use airports that meet both the present and future needs of civil aeronautics. FAA works to improve the infrastructure of the Nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

The Federal Transit Administration's discretionary grants provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guidance modernization, and bus and bus-related activities.

Human Capital

The Federal Government runs several programs that invest in human capital. Those investments go toward increasing and maintaining a healthy economy by educating and training the general public. Costs do not include training expenses for Federal workers.

Investments in Human Capital for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Education grants and administrative programs	31.9	35.7
Department of Labor	5.5	5.5
Federal family education loans programs	3.1	(3.9)
Veterans benefits	2.3	2.3
National Institutes of Health	0.8	0.9
Investments from all other programs	1.9	1.7
Investments in human capital	45.5	42.2

Education grant activities cover improvements of both public and private preschool and secondary education; assistance to post-secondary educational institutions and students pursuing a post-secondary education; programs that assist in educating children and adults with special needs and disabilities; bilingual education; and vocational-technical education.

DOL provides job training for the general public to increase and maintain national economic productive capacity. Programs include: adult employment and training, dislocated worker employment and training, youth training, school-to-work opportunities, job corps training, as well as training programs for Native Americans and migrant and seasonal farm workers.

The Federal Family Education Loan program operates with State and private nonprofit guaranty agencies to provide loan guarantees and interest supplements on loans by private lenders to eligible students attending participating post-secondary schools.

The Veterans Benefits Administration provides training to assist disabled veterans to become employable. Educational assistance also is provided to veterans under the GI bill.

The National Institutes of Health (NIH) Research and Training and Career Development program addresses the need for trained personnel to conduct medical research. The primary goal is to produce highly trained investigators who are likely to perform research that will benefit the Nation’s health.

The Veterans Health Administration provides education and training efforts for health profession students and residents through partnerships with affiliated academic institutions.

The Bureau of Indian Affairs provides education and job corps programs.

Research and Development

Federal investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other future benefits.

Investments in basic research are a systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications toward processes or products in mind.

Investments in Basic Research for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
National Institutes of Health	7.1	8.5
National Science Foundation	2.6	2.7
Department of Energy	2.5	2.2
Science aeronautics and technology	1.8	2.1
Environmental Protection Agency	0.6	0.6
Investments from all other programs	1.8	1.8
Investments in basic research	16.4	17.9

Investments in applied research are a systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met.

Investments in Applied Research for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
National Institutes of Health	4.7	5.9
Science aeronautics and technology	2.6	1.9
Department of Energy	1.9	1.8
Other Defense agencies	1.3	1.3
U.S. Geological Survey	0.7	0.7
Army research development testing and evaluation	0.6	0.7
Air Force combined operations	0.6	0.5
Investments from all other programs	3.2	3.3
Investments in applied research	15.6	16.1

Investments in development are systematic use of the knowledge and understanding gained from research for the production of useful materials, devices, systems, or methods, including the design and development of prototypes and processes.

Investments in Development for the Years Ended September 30

(In billions of dollars)	Restated Fiscal 1999	Fiscal 2000
Program:		
Air Force combined operations	13.7	13.7
Other Defense agencies	8.4	8.4
Navy research development testing and evaluation	7.2	7.8
Army research development testing and evaluation	4.3	4.1
Science aeronautics and technology	2.7	2.8
Human space flight	2.5	-
Department of Energy	2.0	2.0
Investments from all other programs	0.3	-
Investments in development	41.1	38.8

Current Services Assessment

The Current Services Assessment table shows the Office of Management and Budget's (OMB's) estimated receipts, outlays, and surplus or deficit in the budget if no changes are made to laws that are already enacted. Receipts and mandatory outlays, such as Social Security benefits and net interest, involve ongoing activities that generally operate under permanent legal authority authorized by legislation. The current services estimates of receipts and mandatory spending assume that receipts and mandatory spending continue in the future as specified by current laws. The current services estimates for discretionary spending assume discretionary funding for fiscal 2001 equals appropriations enacted by Congress. It also assumes that discretionary funding for subsequent years holds constant in real terms. Because laws already enacted provide the bases for current services estimates, they do not constitute a proposed budget, nor do they predict the most likely budget outcomes.

The current services estimates may be used to help assess the sustainability of programs under current law. That is, they may be used to project if future resources can sustain public services and meet obligations as they come due. In this way, they can warn of future problems inherent in current law. They also can provide a benchmark against which tax and spending proposals can be compared and the magnitude of proposed changes can be assessed. Also, they can provide an analytical perspective of Government by showing the short- and medium-term direction of current programs.

The following schedule presents the actual budget results for fiscal 2000 and the current services estimates for all Federal taxes and spending programs for the subsequent 6 years. It shows receipts by source and outlays by function. The estimates for these years are the same as the current services estimates used for the President's budget for fiscal 2002, as presented in *A Blueprint for New Beginnings: A Responsible Budget for America's Future*.

Current Services Assessment Receipt and Outlay Estimates as Presented in the President's Budget

(In billions of dollars)	Base Year 2000	Fiscal Year 2001	2002	2003	2004	2005	2006
Receipts by Source:							
Individual income taxes	1,004	1,073	1,103	1,149	1,206	1,273	1,345
Corporation income taxes	207	213	220	229	238	249	259
Social insurance and retirement receipts	653	690	726	766	806	856	896
Excise taxes	69	71	74	76	78	81	82
Other receipts	92	90	98	104	110	111	114
Total receipts	2,025	2,137	2,221	2,324	2,438	2,569	2,698
Outlays by Function:							
National defense	294	299	311	319	329	340	350
Social Security	409	434	455	477	502	528	557
Medicare	197	219	230	242	256	275	283
Income security	248	263	276	285	296	309	317
Health	155	173	190	209	225	242	259
Veteran benefits and services	47	45	51	53	56	61	60
Education, training, employment, and social services	59	65	77	80	81	83	85
Transportation	47	51	55	58	60	63	65
Other programmatic functions	152	146	158	158	158	160	163
Net interest	223	206	187	170	150	125	99
Undistributed offsetting receipts	-43	-48	-51	-61	-62	-56	-58
Total outlays	1,789	1,853	1,938	1,990	2,050	2,129	2,182
Unified budget surplus	236	284	283	334	387	440	516

Note: Details may not add to totals due to rounding.

United States Government Notes to the Financial Statements for the Year Ended September 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

This *Financial Report of the United States Government* includes the financial status and activities of the executive branch and portions of the legislative and judicial branches of the Government. This includes those Government corporations that are part of the Federal Government. The Appendix contains a list of significant Government entities included in these financial statements and a partial list of entities excluded. For the purposes of this document, "Government" refers to the U.S. Government. The financial reporting period ends September 30 and is the same used for the annual budget.

Material intragovernmental transactions were eliminated in consolidation, except as described in Note 16—Unreconciled Transactions Affecting the Change in Net Position.

B. Basis of Accounting and Revenue Recognition

The *Financial Report of the United States Government* is based on Generally Accepted Accounting Principles (GAAP). These principles typically recognize:

- Expenses when incurred.
- Non-exchange revenues on a modified cash basis of accounting. Non-exchange revenues arise primarily from the exercise of the Government's power to tax and levy duties, fines and penalties. Remittances of non-exchange revenue are recognized when received. Related receivables are recognized when measurable and legally collectible. Refunds and other offsets are recognized when measurable and legally payable and are netted against non-exchange revenue.
- Exchange (earned) revenues when earned. Exchange (earned) revenues arise when a Government entity provides goods and services to the public for a price. Earned revenue represents revenue earned from user charges, such as admission fees to Federal parks and insurance premiums that are recognized when the Government provides the goods or services.

This basis of accounting differs from that used for budgetary reporting, which is primarily on a cash basis according to accepted budget concepts and policies. (See "Reconciliation of Excess of Revenue over Net Cost," page 128.)

Three Statements of Federal Financial Accounting Standards (SFFAS) were implemented in fiscal 2000 at the Governmentwide reporting level. SFFAS No. 17 includes accounting standards for Federal social insurance programs. SFFAS No. 15 requires that general purpose Federal financial reports include a section devoted to Management's Discussion and Analysis. Finally, SFFAS No. 16 amended earlier standards with respect to multi-use heritage assets.

C. Direct Loans and Loan Guarantees

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

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

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

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

D. Accounts and Taxes Receivable

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

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

E. Inventories and Related Property

"Inventories" within the Federal Government are valued using historical cost, net realizable value, and latest acquisition cost. See Note 6—Inventories and Related Property. Historical cost methods include first-in-first-out, weighted average, and moving average. Estimated repair costs reduce the value of inventory held for repair. Excess, obsolete, and unserviceable inventories are valued at estimated net realizable values.

The related property portion of the Inventory and Related Property line includes Operating Materials and Supplies, Stockpile Materials, Commodities, Seized and Monetary Instruments, and Forfeited Property. Operating Materials and Supplies are valued at historical cost, latest acquisition cost, and standard pricing using the consumption method of accounting. Operating Materials and Supplies, which are valued at latest acquisition cost and standard pricing, are not adjusted for holding gains and losses.

F. Property, Plant, and Equipment

"Property, Plant, and Equipment" used in Government operations are carried at cost. Depreciation and amortization expense applies to property, plant, and equipment reported in the Balance Sheet except for land, unlimited duration land rights, and construction in progress. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Refer to the Stewardship Information section for assets excluded in this section.

G. Pension and Post-Retirement Health Benefits Programs

"Pension and Post-retirement Health Benefit Expenses" are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans and post-retirement health benefits are recorded at estimated present value of future benefits, less the estimated present value of future normal cost contributions.

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

H. Environmental and Disposal Liabilities

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

I. Deferred Maintenance

"Deferred Maintenance" is maintenance that was not performed when it should have been or scheduled maintenance that was delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition including preventative maintenance, normal repairs, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from those originally intended. Deferred maintenance information is disclosed in the Supplemental Information to the Financial Statements.

Deferred maintenance expenses are not accrued in the Statement of Net Cost or recognized as liabilities on the Balance Sheet.

J. Commitments and Contingencies

In the normal course of business, the Government has a number of unfulfilled commitments that will require the use of its financial resources. Note 18—Commitments and Contingencies describes the components of the Government's actual commitments that need to be disclosed because of their nature and/or their amount. They include "Long-term Leases," "Undelivered Orders," and "Other Commitments."

Liabilities for contingencies are recognized on the Balance Sheet when both:

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

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

Contingent liabilities that do not meet the above criteria for recognition but for which there is at least a reasonable possibility that a loss has been incurred are disclosed in Note 18.

K. Social Insurance

A liability for social insurance programs (Social Security, Medicare, railroad retirement, black lung and unemployment) is recognized for any unpaid amounts due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the Stewardship Information section on Stewardship Responsibilities and Note 19—Dedicated Collections.

L. Related Party Transactions

Federal Reserve Banks (FRBs), which are not part of the reporting entity, serve as the Government's depositary and fiscal agent. They process Federal payments and deposits to the Department of the Treasury's (Treasury's) account and service Treasury securities. FRBs owned $527 billion of Treasury securities held by the public as of September 30, 2000. FRB earnings that exceed statutory amounts of surplus established for FRBs are paid to the Government and are recognized as non-exchange revenue. Those earnings totaled $32.3 billion for the year ended September 30, 2000. The primary source of these earnings is from interest earned on Treasury securities held by the FRBs.

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

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

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30

(In billions of dollars)

Cash	56.2
Gold	11.0
Domestic monetary assets	2.5
International monetary assets	35.2
Total cash and other monetary assets	104.9

Cash

"Cash," in the amount of $56.2 billion, consists of:

- Treasury balances held at the FRBs, net of outstanding checks.
- Treasury balances in special depositaries, known as the U.S. Treasury Tax and Loan Note accounts.
- Funds held outside of Treasury and the FRBs by authorized fiscal officers or agents.
- Monies held by Government collection and disbursing officers, agencies' undeposited collections, unconfirmed deposits, and cash transfers.
- Time deposits at financial institutions.

The Government maintains formal arrangements with numerous banks to maintain time deposits known as "compensating balances." These balances, which totaled $6.0 billion as of September 30, 2000, compensate the banks for services provided to the Government, such as maintaining zero-balance accounts for the collection of public monies. Operating cash of the Federal Government is either insured (for balances less than $100,000) by the Federal Deposit Insurance Corporation, or collateralized by securities pledged by the depository institutions and held by the FRBs.

Gold

"Gold" is valued at the statutory price of $42.2222 per fine troy ounce. As of September 30, 2000, the number of fine troy ounces was 258,713,310. The market value of gold on the London Fixing as of the reporting date was $273.65 per fine troy ounce. Gold totaling $11.0 billion was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time. See Note 14—Other Liabilities.

Domestic Monetary Assets

"Domestic Monetary Assets" consist of liquid assets, other than cash, that are based on the U.S. dollar, including coins, silver bullion, and other coinage metals. These items totaled $2.5 billion as of September 30, 2000.

International Monetary Assets

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

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

Only a portion of the required payment to the IMF is made in the form of reserve assets; the remainder is payable in the form of a letter of credit from the United States to the IMF.

As of September 30, 2000, the balance available under the letter of credit totaled $34.4 billion. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $13.7 billion as of that date.

SDRs are interest-bearing assets obtained through either IMF allocations, transactions with IMF member countries, interest earnings on SDR holdings, or U.S. reserve position in the IMF. SDR holdings are an asset of Treasury's Exchange Stabilization Fund (ESF), which held SDRs totaling $10.3 billion equivalent at the end of fiscal 2000.

SDRs are allocated by the IMF to its members in proportion to each member's quota in the IMF. The SDR Act of 1968 authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled $3.2 billion at the end of the fiscal year and are included in Note 14 –Other Liabilities.

On September 30, 2000, "Other liabilities" include a $6.4 billion interest-bearing liability to the IMF on the ESF balance sheet for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations that occurred in 1970, 1972, 1979, 1980 and 1981.

Note 3. Accounts Receivable

The category of "Accounts Receivable," which includes related interest receivable, represents claims to cash or other assets from entities outside the Federal Government. An allowance for estimated losses due to uncollectible amounts is established when it is more likely than not that the receivables will not be totally collected. The allowance method varies among the agencies in the Federal Government. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection. Accounts receivable are net of an allowance for uncollectible amounts of $15.8 billion as of September 30, 2000.

Accounts Receivable as of September 30

(In billions of dollars)

Agency	
Department of Defense	4.7
Social Security Administration	4.7
Department of Energy	4.4
Department of Health and Human Services	4.0
Department of Education	2.3
Executive Office of the President	2.0
Department of Agriculture	1.8
Department of Interior	1.1
Department of Housing and Urban Development	1.0
Department of Veterans Affairs	1.0
Department of Treasury	0.7
Tennessee Valley Authority	0.7
Environmental Protection Agency	0.7
Department of Labor	0.5
All other departments	2.7
Total accounts receivable	32.3

Note 4. Loans Receivable and Loan Guarantee Liabilities

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

The long-term cost of loans and guarantees outstanding for loans obligated or guarantees committed after fiscal 1991 is the subsidy cost allowance for direct loans outstanding and the liability for loan guarantees outstanding as of the end of fiscal 2000. The long-term cost for loans obligated or guarantees committed before fiscal 1992 is the allowance for uncollectible amounts (or present value allowance) for direct loans outstanding and the liability for loan guarantees outstanding. The long-term cost is based on all direct loans and guaranteed loans disbursed in fiscal 2000 and previous years that are outstanding as of the end of fiscal 2000. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, reestimates, amortizations, and writeoffs.

Direct Loans and Loan Guarantees as of September 30, 2000

(In billions of dollars)	Face Value of Loans Outstanding	Long-term Cost of Loans and Guarantees Outstanding	Net Loans Receivable	Amount Guaranteed by the Federal Government	Subsidy Expense for the Fiscal Year Ended September 30, 2000
Direct Loan Programs:					
Federal Direct Student Loans	58.5	(4.4)	62.9		(3.9)
Rural Utilities Service................	39.1	3.0	36.1		0.1
Rural Housing Service	29.2	7.7	21.5		0.2
Federal Family Education Loans..	20.3	9.4	10.9		0.0
Food for Progress credits	10.8	6.7	4.1		0.6
Credit program - Direct Loan program................................	10.2	3.8	6.4		0.0
Housing and Urban Development	10.1	(0.9)	11.0		0.0
Agricultural Credit Insurance Fund.....................................	9.2	0.7	8.5		(0.6)
Direct Loans for Spectrum auction sales..........................	8.2	(1.4)	9.6		0.0
Export Credit Guarantees	7.3	4.3	3.0		0.0
Export-Import Bank Loans	6.2	1.3	4.9		0.0
Disaster Loan programs	6.0	0.5	5.5		0.3
All other programs	30.0	6.8	23.2		1.3
Total	245.1	37.5	207.6		(2.0)
Guaranteed Loan Programs:					
Federal Family Education Loans..	139.0	13.7		129.3	0.3
Subsidized Federal Housing Administration Loans	106.4	8.0		94.8	(0.1)
Export-Import Bank guarantees .	28.7	6.3		28.7	2.6
Veterans Housing Benefit program	216.4	5.0		71.8	(0.6)
Small Business Loans	43.7	1.3		35.0	(0.3)
Israeli Loan Guarantee program ..	9.2	0.6		9.2	0.0
Urban and Environmental program................................	2.3	0.1		2.3	0.0
Overseas Private Investment Corporation Credit program.....	3.2	0.4		3.2	0.0
Rural Housing Service	11.5	0.4		10.4	0.2
Health Education Assistance Loans	3.2	0.3		3.2	0.0
Export Credit Guarantee programs	4.5	0.3		4.4	0.8
Unsubsidized Federal Housing Administration Loans	483.3	(0.5)		449.7	0.0
All other programs	25.1	1.4		20.3	0.4
Total	1,076.5	37.3		862.3	3.3

"Net Loans Receivable" includes related interest and foreclosed property. They are included in the assets section of the Balance Sheet.

The total subsidy expense is the cost of direct loans and loan guarantees recognized during fiscal 2000. It consists of the subsidy expense incurred for direct and guaranteed loans disbursed during fiscal 2000, for modifications made during fiscal 2000 of loans and guarantees outstanding, and for reestimates as of the end of fiscal 2000 of the cost of loans and guarantees outstanding. This expense is included in the Statement of Net Cost.

Major Loan Programs

The Federal Direct Student Loan program, established in fiscal 1994, offers four types of education loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans. Evidence of financial need is required for a student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. These loans usually mature 9 to13 years after the student is no longer enrolled. They are unsecured.

Rural Utilities Service loans are for the construction and operation of electric generating plants, transmission and distribution lines, telecommunication lines, and related systems. These loans carry an average maturity of greater than 20 years and are usually secured.

The major Federal rural housing programs are funded through the Rural Housing Insurance Fund program account. These programs include:

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

Loan programs are limited to rural areas that include towns, villages, and other places not part of an urban area. The majority of these loans matures in excess of 25 years and is secured by the property of the borrower.

The Federal Family Education Loan program, formerly known as the Guaranteed Student Loan program, was established in fiscal 1965. Like the Federal Direct Student Loan program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents, and consolidation loans.

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

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

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

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

Repayment terms for these loans are usually 1 to 7 years.

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

Other loan programs include: Small Business Administration (SBA) general business loan guarantees and disaster loans; and the Farm Service Agency for farm ownership, emergency, and disaster loans.

Note 5. Taxes Receivable

"Taxes Receivable" are the gross tax receivables net of allowance for doubtful accounts.

Taxes Receivable as of September 30

(In billions of dollars)

Gross taxes receivable	83.7
Allowance for doubtful accounts	(60.4)
Taxes receivable, net	23.3

Note 6. Inventories and Related Property

Inventories and Related Property

(In billions of dollars)	Defense	All Others	Total
Inventory held for sale, principally to Federal agencies	52.8	1.2	54.0
Operating materials and supplies	83.8	6.3	90.1
Stockpile materials	2.4	37.7	40.1
Commodities	0.0	0.5	0.5
Seized monetary instruments	0.0	0.1	0.1
Forfeited property	0.0	0.1	0.1
Other related property	0.0	0.3	0.3
Total inventories and related property	139.0	46.2	185.2

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

"Inventory held for sale, principally to Federal agencies" is expected to be sold in the normal course of operations and includes the following categories:

- "Inventory held for future sale" is maintained because it is not readily available in the market or because it will not be used in the normal course of operations, but there is more than a remote chance that that it will eventually be needed. The Department of Defense (DOD), which accounts for nearly all of the inventory held for sale and future sale in the U.S. Government, uses the Latest Acquisition Cost (LAC) method, which is revalued for holding gains and losses—$25.3 billion in fiscal 2000—in order to approximate historical cost.
- "Inventory held for repair" is damaged inventory that requires repair to make it suitable for sale. Inventory held for repair is reported net of an allowance for estimated repair costs.
- "Excess inventory" is that which exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- "Obsolete inventory" is that which no longer is needed due to changes in technology, laws, customs, or operations.
- "Unserviceable inventory" is inventory damaged beyond economic repair.
- "Excess, obsolete, and unserviceable inventory" is reported at net realizable value.

"Operating materials and supplies" are tangible personal property to be consumed in normal operations and include the following categories:

- "Operating materials and supplies held for future use" are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance that they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies, uses Latest Acquisition Cost and Standard Price under the purchase and consumption methods of accounting to value operating materials and supplies and does not adjust for holding gains and losses, which does not approximate historical cost.
- "Excess operating materials and supplies" are materials that exceed the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use.
- "Obsolete operating materials and supplies" are materials that are no longer needed due to changes in technology, laws, customs, or operations.
- "Unserviceable operating materials and supplies" are materials damaged beyond economical repair. DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, does not value excess, obsolete, and unserviceable operating materials and supplies at net realizable value.

"Stockpile materials" are strategic and critical materials held for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil. The amounts reported include $1.8 billion of stockpile materials that have been authorized for sale.

"Commodities" include items of commerce or trade that have an exchange value used to stabilize or support market prices.

"Seized monetary instruments" is comprised of only monetary instruments, which are awaiting judgment to determine ownership. The related liability is included in "Other liabilities." Other property seized by the Government, such as real property and tangible personal property, is not included as a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated.

"Forfeited property" is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and unclaimed and abandoned merchandise.

Note 7. Property, Plant, and Equipment

The category of "Property, Plant, and Equipment" consists of tangible assets including land, buildings, structures, and other assets used to provide goods and services. Certain types of tangible assets, collectively referred to as "Stewardship Assets," are not reported as property, plant, and equipment or elsewhere on the Balance Sheet. This is in conformity with accounting standards that became effective for fiscal 1998. "Stewardship Assets" include "National Defense Assets," "Heritage Assets," and "Stewardship Land." These assets are presented in the Stewardship Information section.

Property, Plant, and Equipment as of September 30

(In billions of dollars)	Cost	Accumulated Depreciation/ Amortization	Net
Buildings, structures, and facilities	287.3	135.6	151.7
Furniture, fixtures, and equipment	148.6	80.7	67.9
Construction in progress	51.0	0.0	51.0
Land and land improvements	30.0	7.2	22.8
Automated data processing software	4.1	2.3	1.8
Assets under capital lease	1.6	0.5	1.1
Leasehold improvements	2.8	1.2	1.6
Other property, plant, and equipment	0.6	0.0	0.6
Total property, plant, and equipment	526.0	227.5	298.5

Note 8. Other Assets

Other Assets as of September 30

(In billions of dollars)

Advances and prepayments	17.1
Securities and investments	19.1
Other	23.5
Total other assets	59.7

The category of "Other Assets" consists of advances and prepayments, securities and investments, and other Government assets not otherwise classified. This figure presents securities at cost, net of unamortized premiums and discounts.

Note 9. Accounts Payable

Accounts Payable as of September 30

(In billions of dollars)

Interest on Federal debt securities held by the public	44.3
Department of Defense	19.6
U.S. Postal Service	4.5
Department of Energy	3.3
National Aeronautics and Space Administration	2.8
Department of Justice	2.0
General Service Administration	1.7
Agency for International Development	1.3
Tennessee Valley Authority	0.9
Executive Office of the President	0.7
Department of Treasury – Excluding interest on debt	0.6
Department of Transportation	0.6
Department of Veterans Affairs	0.5
Department of Agriculture	0.5
All other departments	7.7
Total accounts payable	91.0

The "Accounts Payable" table includes "Interest on Federal debt securities held by the public." This reflects unpaid interest accrued on Federal debt securities held by the public (see Note 10) as of September 30, 2000. Other accounts payable are for goods and property ordered and received, and for services rendered by other than Federal employees.

Note 10. Federal Debt Securities Held by the Public

Definitions of Debt

Gross Federal Debt—All Government debt, whether issued by Treasury (Treasury securities) or by other agencies (agency securities). "Gross Federal debt" is held either by the public or by Federal Government entities.

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

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

"Federal Debt Securities Held by the Public" totaled $3,408.5 billion at the end of fiscal 2000. The accompanying Federal Debt Securities table details Government borrowing to finance operations. This table shows debt at face value. Unamortized premiums are added and unamortized discounts subtracted.

"Intragovernmental holdings" represent the portion of the gross Federal debt held as investments by Government entities. This includes major trust funds. For more information on trust funds, see Note 19—Dedicated Collections. These intragovernmental holdings are eliminated in the consolidation of these financial statements.

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

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

As of September 30, 2000, $5,591.6 billion of debt was subject to a statutory limit (31 United States Code 3101). That limit was $5,950 billion. The debt subject to the limit includes: Treasury Securities held by the public and intragovernmental holdings, as well as Government guaranteed debt of Federal agencies.

Section 3111 of title 31, United States Code, authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the general fund of the Treasury to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the U.S. Government. During fiscal 2000, the Secretary of the Treasury authorized the redemption of $21.3 billion of outstanding unmatured marketable Treasury securities at a premium of $5.5 billion. These early redemption transactions are known as Treasury "buybacks." The net change of the Federal debt securities held by the public during fiscal 2000 includes $21.2 billion related to these buybacks.

Federal Debt Securities Held by the Public as of September 30

(In billions of dollars)	Beginning Balance September 30, 1999	Net Change During Fiscal 2000	Ending Balance September 30, 2000	Average Interest Rate During Fiscal 2000
Treasury Securities:				
Marketable securities	3,233.0	(240.2)	2,992.8	6.631%
Non-marketable securities	2,414.3	215.0	2,629.3	6.628%
Non-interest bearing debt	9.0	43.1	52.1	
Total Treasury securities	5,656.3	17.9	5,674.2	
Plus: Unamortized premium on Treasury securities	16.0	(1.0)	15.0	
Less: Unamortized discount on Treasury securities	80.4	(4.9)	75.5	
Total Treasury securities, net of unamortized premiums and discounts	5,591.9	21.8	5,613.7	
Agency Securities:				
Tennessee Valley Authority	25.9	(0.5)	25.4	
All other agencies	2.1	(0.4)	1.7	
Total agency securities, net of unamortized premiums and discounts	28.0	(0.9)	27.1	
Total Federal debt	5,619.9	20.9	5,640.8	
Less: Intragovernmental holdings, net of unamortized premiums and discounts	1,988.3	244.0	2,232.3	
Total Federal debt securities held by the public	3,631.6	(223.1)	3,408.5	

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

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

(In billions of dollars)	Beginning Balance September 30, 1999	Net Change During Fiscal 2000	Ending Balance September 30, 2000
Social Security Administration, Federal Old-Age and Survivors Insurance	762.2	131.3	893.5
Office of Personnel Management, civil service retirement and disability	481.3	30.7	512.0
Department of Health and Human Services, Hospital Insurance	153.7	15.2	168.9
Department of Defense, military retirement	141.3	8.0	149.3
Social Security Administration, Federal Disability Insurance	92.7	21.0	113.7
Department of Labor, unemployment	77.4	9.0	86.4
Department of Health and Human Services, Federal Supplementary Medical Insurance	26.5	18.6	45.1
Federal Deposit Insurance Corporation funds	40.8	1.8	42.6
Department of Transportation, Highway Trust Fund	28.1	2.9	31.0
Railroad Retirement Board	24.4	0.4	24.8
Office of Personnel Management, Employees Life Insurance	20.7	1.7	22.4
Housing and Urban Development, Federal Housing	14.9	2.4	17.3
Veterans Affairs	14.3	(0.1)	14.2
Department of Transportation, Airport and Airway Trust Fund	12.4	0.7	13.1
Department of Energy, nuclear waste disposal	15.2	2.4	17.6
All other programs and funds	84.0	0.7	84.7
Subtotal	1,989.9	246.7	2,236.6
Less: Unamortized net discounts	1.6	2.7	4.3
Total intragovernmental holdings, net	1,988.3	244.0	2,232.3

Note 11. Federal Employee and Veteran Benefits Payable

The Government offers its employees life and health insurance, as well as retirement and other benefits. These benefits apply to civilian and military employees.

The Federal Government administers more than 40 pension plans. The Office of Personnel Management (OPM) administers the largest civilian plan. DOD, meanwhile, administers the largest military plan. The Government offers both defined benefit and defined contribution pension plans. The largest are defined benefit plans. The change in actuarial accrued post-retirement health benefits liability and components of related expense for fiscal 2000 are presented below.

Federal Employee and Veteran Benefits Payable as of September 30

(In billions of dollars)	Civilian	Military	Total
Pension	1,071.9	690.4	1,762.3
Post-retirement health benefits	198.1	192.4	390.5
Veterans compensation and burial benefits	N/A	545.7	545.7
Liability for other benefits	39.2	20.1	59.3
Total Federal employee and veteran benefits payable	1,309.2	1,448.6	2,757.8

Change in Actuarial Accrued Pension Liability and Components of Related Expenses

(In billions of dollars)	Civilian [1]	Military	Total
Actuarial accrued pension liability as of September 30, 1999	1,025.2	661.8	1,687.0
Reclassification adjustments	-	2.8	2.8
Corrected beginning pension liability	1,025.2	664.6	1,689.8
Pension Expense:			
Normal costs	22.6	11.5	34.1
Interest on liability	72.7	40.6	113.3
Actuarial (gains)/losses	(3.3)	(2.2)	(5.5)
Total pension expense	92.0	49.9	141.9
Benefits paid	45.3	24.1	69.4
Actuarial accrued pension liability as of September 30, 2000	1,071.9	690.4	1,762.3

[1] Does not include U.S. Tax Court and judicial branch.

Significant Assumptions Used in Determining Pension Liability and the Related Expense

(In percentages)	Civilian	Military
Rate of interest	7.00%	6.25%
Rate of inflation	4.00%	3.00%
Projected salary increases	4.25%	3.50%

Change in Actuarial Accrued Post-Retirement Health Benefits Liability and Components of Related Expenses

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 1999	179.7	196.2	375.9
Prior period adjustments	0.6	-	0.6
Corrected beginning post-retirement health benefits liability	180.3	196.2	376.5
Post-retirement Health Benefits Expense:			
Normal costs	6.6	4.8	11.4
Interest on liability	13.1	12.6	25.7
Actuarial (gains)/losses	5.0	(14.2)	(9.2)
Total post-retirement health benefits expense	24.7	3.2	27.9
Claims paid	6.9	7.0	13.9
Actuarial accrued post-retirement health benefits liability, as of September 30, 2000	198.1	192.4	390.5

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

(In percentages)	Civilian	Military
Rate of interest	7.0%	6.25%
Rate of health care cost inflation	7.0%	4.0-9.79%

Civilian Employees

Pensions

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

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the general fund, and interest on investments in securities. See Note 19—Dedicated Collections.

The Federal Retirement Thrift Investment Board, an independent Government agency, administers the Thrift Savings Plan (TSP) Fund. Federal employees and retirees covered by CSRS and FERS own the fund's assets. These financial statements exclude this fund because the employees own its assets.

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

The TSP Fund held $31.8 billion in nonmarketable Treasury securities as of September 30, 2000. The Federal Government's related liability is included in "Total Federal debt securities held by the public" in the Balance Sheet.

Health Benefits

Civilian retirees pay the same insurance premium as active employees under the Federal Employee Health Benefits Program (FEHBP). These premiums cover only a portion of the costs.

Other Benefits

Employee and annuitant contributions and interest on investments fund a portion of the Federal Employees Group Life Insurance (FEGLI) program. OPM administers this program, although claims are paid through private insurance companies.

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund finances military retirement and survivor benefit programs.

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

Health Benefits

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

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

The fiscal 2001 National Defense Authorization Act (Public Law No. 106-398), enacted on October 30, 2000, provided greatly expanded benefits, beginning in fiscal years 2001 and 2002, to Medicare eligible retirees, dependents, and survivors. These expanded benefits will result in a significant increase in the military retirement health benefits liability in future years.

Compensation and Burial Benefits

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

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

The liability for veterans compensation and burial benefits payable increased in fiscal 2000 by $ 62.5 billion. The primary factors contributing to this increase were changes in interest rate and other actuarial assumptions.

Veterans Compensation and Burial Benefits as of September 30

(In billions of dollars)

Veterans	451.9
Survivors	91.0
Burial benefits	2.8
Total compensation and burial benefits payable	545.7

Other Benefits

Veterans insurance includes the following programs:

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

Note 12. Environmental and Disposal Liabilities

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

These activities left an environmental legacy of contaminated areas and buildings. Volumes of waste and special nuclear materials require treatment, stabilization, and disposal. The resulting environmental liabilities consist of the costs associated with removing, containing, and/or disposing of this hazardous waste.

Of those environmental liabilities, this report presents only cleanup costs from Federal operations known to result in hazardous waste that the Federal Government is required to clean up by Federal, State, or local statutes and/or regulations. Two of these statutes are: the Nuclear Waste Policy Act of 1992, which provides for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel; and Public Law 105-204, which requires a plan for the conversion of depleted uranium hexaflouride.

The Department of Energy (DOE) is responsible for the cleanup of facilities it operates or has operated. DOE incurred operating and capital expenditures totaling $6.3 billion in fiscal 2000. It used these funds to remediate legacy waste. This includes nuclear materials and facilities stabilization, and waste treatment, storage, and disposal activities at each installation. "Environmental management facilities and sites" include costs for environmental restoration; nuclear material and facility stabilization; and waste treatment, storage, and disposal activities at each installation. They also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants for participation and oversight by Native American tribes and regulatory agencies. "Active and surplus facilities" represent anticipated remediation cost for those facilities that are conducting ongoing operations but ultimately will require stabilization, deactivation, and decommissioning. "High-level waste and spent nuclear fuel" includes the full cost to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. Projects with no current feasibility remediation approach are excluded from the estimate. Significant projects not included are:

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

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

Environmental and Disposal Liabilities as of September 30

(In billions of dollars)

Department of Energy:	
Environmental management facilities and sites	182.7
Active and surplus facilities	26.0
High-level waste and spent nuclear fuel	14.3
Other	11.3
Total Department of Energy	234.3
Department of Defense:	
Chemical weapons disposal	14.9
Training ranges and non-range unexploded ordnance	14.0
Active installations	15.4
Nuclear powered aircraft carriers and submarines	10.2
Other	8.7
Total Department of Defense	63.2
All other agencies	3.7
Total environmental and disposal liabilities	301.2

Note 13. Benefits Due and Payable

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

Benefits Due and Payable as of September 30

(In billions of dollars)	
Federal Old-Age and Survivors Insurance	31.0
Federal Hospital Insurance (Medicare Part A)	12.7
Grants to States for Medicaid	12.3
Federal Supplementary Medical Insurance (Medicare Part B)	11.5
Federal Disability Insurance	7.4
Supplemental security income	1.2
Railroad retirement	0.7
Unemployment insurance	0.8
Other benefits	0.2
Total benefits due and payable	77.8

Note 14. Other Liabilities

"Accrued wages and benefits" consist of the estimated liability for civilian and military salaries and wages earned but unpaid. They also include funded annual leave and other employee benefits that have been earned but are unpaid.

"Deferred revenue" refers to revenue received but not yet earned.

"Insurance programs" include bank deposit insurance, guarantees of pension benefits, and life and medical insurance. They also include insurance against damage to property (home, crops, and airplanes) caused by perils such as flooding and other natural disasters, risk of war, and insolvency.

"Gold certificates" include monetized portions of gold and certificates deposited in FRBs.

"Other debt" includes Government obligations, whether secured or unsecured, not included in public debt.

"Exchange Stabilization Fund" includes Special Drawing Rights (SDRs) certificates issued to the Federal Reserve Banks and allocations from the International Monetary Fund.

"Deposit funds" are deposits held and maintained by the Federal Government on behalf of a third party.

"Advances from foreign governments " consist of amounts received from foreign governments for goods and services to be provided.

"Contractual services" consist of contractual obligations of the Department of Defense.

"Other miscellaneous liabilities" include amounts accrued for contingent liabilities.

Other Liabilities as of September 30

(In billions of dollars)

Accrued wages and benefits	26.3
Deferred revenue	23.8
Insurance programs	20.6
Gold certificates	11.0
Other debt	10.4
Exchange Stabilization Fund	9.6
Deposit funds	6.2
Advances from foreign governments	6.2
Contractual services	4.9
Advances from others	3.5
Deferred revenue from unmatured accounts	2.8
Universal Service Fund	2.4
Energy Employees Occupational Illness Compensation Act	1.6
Environmental safety and health compliance	1.3
Other miscellaneous liabilities	44.4
Total other liabilities	175.0

Note 15. Collections and Refunds of Federal Revenue

Treasury is the Federal Government's principal revenue-collecting agency.

Collections of "Individual income and tax withholdings" include estimated income tax payments by individuals, Social Security and Medicare taxes, and individual income tax withholdings but does not include Federal tax refunds.

"Individual income and tax withholdings" include refunds and Earned Income Tax Credit (EITC). EITC is a refundable credit for taxpayers who work and whose earnings fall below the established ceiling. A refundable credit is first used to offset any individual taxes owed; any remaining amounts are issued to the taxpayer. In fiscal 2000, the Internal Revenue Service (IRS) issued $26.1 billion in EITC refunds and an additional $5.1 billion of the EITC credits was applied to reduce taxpayer liability. All of these EITC amounts are included in "Gross Cost" in the Statement of Net Cost as a component of the income security function. Amounts reported for corporate income taxes in tax year 2001 include corporate taxes of $7 billion for tax year 2000. Taxes collected are reported in the Revenue section of the Statement of Operations and Changes in Net Position, and are presented on a modified cash basis . On the other hand, collections reported in the table on this Note 15, are reported on a "gross cash basis".

The "Current Service Assessment" (CSA) table, in the Stewardship section of this document, also includes the Government's receipts and outlays. The total amounts included in the table for the year 2000 are the same as those described in Note 15 but classified differently. The classifications differ, because the budget classifies some collections and refunds differently. For example, Note 15 nets part of the EITCs (amounts in excess of offsets to individual taxes owed) in receipts, while the budget reports them as outlays. Meanwhile, the Statement of Net Cost reports refunds and EITCs as expenses.

Collections of Federal Revenue for the Fiscal Year Ended September 30

(In billions of dollars)	Federal Revenue Collections	Tax Year to Which Collections Relate 2000	1999	1998	Prior Years
Individual income and tax withholdings	1,764.3	1,132.3	612.5	11.6	7.9
Corporation income taxes	235.4	156.5	70.2	0.5	8.2
Estate and gift taxes	29.7	0.4	25.7	1.6	2.0
Excise taxes	70.2	51.4	18.3	0.1	0.4
Custom duties	20.5	20.5	-	-	-
Fees and licenses	2.1	2.1	-	-	-
Unemployment taxes	26.7	24.7	2.0	-	-
Railroad retirement taxes	4.7	3.6	1.1	-	-
Federal Reserve earnings	32.3	25.1	7.2	-	-
Fines, penalties, interest, and other taxes	3.4	2.9	0.5	-	-
Total	2,189.3	1,419.5	737.5	13.8	18.5

Federal Tax Refunds Disbursed for the Fiscal Year Ended September 30

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2000	1999	1998	Prior Years
Individual income and tax withholdings	161.4	1.0	148.5	8.6	3.3
Corporation income taxes	31.1	1.4	10.4	7.0	12.3
Unemployment taxes	0.1	-	0.1	-	-
Excise taxes	0.7	0.3	0.4	-	-
Estate and gift taxes	0.8	-	0.2	0.3	0.3
Custom duties	1.2	0.5	0.3	0.1	0.3
Total	195.3	3.2	159.9	16.0	16.2

Note 16. Unreconciled Transactions Affecting the Change in Net Position

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

The unreconciled transactions needed to bring the change in net position into balance net to $7.3 billion.

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

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

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

Note 17. Prior Period Adjustments

Prior Period Adjustments to the Fiscal Year Beginning October 1, 1999

(In billions of dollars)	Increases to Net Position
Defense environmental liabilities	31.6
Department of Agriculture	5.1
All other adjustments to prior periods	(0.9)
Total prior period adjustments	35.8

"Prior Period Adjustments" consist of a net $35.8 billion adjustment to the opening net position, to correct errors in prior periods.

Significant components of this net adjustment include:

- A $31.6 billion adjustment by DOD for correction of error in estimating the environmental cleanup liability.
- A $5.1 billion adjustment to previously reported valuations of the Department of Agriculture's property, plant and equipment, inventory balances, and other assets.
- A $0.9 billion net adjustment to prior period resulting from: a correction composed of smaller debits and credits from different agencies.

Note 18. Commitments and Contingencies

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

Contingent liabilities related to the loan guarantee programs are described in Note 4—Loans Receivable and Loan Guarantee Liabilities.

A contingency is an existing condition or situation involving uncertainty as to a possible loss. A loss is considered reasonably possible if the future confirming event or events are more than remote, but less than probable. These contingencies do not include existing conditions or situations where the future occurring event is only considered remote, nor do they include contingencies that would result in a gain.

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

Numerous cases are pending involving among many other matters, supervisory goodwill at savings and loan institutions, harbor maintenance fees, individual Indian money accounts and tribal accounts revenues. While it is likely that the United States will have to pay some amount of damages on these claims, it is difficult to predict the outcome of litigation and, therefore, the ultimate total costs cannot be reasonably estimated at this time.

The Government also has unused statutory lines of credit to Government-sponsored enterprises totaling $10 billion.

Commitments as of September 30

(In billions of dollars)	Capital Leases	Operating Leases
Long-term Leases:		
General Services Administration	0.3	16.6
U.S. Postal Service	0.6	9.0
Department of Justice	0.1	3.8
Department of Agriculture	0.2	2.0
Department of Health and Human Services	-	1.1
Department of the Army	0.1	0.9
U.S. Agency for International Development	-	0.5
Other long-term leases	1.0	1.6
Total long-term leases	2.3	35.5
Undelivered Orders:		
Department of Housing and Urban Development	92.2	
Department of Health and Human Services	56.6	
Department of the Navy	40.2	
Department of the Air Force	28.2	
Department of Education	22.1	
Department of Agriculture	15.5	
Department of the Army	18.1	
Department of Transportation	16.1	
Department of Justice	11.4	
Environmental Protection Agency	9.6	
U.S. Agency for International Development	8.6	
Department of Labor	7.7	
Other undelivered orders	7.7	
Total undelivered orders	334.0	
Other Commitments:		
Multi-lateral development banks	60.8	
National Oceanic and Atmospheric Administration satellites and weather systems	6.2	
Real property activities	3.4	
Department of Transportation	3.2	
Department of the Navy	2.0	
Information technologies	1.3	
All other programs	0.5	
Total other commitments	77.4	

Contingencies as of September 30

(In billions of dollars)

Insurance:	
Pension Benefit Guaranty Corporation	5.0
Federal Deposit Insurance Corporation	1.0
Overseas Private Investment Corporation	0.1
Other insurance programs	0.1
Total insurance programs	6.2
Unadjudicated Claims:	
Department of the Navy	3.1
Other unadjudicated claims	2.2
Total unadjudicated claims	5.3
Other Contingencies:	
Production flexibility program	4.1
Administrative order against Tennessee Valley Authority	3.0
Nuclear waste fund	2.0
Conservation reserve program	1.7
Contingent liabilities	0.5
Judgment Fund	0.3
Other contingencies	2.7
Total other contingencies	14.3

Financial Treatment of Loss Contingencies

Probability of Loss	Probable	Reasonably possible, more than remote but less than probable	Remote, chance of occurrence slight
Financial Treatment	Balance Sheet	Footnote disclosure	No disclosure

Note 19. Dedicated Collections

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

"Trust Fund Net Assets" represent the unexpended balance from all sources of receipts and amounts due the trust funds, regardless of source. This includes related governmental transactions. These are transactions between two different entities within the Federal Government (for example, monies received by one entity of the Government from another entity of the Government).

"Intragovernmental Net Assets" are comprised of investments in Federal debt securities, related accrued interest, and fund balances with Treasury. These amounts were eliminated in preparing these financial statements.

"Consolidated Assets" represent only the net assets from activity with individuals and organizations outside the Government. All related governmental balances are removed to present the Government's position as a whole.

The majority of trust fund assets is invested in intragovernmental Treasury securities. These securities require redemption if a fund's disbursements exceed its receipts. Redeeming these securities will increase the Government's financing needs and require more borrowing from the public (or less repayment of debt prior to maturity), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise could have occurred.

Dedicated Collections as of September 30*

(In billions of dollars)	Receipts	Disburse-ments	Trust Fund Net Assets	Less Intra-govern-mental Net Assets	Consoli-dated Assets
Federal Old-Age and Survivors Insurance Trust Fund	486.5	358.4	940.8	939.4	1.4
Civil Service Retirement and Disability Fund	76.1	45.4	521.5	521.2	0.3
Federal Hospital Insurance Trust Fund (Medicare Part A)	163.3	129.2	173.5	172.2	1.3
Military Retirement Fund	39.5	32.9	162.7	162.7	-
Federal Disability Insurance Trust Fund	77.6	56.8	124.5	123.2	1.3
Unemployment Trust Fund	33.2	21.2	89.2	88.3	0.9
Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)	89.5	89.0	45.8	45.8	-
Highway Trust Fund	35.0	32.6	30.2	30.2	-
Railroad Retirement Trust Fund	5.3	8.2	22.7	22.7	-
Airport and Airway Trust Fund	10.7	9.9	13.5	13.3	0.2
Hazardous Substance Superfund	1.2	1.6	4.7	4.7	-
Black Lung Disability Trust Fund	0.5	1.0	-	-	-

*By law, certain expenses (costs) related to the administration of the above funds are not charged to the funds and are financed by other sources.

Federal Old-Age and Survivors Insurance Trust Fund

This trust fund provides assistance and protection against the loss of earnings due to retirement or death. The assistance is in the form of money payments. The Social Security Administration (SSA) administers the Federal Old-Age and Survivors Insurance Trust Fund.

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security benefits provide the fund with additional income. The legal authority for the transfer of these funds from the Treasury general fund to the trust fund is United States Code, title 42, section 401.

Civil Service Retirement and Disability Fund

The Civil Service Retirement and Disability Fund covers two Federal civilian retirement systems: the Civil Service Retirement System (CSRS), for employees hired before 1984, and the Federal Employee Retirement System (FERS), for employees hired after 1983. The Office of the Personnel Management administers the CSRS and the FERS systems. The legal authority for the transfer of funds from the following sources to the fund is the United States Code, title 5, section 8331-8348. Funding sources include:

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

Federal Hospital Insurance Trust Fund (Medicare Part A)

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

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by Federal agencies. It also receives income from interest earnings on Treasury securities and a portion of income taxes paid on Social Security benefits. The legal authority for the transfer of these funds to the fund is the United States Code, title 42, section 1395i.

Military Retirement Fund

The Military Retirement Fund provides retirement benefits for Army, Navy, Marine Corps, and Air Force personnel, and their survivors. The fund is financed by DOD contributions, appropriations, and interest earned on investments in Federal debt securities. DOD administers the Military Retirement Fund. The legal authority for the transfer of these funds to the fund is the United States Code, title 10, section 1461-1467.

Federal Disability Insurance Trust Fund

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

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The fund also receives income from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and a portion of income taxes paid on Social Security benefits. The legal authority for the transfer of these funds to the fund is the United States Code, title 42, section 401.

Unemployment Trust Fund

The Unemployment Trust Fund protects workers who lose their jobs through no fault of their own. The Unemployment Insurance program is a unique Federal and State partnership based on Federal law, but executed through State law by State officials. The Department of Labor (DOL) administers the Federal operations of the program.

Taxes on employers primarily fund the Unemployment Trust Fund. However, interest earned on investments in Treasury securities also provides income to the fund. Appropriations have supplemented the fund's income during periods of high and extended unemployment. The legal authority for the transfer of these funds to the fund is the United States Code, title 42, section 1104.

Federal Supplementary Medical Insurance Trust Fund (Medicare Part B)

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

The legal authority for the transfer to the fund of appropriations, premiums charged to enrollees, and interest earned on investments in Treasury securities for the Federal Supplementary Medical Insurance Trust Fund is the United States Code, title 42 section 1395t.

Highway Trust Fund

The Highway Trust Fund was established to promote domestic interstate transportation, and to move people and goods. The fund provides Federal grants to States for highway construction and related transportation purposes. The Department of Transportation (DOT) administers the Highway Trust Fund. The legal authority for collections of funds noted below is the United States Code, title 26, section 9503. Funding sources include earmarked taxes on gasoline and other fuels, certain tires, and vehicle and truck use.

Railroad Retirement Trust Fund

The Railroad Retirement Trust Fund provides annuities and survivor benefits to eligible railroad employees and their survivors. The fund also pays disability annuities based on total or occupational disability.

Payroll taxes paid by railroad employers and their employees provide the primary source of income for the Railroad Retirement Survivor Benefit program. By law, railroad taxes are coordinated with Social Security taxes. The Railroad Retirement Board administers the Railroad Retirement Trust Fund. The legal authority for the transfer of these funds to the fund is the United States Code, title 45, section 231n.

Airport and Airway Trust Fund

The Airport and Airway Trust Fund provides for airport improvement and airport facilities maintenance. It also funds airport equipment, research, and a portion of FAA's administrative operational support. DOT administers the Airport and Airway Trust Fund. The legal authority for collections of funds from the following sources is the United States Code, title 26, section 9502. Funding sources include:

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

Hazardous Substance Superfund

The Hazardous Substance Superfund was authorized to address public health and environmental threats from spills of hazardous materials and from sites contaminated with hazardous substances. The Environmental Protection Agency (EPA) administers the fund. The legal authority for collections of funds from the following sources is the United States Code, title 26, section 9507. Funding sources include:

- Excise taxes collected on petroleum, chemicals, and imported substances (expired in 1995).
- Environmental taxes from corporations with alternative minimum taxable income in excess of $2 million (expired in 1995).
- Fines, penalties, and cost recoveries from responsible parties.
- Appropriations.
- Interest earned on investments in Treasury securities.

Black Lung Disability Trust Fund

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

Excise taxes on coal mine operators, based on the sale of coal, partially fund black lung disability payments as well as related administrative and interest costs. Intragovernmental advances to the Black Lung Disability Trust Fund, which must be repaid with interest, fund the shortfall. The Department of Labor administers the Black Lung Disability Trust Fund. The legal authority for collections of these funds is the United States Code, title 26, section 9501.

Note 20. Indian Trust Funds

The Indian Trust Funds differ from other dedicated collections reported in Note 19. The Department of the Interior (DOI) has responsibility for the assets held in trust on behalf of American Indian tribes and individuals. The trust funds are held in accounts for approximately 315 tribes, 270,000 individual Indian accounts, and other funds, including the Alaska Native Escrow Fund.

The assets held in trust for Native Americans are owned by the trust beneficiaries and are not the Federal Government's assets. Therefore, these amounts are not reflected in the Balance Sheet or Statement of Operations and Changes in Net Position except for their holdings of nonmarketable Treasury securities, for which the Government's liability is included in Federal debt securities held by the public.

Indian Trust Fund balances presented below do not include trust land managed by the Government.

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

(In millions of dollars)	
Receipts	495.8
Disbursements	355.4
Receipts in excess of disbursements	140.4
Trust fund balances, beginning of year	2,595.8
Trust fund balances, end of year	2,736.2

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

(In millions of dollars)

Receipts	245.2
Disbursements	294.6
Receipts in excess of disbursements	(49.4)
Trust fund balances, beginning of year	449.3
Trust fund balances, end of year	399.9

United States Government Supplemental Information for the Year Ended September 30, 2000 (Unaudited)

Net Cost Detail

The Statement of Net Cost presents the cost of the Government's major functions. The objectives of each of the functions are described below. Also, the statement contains the definitions of "Gross Cost," "Earned Revenue," and "Net Cost."

National Defense

The category "National Defense" includes the Department of Defense, atomic energy defense activities, and other national defense activities. Amounts listed under this function include the cost to provide military forces to deter war; to be prepared to engage in war; and to preserve the peace and security of the United States, the Territories, Commonwealth, its possessions, and any area occupied by the United States. National defense also includes the cost to train, equip, compensate, and provide retirement benefits for the armed forces; develop, acquire, utilize, and dispose of weapon systems; conduct research and development to maintain technological superiority, cut costs, and improve performance of weapon systems; and carry out other defense-related activities.

Human Resources: Education, Training, Employment, and Social Services

The "Education, Training, Employment, and Social Services" function serves to extend knowledge and skills, enhance employment and employment opportunities, protect workplace standards, and provide services to the needy.

Education, Training, Employment, and Social Services

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Elementary, secondary and vocational education	21.0	2.1	18.9
Higher education	7.8	-	7.8
Research and general education aids	3.0	0.7	2.3
Training and employment	5.6	-	5.6
Other labor services	1.4	0.3	1.1
Social services	17.8	0.2	17.6
Total education, training, employment, and social services	56.6	3.3	53.3

Health

The “Health” function includes costs to promote physical and mental health. Included are the prevention of illness and accidents and the Medicaid program. Although the Medicare program is the largest Federal health program, by law it is in a separate function for budget purposes. Also excluded from the “Health” subfunction is Federal health care for military personnel and veterans.

Health

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Health care services	134.4	0.9	133.5
Health research and training	15.9	-	15.9
Consumer and occupational health and safety	2.6	0.3	2.3
Total health	152.9	1.2	151.7

Medicare

The Federal Hospital Insurance (Medicare Part A) and Federal Supplementary Medical Insurance (Medicare Part B) programs make up Medicare. This function is not further subdivided. For more information on Medicare, see the note in the Stewardship Responsibilities section of Stewardship Information and Note 19—Dedicated Collections.

Income Security

The cost of providing payments to persons unrelated to any current service comprises the “Income Security” function. Included are disability, railroad retirement benefits, temporary assistance to needy families and similar programs, other than amounts related to Social Security, and veterans. Also included are food stamps, special milk, and child nutrition programs; unemployment and workers’ compensation; earned income tax credits and reduction of taxpayer liabilities; public assistance cash payments; benefits paid to the elderly and coal miners; and low- and moderate-income housing assistance. The costs of Federal pensions and retiree health benefits are allocated to other functions.

Income Security

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Unemployment compensation	25.1	(0.2)	25.3
Housing assistance	28.7	-	28.7
Food and nutritional assistance	34.3	-	34.3
Other income security	95.2	4.0	91.2
Cost not allocated to subfunctions	11.4	1.1	10.3
Total income security	194.7	4.9	189.8

Social Security

"Social Security" costs include payments to eligible beneficiaries of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs. These are collectively referred to as "Social Security." The Social Security program is the single largest Federal program and is funded primarily by payroll taxes. For more information on Social Security, refer to the Stewardship Information section on Stewardship Responsibilities and Note 19—Dedicated Collections.

Veterans Benefits and Services

The amounts listed under this function include specific benefits and services paid to those with prior military service or their spouse, dependents, and survivors. Included are veterans compensation, life insurance, pensions, burial benefits, education and training, medical care, veterans housing, and administrative expenses of the Department of Veterans Affairs (VA). The net cost line titled "Total veterans benefits and services" increased in fiscal 2000 by $160.2 billion primarily due to changes in interest rate and other actuarial assumptions in the calculation of the related liability for veterans compensation.

Veterans Benefits and Services

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Income security for veterans	97.6	1.3	96.3
Veteran education, training, and rehabilitation	1.6	0.2	1.4
Hospital and medical care of veterans	18.0	0.2	17.8
Veteran housing	(0.8)	-	(0.8)
Other veteran benefits and services	1.2	0.5	0.7
Total veteran benefits and services	117.6	2.2	115.4

Physical Resources

Energy

The "Energy" function includes the cost of promoting an adequate supply and appropriate use of energy to serve the needs of the Nation.

Energy

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Energy supply	14.4	12.9	1.5
Energy conservation	0.7	-	0.7
Emergency energy preparedness	0.1	-	0.1
Energy information, policy, and regulation	1.0	0.8	0.2
Total energy	16.2	13.7	2.5

Natural Resources and Environment

This function includes the costs incurred to develop, manage, and maintain the Nation's natural resources and environment. Excluded are funding for community water supply programs, basic sewer systems, and waste treatment plants that are part of community or regional development programs.

Natural Resources and Environment

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Water resources	5.3	0.6	4.7
Conservation and land management	7.4	0.7	6.7
Recreational resources	4.7	2.0	2.7
Pollution control and abatement	8.6	0.2	8.4
Other natural resources	4.5	0.3	4.2
Total natural resources and environment	30.5	3.8	26.7

Commerce and Housing Credit

This function encompasses the promotion and regulation of the commerce, housing, and deposit insurance industries. Included under "Commerce and Housing Credit" are costs to collect and disseminate social and economic data; provide general purpose subsidies to businesses and individuals, including credit subsidies for housing; and support the U.S. Postal Service Fund.

Commerce and Housing Credit

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Mortgage credit	2.0	0.7	1.3
U.S. Postal Service	93.2	74.7	18.5
Deposit insurance	3.6	0.7	2.9
Other advancement of commerce	9.4	1.3	8.1
Total commerce and housing credit	108.2	77.4	30.8

Transportation

Grants to States and others for local or national transportation of passengers and property make up the bulk of the cost associated with this function. Included are costs to construct facilities; purchase equipment; do research, testing, and evaluation; and provide operating subsidies to transportation facilities (such as airports and railroads).

Transportation

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Ground transportation	33.7	0.1	33.6
Air transportation	10.0	-	10.0
Water transportation	4.7	-	4.7
Other transportation	0.2	-	0.2
Total transportation	48.6	0.1	48.5

Community and Regional Development

The costs of promoting viable community economies by developing physical facilities or financial infrastructures comprise this function. Also included are the costs of developing transportation facilities that are integral parts of community development programs. Aid to businesses is usually excluded from this function unless it promotes the economic development of depressed areas and is not designed to promote particular lines of business for their own sake.

Community and Regional Development

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Community development	5.6	-	5.6
Area and regional development	4.8	0.1	4.7
Disaster relief and insurance	4.9	2.7	2.2
Total community and regional development	15.3	2.8	12.5

Interest

Interest costs are primarily amounts on Treasury securities held by the public. Interest payments on these securities are made by Treasury's Bureau of the Public Debt.

Other Functions

International Affairs

This function includes the costs of maintaining peaceful relations, supporting commerce and travel between the United States and the rest of the world, and promoting international security and economic development abroad.

International Affairs

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
International development and humanitarian assistance	10.0	0.3	9.7
International security assistance	8.2	-	8.2
Conduct of foreign affairs	6.1	1.3	4.8
Foreign information and exchange activities	0.6	-	0.6
International financial programs	2.0	1.4	0.6
Total international affairs	26.9	3.0	23.9

General Science, Space, and Technology

This function covers the costs of National Science Foundation research, National Aeronautics and Space Administration space programs, and Department of Energy (DOE) general science research.

General Science, Space, and Technology

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
General science and basic research	6.0	-	6.0
Space flight, research, and supporting activities	11.7	0.1	11.6
Total general science, space, and technology	17.7	0.1	17.6

Agriculture

Costs associated with promoting agricultural economic stability and maintaining and increasing agricultural production are found under the “Agriculture” function.

Agriculture

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Farm income stabilization	35.4	2.6	32.8
Agricultural research and service	3.7	1.3	2.4
Total agriculture	39.1	3.9	35.2

Administration of Justice

The cost of judicial services includes police protection, law enforcement (including civil rights), rehabilitation and incarceration of criminals, and the general maintenance of domestic order. It also includes the cost of providing court-appointed counsel or other legal services for individuals. Not found under "Admin istration of Justice" are the costs of the legislative branch and police and guard activities that protect Federal property. Also, the cost of National Guard personnel and military personnel that are called upon occasionally to maintain public safety and the cost of military police are included under the "National Defense" function.

Administration of Justice

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Federal law enforcement activities	16.9	2.4	14.5
Federal litigative and judicial activities	9.1	-	9.1
Federal correctional activities	4.7	0.5	4.2
Criminal justice activities	6.6	-	6.6
Total administration of justice	37.3	2.9	34.4

General Government

"General Government" covers general overhead costs of the Federal Government. This consists of legislative and executive activities as well as central fiscal operations, including the premiums on early redemption of debt securities, and personnel and property activities. All activities reasonably or closely associated with other functions are included in those functions rather than general Government.

General Government

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
Subfunctions:			
Legislative functions	1.5	-	1.5
Executive direction and management	0.7	-	0.7
Central fiscal operations	12.1	4.3	7.8
General property and records management	0.6	0.3	0.3
Central personnel management	0.3	-	0.3
General purpose fiscal assistance	0.8	(0.3)	1.1
Other general government	7.9	0.1	7.8
Total general government	23.9	4.4	19.5

Deferred Maintenance

"Deferred Maintenance" is the estimated cost to bring Government-owned property to an acceptable condition. This results from not performing maintenance on a timely basis. Deferred maintenance excludes the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance could include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. Estimated deferred maintenance costs are not accrued in the Statement of Net Cost or recognized as a liability on the Balance Sheet.

The amounts disclosed for deferred maintenance on the table below have been measured using the following three methods:

- Condition assessment surveys are periodic inspections of the Government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast is an acquisition or procurement technique that considers operation, maintenance, and other costs in addition to the acquisition cost of assets.
- Management analysis method is based on inflation adjusted reductions in maintenance funding since the base year.

Some deferred maintenance has been deemed critical. Such amounts and conditions are defined by the individual agencies with responsibility for the safekeeping for these assets. Low and high estimates are based on the materiality of the estimated cost of returning the asset to the acceptable condition, versus the total value of the corresponding asset.

Deferred Maintenance as of September 30

	Deferred Maintenance Cost Range		
(In billions of dollars)	Low Estimate	High Estimate	Critical Maintenance
Asset Category:			
Buildings, structures, and facilities	24.8	64.8	35.1
Furniture, fixtures, and equipment	0.8	1.2	0.9
Assets under capital lease	-	-	-
General property, plant, and equipment land	-	-	-
Other general property, plant, and equipment	2.8	7.7	2.6
Total general property, plant, and equipment	28.4	73.7	38.6
Heritage assets	0.5	0.7	0.1
National defense assets	1.3	1.3	0.2
Stewardship land	-	-	-
Total stewardship assets	1.8	2.0	0.3
Total deferred maintenance	30.2	75.7	38.9

Reconciliation of the Excess of Revenue over Net Cost

For fiscal 2000, the unified budget reported a surplus of $236.9 billion. For the same period, the *Financial Report of the United States Government* reports an excess of revenue over cost of $46.0 billion. The difference between these two amounts occurs because they are prepared primarily on different measurement bases to carry out their different objectives.

The *Financial Report of the United States Government* is based on Generally Accepted Accounting Principles (GAAP). Thus, expenses and exchange revenue generally are recognized when the events giving rise to the transactions occur rather than when the cash is received or paid. Non-exchange revenues are recognized on a modified cash basis of accounting.

By contrast, the unified budget is computed primarily on the cash basis, according to accepted budget concepts and policies. The most significant differences between these two bases involve the timing of recognition and measurement of revenue and costs.

The differences between these two bases of accounting can be divided into four primary categories.

1. Receipts recognized in the budget that are not recognized as revenue in the *Financial Report of the United States Government*, such as:
   - Collections of precredit reform loans.
   - Collections of taxes receivable.
   - Collections of accounts receivable.
   - Proceeds from the sale of capital assets representing “book value.”
2. Revenues recognized in the *Financial Report of the United States Government* that are not recognized as receipts in the budget, such as:
   - Increases in taxes receivable.
   - Increases in accounts receivable.
3. Outlays recognized in the budget that are not recognized as costs in the *Financial Report of the United States Government*, such as:
   - Purchases of inventory and general property, plant, and equipment.
   - Payments of accounts payable.
   - Payments of employee pensions and other benefits that reduce prior related liabilities.
   - Payments of environmental cleanup and disposal costs that reduce prior related liabilities.
4. Costs recognized in the *Financial Report of the United States Government* that are not recognized as outlays in the budget, such as:
   - Depreciation on general property, plant, and equipment.
   - Increases in liabilities for employee pensions and other benefits.
   - Increases in estimated environmental liabilities.
   - Defaults on pre-credit reform loans.
   - Decreases in inventory.
   - Increases in accounts payable.

The remaining unidentified difference is a net of $7.2 billion. Since some of the differences may be offsetting, the gross difference is larger than the $7.2 billion and may include transactions in all four categories listed above. It also includes the effect of misclassifying intragovernmental transactions and relatively small differences in entity coverage.

Reconciliation of the Excess of Revenue over Net Cost to the Unified Budget Surplus for the Year Ended September 30 (Unaudited)

(In billions of dollars)

Excess of revenue over net cost	46.0
Increase in Veteran Compensation and Burial Benefits:	
Increase in liability for veterans	54.4
Increase in liability for survivors	8.2
Decrease in liability for burial benefits	(0.1)
Increase in liability for veterans	62.5
Increase in Environmental Liabilities:	
Increase in Department of Energy's environmental liabilities	3.6
Increase in Department of Defense's environmental liabilities	15.1
Increase in all other's environmental liabilities	0.9
Increase in environmental liabilities	19.6
Capitalized Fixed Assets:	
Department of Defense	(12.0)
Civilian agencies	(19.6)
Total capitalized fixed assets	(31.6)
Increase in Liability for Civilian Employee Benefits:	
Increase in civilian pension liabilities	46.7
Increase in civilian health liabilities	18.4
Decrease in other civilian benefits liabilities	(9.8)
Increase in liability for civilian employee benefits liabilities	55.3
Increase in Liability for Military Employee Benefits:	
Increase in military pension liabilities	28.8
Decrease in military health liabilities	(3.8)
Increase in other military benefits	14.5
Increase in liability for military employee benefits	39.5
Depreciation expense	15.4
Increase in benefits due and payable	4.0
Increase in inventory	(11.9)
Increase in taxes receivable	(0.6)
Increase in other liabilities	6.0
Seigniorage and sale of gold	(2.3)
Increase in accounts payable	5.2
Increase in accounts receivable	2.7
Increase in other assets	(5.4)
Other prior period adjustments	(4.2)
Premium on early buyback of public debt	5.5
Principal repayments of precredit reform loans	24.0
Net amount of all other differences	7.2
Unified budget surplus	236.9

Unexpended Budget Authority

"Unexpended Budget Authority" is the sum of the unobligated and obligated, but unliquidated, budget authority.

Unobligated budget authority, including trust fund balances, is the cumulative amount of budget authority that is not obligated and that remains available for obligation. In 1-year accounts, the unobligated balance is not available for new obligations after the end of the fiscal year. In multiyear accounts, the obligated balance may be carried forward and remains available for obligation for the period specified. In no-year accounts, the unobligated balance is carried forward until specifically rescinded by law or until the purposes for which it was provided have been accomplished.

Obligated budget authority is the cumulative amount of budget authority that has been obligated but not liquidated. This balance can be carried forward for a maximum of 5 years after the appropriation has expired.

Unexpended Budget Authority as of September 30, 2000 (Unaudited)

(In billions of dollars)	Unobligated Budget Authority	Obligated Budget Authority
Social Security Administration	965.7	41.6
Office of Personnel Management	542.7	-1.5
Department of Health and Human Services	228.0	65.3
Department of Defense	199.7	149.8
Department of Labor	98.7	8.4
Independent Agencies	78.4	7.3
Department of Transportation	63.6	59.4
Department of Housing and Urban Development	38.0	97.4
International Assistance program	32.8	71.0
Department of Agriculture	22.0	19.7
Department of the Treasury	17.8	139.6
Department of Veterans Affairs	15.7	5.4
Department of Energy	14.2	8.3
Department of State	13.3	4.2
Environmental Protection Agency	7.8	8.8
Department of the Interior	5.8	3.3
Department of Justice	4.7	14.1
General Services Administration	4.3	0.0
Corps of Engineers	3.6	0.8
Federal Emergency Management Agency	3.6	6.2
Department of Education	2.4	27.0
Department of Commerce	1.3	4.2
Legislative Branch	1.5	0.4
Judicial Branch	0.8	0.4
National Aeronautics and Space Administration	0.7	5.5
Executive Office of the President	0.3	0.0
National Science Foundation	0.2	4.6
Small Business Administration	1.1	1.7
Total	2,368.7	752.9

Tax Burden

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The tables present the latest available information on income tax and on related income, deductions and credit for individuals by income level and for corporations by size of assets.

Individual Income Tax Returns for Tax Year 1998

(In millions of dollars unless otherwise noted)	Size of Adjusted Gross Income					
	Under $15,000	**$15,000 under $30,000**	**$30,000 under $50,000**	**$50,000 under $100,000**	**$100,000 under $200,000**	**Greater than $200,000**
Total number of returns	40.2	30.0	21.1	23.1	6.3	2.1
Gross income	244.8	662.4	911.1	1,601.0	833.0	1,215.2
Adjusted gross income	241.2	656.0	903.3	1,588.3	822.6	1,204.7
Tax	8.5	47.6	91.6	203.4	144.6	317.9
Tax burden, percentage of gross total receipts	3.46%	7.18%	10.05%	12.70%	17.36%	26.16%
Average tax dollars per return	$211	$1,585	$3,964	$8,802	$23,081	$152,447
Deductions on Taxable Income:						
Standard deduction	175.6	143.7	87.5	47.4	4.0	1.1
Itemized deduction	15.5	47.1	99.8	243.3	135.0	135.9
Medical and dental expense	5.6	8.6	7.0	7.8	2.3	1.0
Interest paid	5.3	19.1	44.9	107.7	54.5	40.2
Charitable contributions	1.1	5.6	12.0	32.1	19.6	39.0
Other itemized deductions	3.5	13.8	35.9	95.7	58.6	55.7
Total deductions	191.1	190.8	187.3	290.7	139.0	137.0
Total expenditures, deductions	6.6	13.7	18.8	36.9	24.1	35.8
Credits Against Tax Liability:						
Child care credit	-	0.6	0.5	1.0	0.2	-
Credit for elderly and disabled	-	-	-	-	-	-
Foreign tax credit	-	-	-	0.3	0.6	4.0
Earned Income Tax Credits, offset tax liability	0.2	2.1	6.0	-	-	-
Other credits	0.5	4.1		8.2	0.9	1.0
Total credits	0.7	6.8	6.5	9.5	1.7	5.0
Total expenditures, and credits, individual	7.3	20.5	25.3	46.4	25.8	40.8

Corporation Income Tax Returns for Tax Year 1997

(In millions of dollars unless otherwise noted)	Size of Total Assets (In thousands)					
	Under $1,000	**$1,000 under $10,000**	**$10,000 under $50,000**	**$50,000 under $100,000**	**$100,000 under $250,000**	**Greater than $250,000**
Total returns (In thousands)	4,251.8	388.0	44.4	8.7	8.0	9.0
Total receipts	2,230.1	2,319.4	1,396.7	534.3	779.8	9,349.4
Taxable income	31.7	27.3	26.5	16.5	30.8	550.5
Total tax	8.2	8.5	8.7	5.4	10.0	143.5
Tax burden, percentage of gross total receipts	0.37%	0.37%	0.62%	1.01%	1.27%	1.54%
Average tax per return (in thousands)	1.9	21.8	195.0	618.3	1,238.5	15,916.6
Deductions on Taxable Income:						
Net operating loss	10.6	5.4	4.5	2.6	4.0	33.3
Dividends received	2.1	1.1	1.7	1.6	4.2	176.1
Public utility dividends paid	-	-	-	-	-	-
Total deductions	2,176.0	2, 274.2	1,363.2	515.3	739.6	8,636.3
Total expenditures, deductions	8.1	8.4	8.5	5.2	9.4	133.0
Credits Against Tax Liability:						
Foreign tax credit	0.4	0.1	0.2	0.1	0.4	41.0
U.S. Possessions tax credit	-	-	0.1	0.2	0.4	2.1
Nonconventional source fuel credit	-	-	-	-	-	1.0
General business credit	0.2	0.1	0.1	0.1	0.2	4.4
Other credits	0.1	0.1	0.1	0.1	0.1	3.5
Total credits	0.7	0.3	0.5	0.5	1.1	52.0
Total expenditures, corporation	8.8	8.7	9.0	5.7	10.5	185.0

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Other Information (Unaudited)

Other Claims for Refund

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the Federal courts or, internally, by appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is $8.4 billion. For those under appeal, the estimated payout is $13.5 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in Statements of Federal Financial Accounting Standards (SFFAS) No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the Notes to the Financial Statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Federal Taxes Receivable Net

In accordance with SFFAS No. 7, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1 to the financial statements. Although compliance assessments and writeoffs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Internal Revenue Service (IRS)—acting on behalf of the Federal Government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of net Federal taxes receivable at September 30, 2000, are shown in the chart below.

The Government cannot reasonably estimate the amount of allowance for doubtful accounts pertaining to its compliance assessments and, thus, cannot determine their net realizable value or the value of the pre-assessment work in progress.

To eliminate double-counting, the compliance assessments exclude trust fund recovery penalties, totaling $14 billion, assessed against officers and directors of businesses who were involved in the non-remittance of Federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or writeoffs. But, the Government also may recover portions of those businesses' unpaid assessments from individual officers and directors against which a trust fund recovery penalty is assessed.

Federal Taxes Receivable as of September 30

(In billions of dollars)

Gross unpaid assessments	240.0
Less: Compliance assessments and writeoffs	(156.3)
Gross Federal taxes receivable	83.7
Less: Allowance for doubtful accounts	(60.4)
Federal taxes receivable, net	23.3

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Appendix: List of Significant Government Entities Included and Excluded from the Financial Statements

This *Financial Report of the United States Government* includes the executive branch and parts of the legislative and judicial branches of the Government. Excluded are privately owned Government-sponsored enterprises such as the Federal Home Loan Banks and the Federal National Mortgage Association. The Federal Reserve System also is excluded because organizations and functions pertaining to monetary policy are traditionally separate from, and independent of, other central Government organizations and functions.

Significant Entities Included in these Statements:

Department of Agriculture (USDA)
www.usda.gov
Department of Commerce (DOC)
www.doc.gov
Department of Defense (DOD)
www.defenselink.mil
Department of Education (ED)
www.ed.gov
Department of Energy (DOE)
www.doe.gov
Department of Health and Human Services (HHS)
www.hhs.gov
Department of Housing and Urban Development (HUD)
www.hud.gov
Department of the Interior (DOI)
www.doi.gov
Department of Justice (DOJ)
www.usdoj.gov
Department of Labor (DOL)
www.dol.gov
Department of State (DOS)
www.state.gov
Department of the Air Force (Air Force)
www.af.mil
Department of the Army (Army)
www.army.mil
Army Corps of Engineers
www.usace.army.mil
Department of the Navy (Navy)
www.navy.mil
Department of Transportation (DOT)
www.dot.gov
Department of the Treasury (Treasury)
www.ustreas.gov
Department of Veterans Affairs (VA)
www.va.gov
U.S. Agency for International Development (USAID)
www.usaid.gov
Commodity Credit Corporation (CCC)
Commodity Futures Trading Commission (CFTC)
www.cftc.gov
Environmental Protection Agency (EPA)
www.epa.gov
Executive Office of the President
Export-Import Bank of the United States (Ex-Im Bank)
www.exim.gov
Farm Credit Administration (FCA)
www.fca.gov
Federal Communications Commission (FCC)
www.fcc.gov
Federal Deposit Insurance Corporation (FDIC)
www.fdic.gov
Federal Emergency Management Agency (FEMA)
www.fema.gov
Federal Trade Commission (FTC)
www.ftc.gov
General Accounting Office (GAO)
www.gao.gov
General Services Administration (GSA)
www.gsa.gov
Government Printing Office (GPO)
www.gpo.gov
Library of Congress (LC)
www.loc.gov
National Aeronautics and Space Administration (NASA)
www.nasa.gov
National Archives and Records Administration (NARA)
www.nara.gov
National Credit Union Administration (NCUA)
www.ncua.gov
National Science Foundation (NSF)
www.nsf.gov
National Transportation Safety Board (NTSB)
www.ntsb.gov
Nuclear Regulatory Commission (NRC)
www.nrc.gov
Office of Management and Budget (OMB)
www.whitehouse.gov/omb/
Office of Personnel Management (OPM)
www.opm.gov
Pension Benefit Guaranty Corporation (PBGC)
www.pbgc.gov

Entities Included, cont.

Railroad Retirement Board (RRB)
www.rrb.gov
U.S. Securities and Exchange Commission (SEC)
www.sec.gov
Small Business Administration (SBA)
www.sba.gov
Smithsonian Institution
www.si.edu
Social Security Administration (SSA)
www.ssa.gov
Tennessee Valley Authority (TVA)
www.tva.gov
U.S. Postal Service (USPS)
www.usps.gov

Significant Entities Excluded from these Statements:

Army and Air Force Exchange Service
Board of Governors of the Federal Reserve System
(Including the Federal Reserve Banks)
Federal National Mortgage Association (Fannie Mae)
Farm Credit System
Federal Home Loan Banks
Federal Retirement Thrift Investment Board
Financing Corporation
Federal Home Loan Mortgage Corporation
(Freddie Mac)
Marine Corps Exchange
Navy Exchange Service Command
Resolution Funding Corporation
U.S.A. Education Inc. (Sallie Mae)
Thrift Savings Fund