Consolidated Financial Statements of the United States Government

cfs 1996

PROTOTYPE

Compiled and Published by
Department of the Treasury
Financial Management Service fms

from the secretary of the treasury...

STATEMENT OF THE SECRETARY OF THE TREASURY

The Department of the Treasury is pleased to present these prototype Consolidated Financial Statements (CFS), an annual effort begun more than two decades ago to apply the principles of business accounting to the business of government. The statements for fiscal year 1996 were prepared following the guidance set forth in OMB Bulletin 97-01 entitled *"Form and Content of Agency Financial Statements."* This will be the last set of unaudited prototype statements. Next year, the CFS for fiscal year 1997 will be the first set of audited financial statements for the United States Government in compliance with the Government Management Reform Act of 1994. This will move us further in the direction of improving the quality of financial information in the federal government.

The Government Management Reform Act of 1994 mandated that the 24 major executive agencies produce audited financial statements for fiscal year 1996, and that the Treasury produce the first audited Consolidated Financial Statements covering fiscal year 1997.

I expect to see continued progress in the area of quality improvement in financial statements. Decision makers need more useful and reliable information to evaluate financial and program performance. We intend to make these consolidated statements more useful to you in the years ahead as improvements are made in the quality, form and content of agency financial statements.

Robert E. Rubin

from the comptroller general...

Comptroller General
of the United States

Washington, D.C. 20548

May 21, 1997

Fiscal year 1996 marked a major milestone for federal management. For the first time in our nation's history, the 24 largest departments and agencies prepared financial statements covering their entire operations, and those statements were subjected to independent audits. This mandate finally puts the federal government on a par with the private sector and state and local governments, which for years have been required to have audited financial statements.

These annual audited financial statements—required by the Government Management Reform Act (GMRA) of 1994, which expanded the Chief Financial Officers Act of 1990—are an essential step forward in identifying and addressing needed improvements in controls and generating critical data to assess the government's performance. While certain federal agencies received an unqualified audit opinion on their fiscal year 1996 statements, this positive certification is still not the norm. Continued progress will be required for agencies to routinely produce reliable data and the type of cost and performance information needed to support broader reforms, such as the Government Performance and Results Act.

Reforms unfolding in coming years will continue to stimulate essential improvements. GMRA established the requirement that major federal agencies annually prepare agencywide financial statements and have them audited. It also required, beginning with fiscal year 1997, that the Department of the Treasury prepare annual consolidated financial statements for the government and that the General Accounting Office (GAO) audit this overall scorecard on our national government's financial status and stewardship. These audited financial statements impose management discipline and help produce reliable information for decisionmakers. Fiscal year 1996 will be the last year for these prototype statements, which have limited usefulness and reliability. Moreover, full implementation of reporting concepts and accounting standards developed by the Federal Accounting Standards Advisory Board—created by the Office of Management and Budget, Treasury, and GAO—will occur in fiscal years 1997 and 1998. Additionally, fiscal year 1997 will usher in the new requirements of the Federal Financial Management Improvement Act of 1996, which will help ensure greater attention to making much needed improvements in underlying financial management systems.

We are continuing to work with the executive branch and the Congress to make all these reforms a reality. Only then will there be full accountability to the American public.

James Hinchman
Acting Comptroller General

Economic and Budget Results for Fiscal 1996

ECONOMIC GROWTH PICKED UP SLIGHTLY in fiscal 1996. The rate of growth was in line with steady long-term trends that are consistent with low inflation. Job growth continued through the fiscal year, with 2.4 million new jobs added. The unemployment rate remained within a very low 5.2 percent to 5.7 percent band. Inflation was well contained, with the underlying rate of inflation dropping over the fiscal year to its lowest reading since 1965. The Federal budget deficit continued to fall, declining by $57 billion in fiscal 1996 for a total drop of $183 billion over the past 4 fiscal years.

The Economy in Fiscal 1996

Real gross domestic product (GDP) grew by 2.2 percent across the four quarters of fiscal 1996 (which encompasses the fourth quarter of calendar 1995 through the third quarter of calendar 1996). This was a slight increase from the 2.0 percent recorded in the previous fiscal year, but below the rapid rate of growth over the four quarters of fiscal 1994, when GDP expanded by 3.9 percent. That rate of expansion had led to increased concerns about a possible speed-up in the rate of inflation, prompting the Federal Reserve Board to tighten monetary policy during the course of fiscal 1994 and on into fiscal 1995. As growth slowed and inflation fears ebbed, the Federal Reserve Board eased monetary policy at the end of fiscal 1995 and again in fiscal 1996. Growth had moderated to just a 0.3 percent annual rate in the first quarter of fiscal 1996, but by the third quarter of the fiscal year was back up to a 4.7 percent pace. Growth over the four quarters, as noted, was 2.2 percent.

Among the various sectors of the economy, consumer spending (which accounts for about two-thirds of real GDP) increased at a moderate 2.1 percent rate in fiscal 1996, a bit slower than the 2.4 percent rise in the prior fiscal year. Business investment spending rose by 8.7 percent over the fiscal year, led by continued strong gains in capital spending on equipment. Residential construction recovered from a 3.0 decline in the previous fiscal year, rising by 5.9 percent (in real terms) over the four quarters of fiscal 1996 as the housing market improved. Holding growth down in fiscal 1996 was deterioration in the real net export balance as accelerating economic growth drew in imports at a faster pace than the rate of growth in exports. The real net export deficit widened by $36 billion over the year, but was a relatively moderate 2.0 percent of GDP.

Employment growth proceeded at a rapid pace in fiscal 1996, with 2.4 million new jobs added, a little less than the 2.6 million added in fiscal 1995. Most of the new jobs were in the private service-producing sector, with especially strong growth in retail trade and in business, health, and management services. Employment in manufacturing, in contrast, declined over the fiscal year. The unemployment rate stayed within a very narrow range of 5.2 percent to 5.7 percent over the course of fiscal 1996, the lowest rates of unemployment in 6 years.

Despite healthy economic growth and very low rates of unemployment, broad measures of inflation remained very subdued in fiscal 1996. There was some pick up in energy prices over the course of the year, contributing to an acceleration in consumer prices to 3.1 percent from 2.5 percent in fiscal 1995, but excluding the volatile energy and food components, consumer prices were very well behaved. The "core" rate of inflation dropped to 2.6 percent in fiscal 1996, down from 3.0 percent over the twelve months of fiscal 1995 and the slowest rate of underlying consumer price inflation since 1965.

Budget Results

The Federal budget deficit narrowed significantly in fiscal 1996. The deficit declined by $56.6 billion to $107.3 billion, the lowest in 15 years. After reaching an all-time high of $290.4 billion in fiscal 1992, the deficit has been cut by almost two-thirds over the past 4 years, or by a total of $183.1 billion. As a share of GDP, the deficit fell from 4.7 percent in fiscal 1992 to 1.4 percent in fiscal 1996, the lowest share since fiscal 1974.

The large improvement over the last 3 years resulted partly from passage of the President's Economic Plan in 1993 (the Omnibus Budget Reconciliation Act of 1993) and partly from the speed-up in economic growth since 1992. That figure was about evenly split between revenue increases and curbs on growth of spending. Largely because the economy has performed even better than expected, however, it is now projected that the plan will cut the1994 through 1998 deficits by almost twice as much.

In fiscal 1996, growth of outlays was held to $44.6 billion, or 2.9 percent. That figure was held down a bit by a timing quirk in the calendar which resulted in one less payment date in fiscal 1996 for selected categories of pay. Excluding the timing difference, growth of outlays in fiscal 1996 was closer to 3-1/2 percent, still a very modest increase by recent standards.

Outlays for defense continued to decline in fiscal 1996, down by $6.3 billion or 2.3 percent. Along with lower defense spending, budget balance was also assisted by slower growth in most other major spending categories. Net interest payments only rose by $8.9 billion (3.8 percent) in fiscal 1996 compared with a jump of over $29 billion in the previous fiscal year. Lower interest rates were primarily responsible for the improvement. Growth in Social Security, Medicare, Medicaid grants, and most other major governmental functions also slowed in fiscal 1996.

Receipts increased by 7.5 percent in fiscal 1996, which was more than 3 percentage points faster than the rise in economic activity over the fiscal year (as measured by the nominal value of GDP). Growth of receipts in 1996 was led by very strong gains in nonwithheld individual income tax payments, partly due to special factors and partly to strong capital gains from the rising stock market. Corporate income tax receipts also grew rapidly as profits continued to rise.

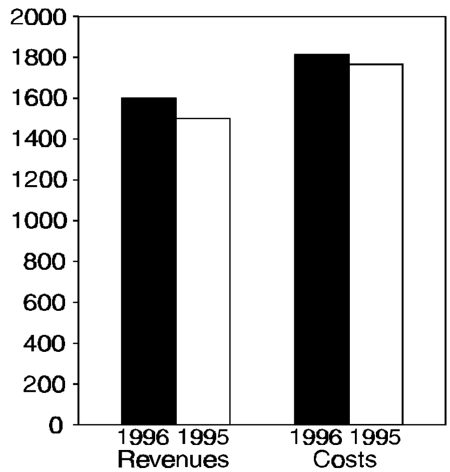
The deficit had been projected to rise in fiscal 1997 when the Fiscal Year 1998 Budget was prepared in February, but receipts in fiscal 1997 have exceeded projections as jobs and incomes continued their rapid growth. As a result, the fiscal 1997 deficit will fall below the level of 1996. The deficit is expected to diminish further and the budget balance is projected to be reached in fiscal 2002.

Office of Economic Policy
May 15, 1997

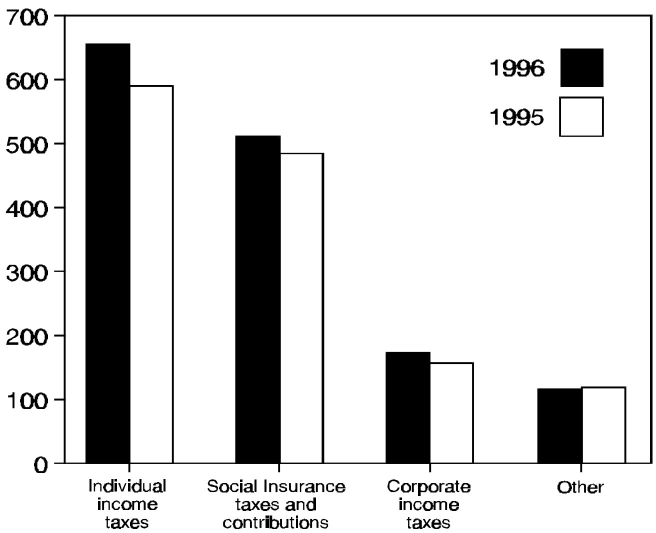
Exchange and Non-Exchange Revenues and Cost

(All graphs are in billions of dollars.)

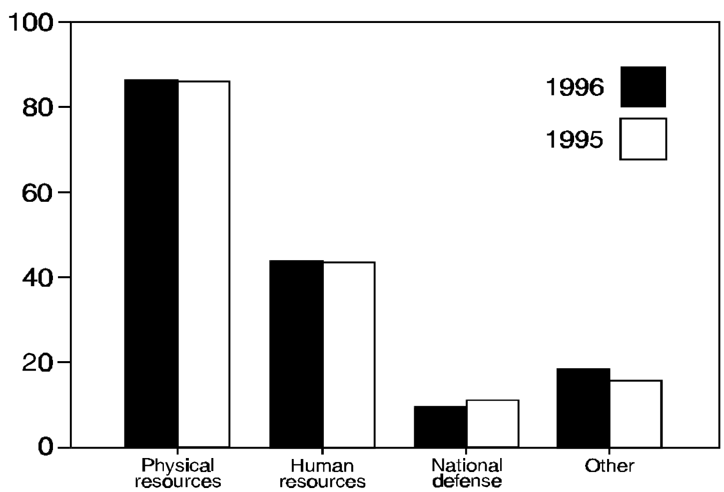
The graphs on this page and on page 6 show categories of revenues by source and the Government's cost by function for fiscal 1996 and 1995. Sources of non-exchange revenues levied under the Government's sovereign power are reported on the cash basis. Sources of exchange revenues and gross cost by function are reported on the accrual basis.



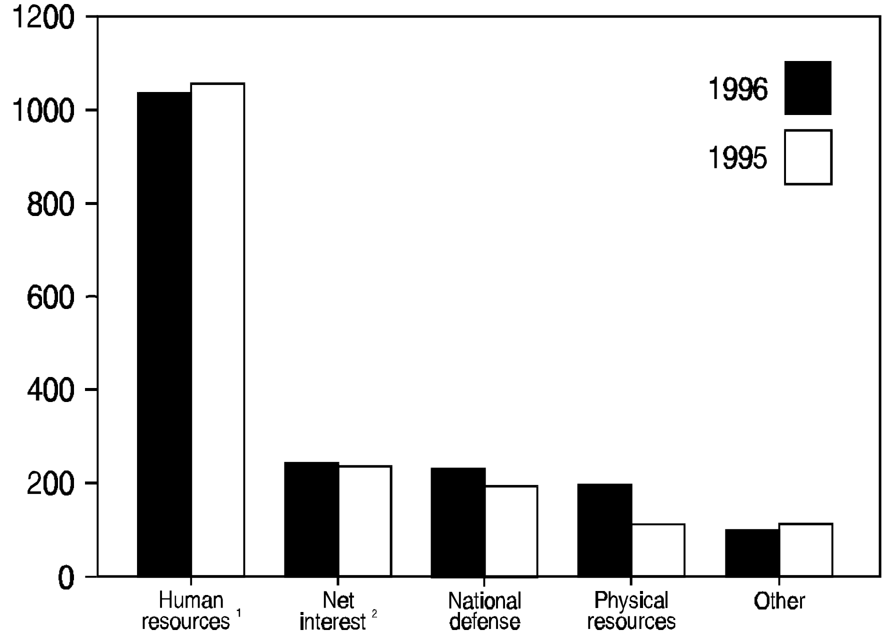
Sources of Non-Exchange Revenues



Sources of Exchange Revenues



Gross Cost by Function

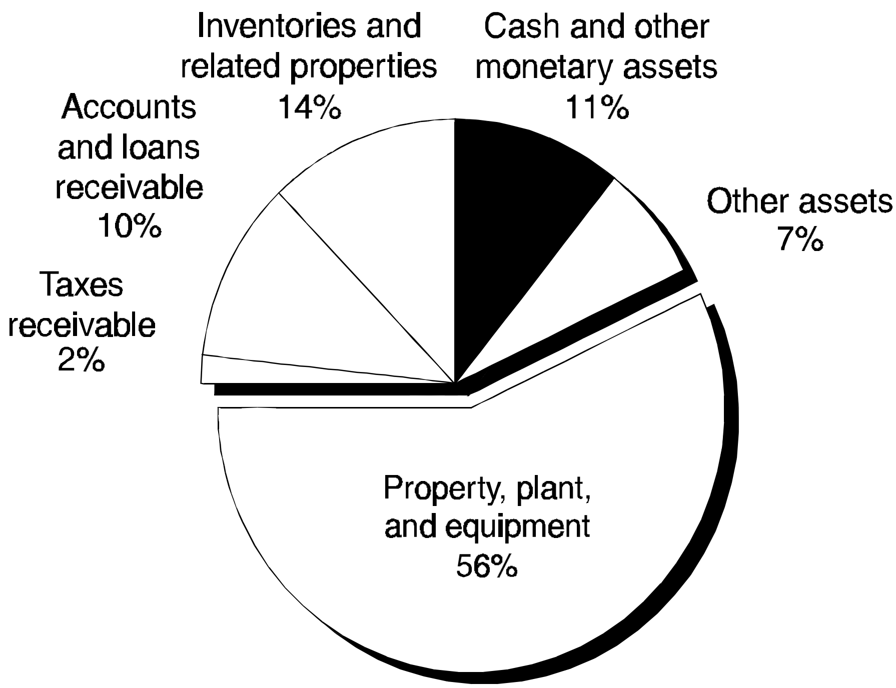


[1] See “Gross Costs” column in the United States Government Consolidated Statement of Net Cost on page 15.
[2] Does not include interest on investments held by Government agencies.

Major Categories of Assets as of September 30, 1996

Assets are resources owned by or owed to the Federal Government that are available to pay liabilities or to provide future public services. The chart below is derived from the Statement of Financial Position (page 12). It depicts the major categories of assets as of September 30, 1996, as a percentage of total assets. The components for each of these categories are contained in Notes to Financial Statements.

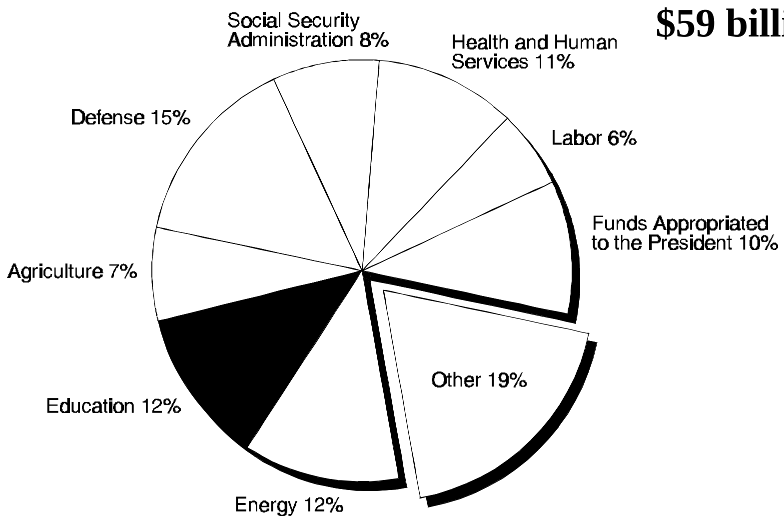
Total Assets: $1,724 billion



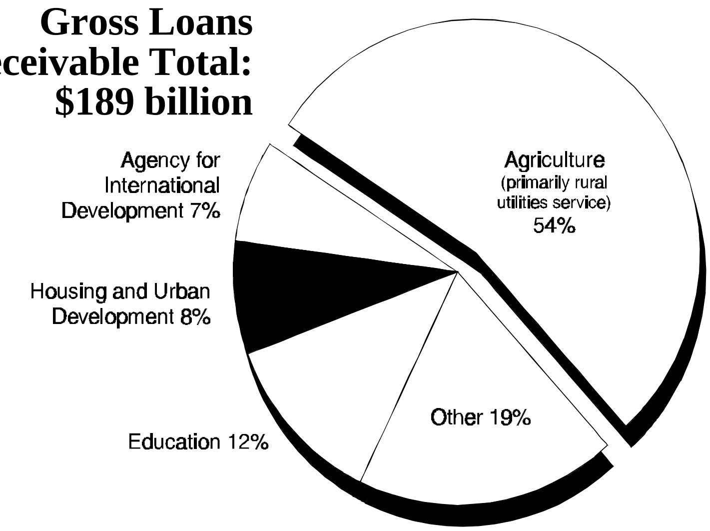
Gross Accounts and Loans Receivable as of September 30, 1996

The amounts in these graphs were derived from the agencies' adjusted trial balances (ATB) as reported on the Federal Agencies' Centralized Trial-Balance System (FACTS). These gross amounts, less allowances of $14.4 billion and $62.3 billion for accounts and loans receivable, respectively, are included in the Statement of Financial Position on page 12.

Gross Accounts Receivable Total: $59 billion



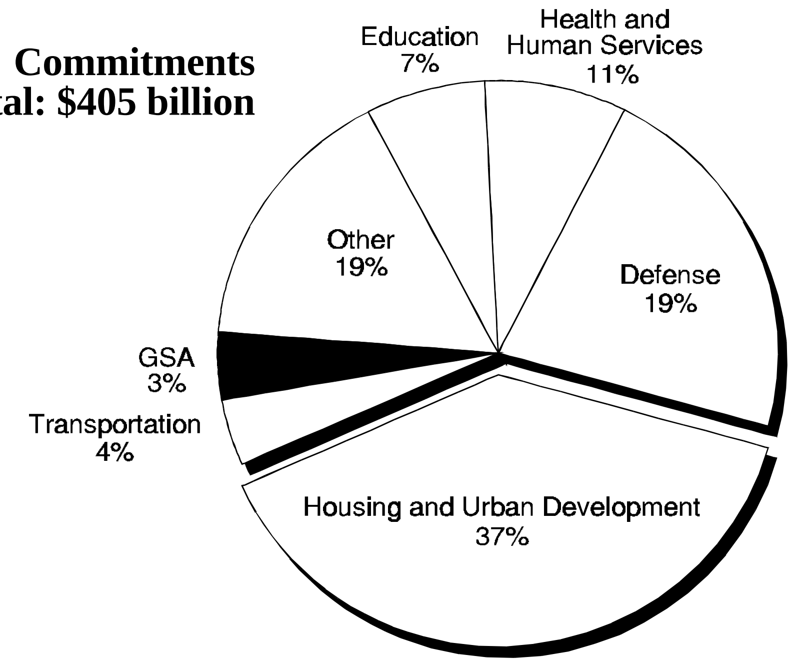
Gross Loans Receivable Total: $189 billion



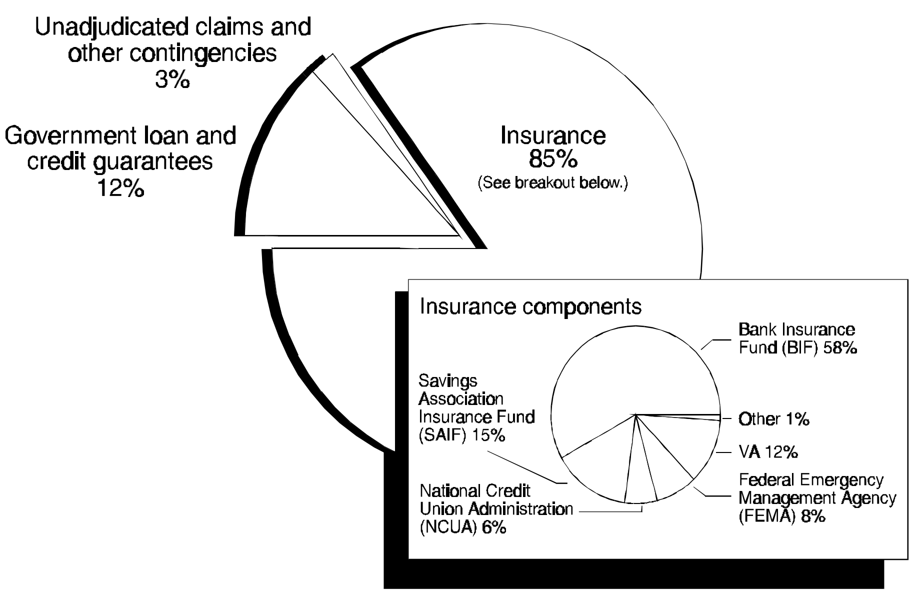
Commitments and Contingencies

For a breakdown of the figures illustrated in these charts, see Commitments and Contingencies of the United States Government for the Years Ended September 30, 1996 and 1995, on pages 32 and 33.

Commitments Total: $405 billion



Contingencies (at face value) Total: $5,447 billion

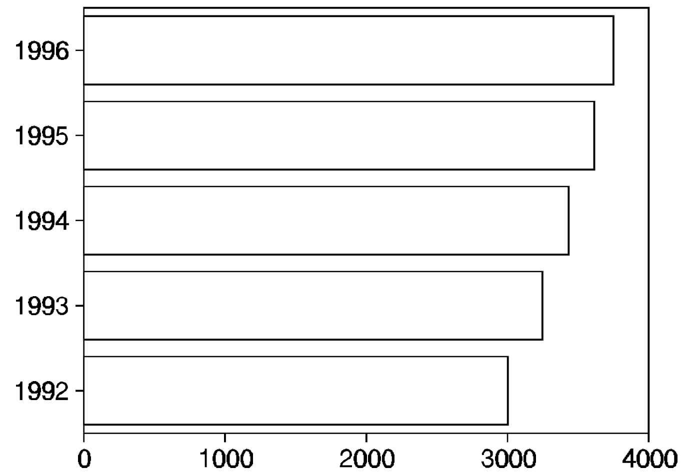


Federal Debt

The following graphs represent different facets of the net Federal debt, excluding intragovernmental investments. For a breakdown of the Federal debt, see the tables on pages 22 through 24.

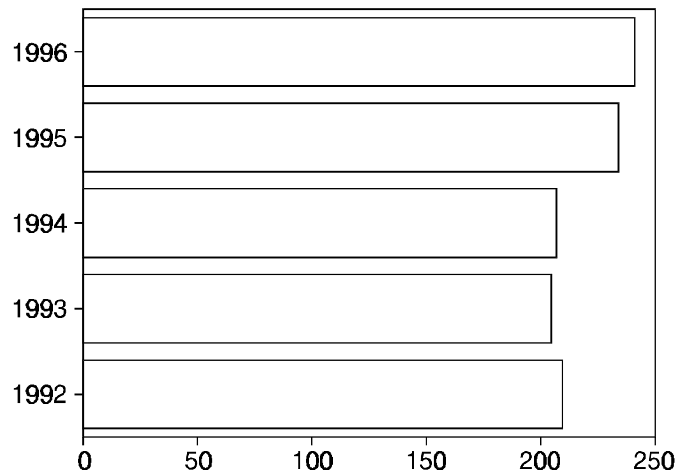
Federal Debt Held by the Public, Fiscal 1992-1996

(In billions of dollars)



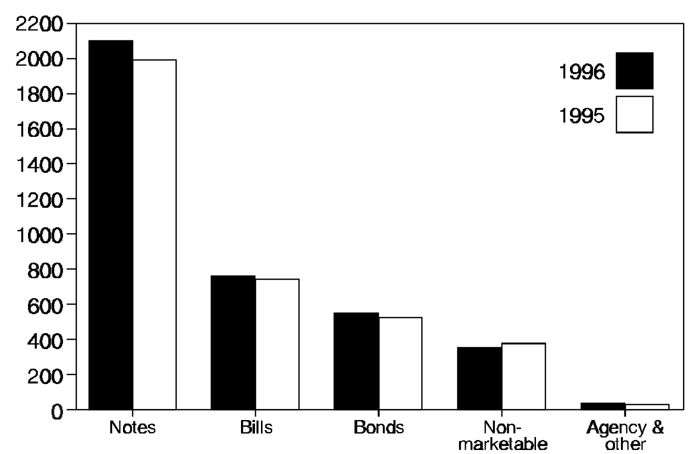
Interest Expense for Federal Debt Held by the Public, Fiscal 1992-1996

(In billions of dollars)



Types of Securities as of September 30, 1995-1996

(In billions of dollars)



consolidated financial statements

The Consolidated Financial Statements (CFS) report on the financial status and activity of the executive, legislative, and judicial branches of the Federal Government, and include those Government corporations that are part of the Federal Government. The Government-sponsored enterprises and the Federal Reserve System are excluded. The fiscal year of the U.S. Government ends on September 30.

The consolidated statements presented include:

- **The Statement of Financial Position**, which shows what the Government owes and owns. See page 12.
- **The Statement of Net Cost**, which portrays the cost of the Government operation for the year. See page 15.
- **The Statement of Changes in Net Position**, which shows non-exchange revenues for the year. See page 17.

The following changes have been incorporated in the principal statements and in the supplemental tables for fiscal 1996:

- The Statement of Financial Position remains the same, except for Environmental Liabilities and Taxes Receivable. These line items were previously included in Other Liabilities and Accounts Receivable, respectively. See page 12.
- Depreciation previously calculated by Treasury has been replaced with agencies' actual figures. See page 20.
- The Statement of Operations has been replaced by the Statement of Net Cost (page 15) and the Statement of Changes in Net Position (page 17).
- Expenditures previously reported on a departmental basis are now reported by functional classification. See page 15.
- A new concept for categorizing revenue has been introduced: Exchange and non-exchange revenues. See pages 13 and 16.
- The Reconciliation of the Change in Net Position to the Deficit has been introduced in the supplemental tables. See page 34.

Statement of Financial Position

This statement shows the operating assets of the Government that were acquired under the reporting year and prior year budgets and which remain available as resources to supply Government goods or satisfy service needs in the future. It also shows the Government's operating liabilities, some of which have not yet been funded by congressional appropriations. The net position shown in the statement reflects debt held by the public plus liabilities resulting from the application of accrual accounting standards rather than budgetary accounting concepts.

The Statement of Financial Position does not include certain values such as stewardship assets, investments, and responsibilities (refer to the Statement of Federal Financial Accounting Standard No. 8). Additional information on some of the aforementioned can be found in Note 14 on Social Security and Medicare, and in the supplemental schedules regarded as additions to non-Federal economic resources.

United States Government Consolidated Statement of Financial Position as of September 30 (Unaudited)

(In billions of dollars)

Assets	1996	1995
Cash and other monetary assets	193.4	193.5
Accounts and loans receivable	171.7	161.8
Taxes receivable [1]	33.8	46.2
Inventories and related properties	232.1	219.9
Property, plant, and equipment	969.1	934.4
Other assets	123.8	133.6
Total assets	1,723.9	1,689.4
Liabilities and Net Position		
Accounts payable	161.8	153.6
Federal debt securities held by the public	3,730.0	3,603.3
Pensions and other actuarial liabilities	1,651.5	1,628.2
Environmental liabilities	246.5	227.2
Other liabilities	283.6	228.7
Total liabilities	6,073.4	5,841.0
Net position	-4,349.5	-4,151.6

[1] Taxes receivable for individual and corporate income taxes, net of allowances for loss, are reported by the Internal Revenue Service.

Statement of Net Cost

This statement shows the annual net cost of Government operations which is funded by taxes, borrowing, or other means. The statement reflects the cost incurred to carry out the priorities determined by appropriation acts and authorizing legislation. The statement contains two components: (1) the gross cost of Government operations less (2) revenues earned from the public for goods and services. (See page 15 for the consolidated statement.)

Gross costs

Gross cost includes the full cost of the functions and consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to the function.

Exchange revenues

These are revenues that arise when the U.S. Government provides goods and services to the public or to another Government entity for a price. The full amount of exchange revenues is to be reported on the Statement of Net Cost.

Net costs

Net cost is the difference between a function's gross cost and its related exchange revenues. This amount represents the net cost of operations of a function that is funded by sources other than exchange revenues. The financing sources for net cost of operations are reported on the Statement of Changes in Net Position.

Notes to the Statement of Net Cost

Functions of Government and their cost

The Government has begun to implement a law to measure performance and results. In arranging data on a functional basis, costs are classified according to the primary purpose of the activity. To the extent feasible, this classification is made without regard to agency or organizational distinctions. Classifying each activity solely in the function defining its most important purpose—even though many activities serve more than one purpose—permits adding the cost of each function to obtain the total cost.

The objectives of each of the Government's functions are described below. For additional information about agencies and departments responsible for these functions, see their individual financial statements and the Budget of the United States Government.

National defense

This function includes those programs directly related to the common defense and security of the United States. Coverage includes compensation and benefits for civilian and military personnel, development and utilization of weapons systems, and related programs. The areas falling within national defense's responsibilities are: military activities, atomic energy defense activities, and defense-related activities.

Education, training, employment, and social services

This function includes expenditures to promote extension of knowledge and skills, enhance employment opportunities and to provide public services. The programs included are: elementary, secondary and vocational education, higher education, research and general education aids, training and employment, other labor services, and social services.

Health

This function includes those programs that have as their basic purpose the promotion of the physical and mental health of the Nation's population and the payments for or to persons for which no current service is rendered (retirement pay). The programs included are: health care services, health research, education and training of the health care workforce, consumer and occupational health and safety.

Medicare

This function includes the programs covered by Medicare: hospital insurance and supplementary medical insurance.

Income security

This function includes general retirement and disability insurance, Federal employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance, and other income security.

Social Security

This function includes the programs covered by Social Security: Old-age and survivors insurance and disability insurance, Federal employees retirement and disability, unemployment compensation, public assistance, and income supplements.

Veterans benefits and services

This function includes programs providing benefits and services to eligible individuals with prior military service. The programs included are: income security for veterans, veterans education, training and rehabilitation, hospital and medical care for veterans, veterans housing, and other veterans benefits and services.

Energy

This function includes those programs designed to promote an adequate supply and appropriate use of energy to serve the needs of the economy. Areas within energy include: energy supply, conservation, sciences, emergency energy preparedness, energy information, and policy and regulation.

Natural resources and environment

This function includes those programs whose primary purpose is to develop, manage, and maintain the Nation's natural resources and environment. Activities within this area include: water resources, conservation and land management, recreational resources, pollution control and abatement, and other natural resources.

Commerce and housing credit

This function includes the promotion and regulation of commerce and the housing credit and thrift insurance industries. The programs included are: mortgage credit and thrift insurance, postal service, Federal Financing Bank, and other advancement and regulation of commerce.

Transportation

This function includes all the programs with the primary aim of providing for the transportation of the general public and/or their property. The programs included are: ground transportation, air transportation, water transportation and other transportation.

Community and regional development

This function includes all broad-based community, regional, urban and rural renewal and development programs. The programs included are: community development, area and regional development and disaster relief and insurance.

Under the Federal Emergency Management Agency (FEMA), the Federal Insurance Administration program Federally sponsored flood insurance coverage to individuals and businesses.

International affairs

This function includes programs for the maintenance of peaceful relations, commerce, and travel between the United States and the remainder of the world. The areas falling within international affairs are: foreign economic and financial assistance, military assistance, conduct of foreign affairs, foreign information and exchange activities, and international financial programs.

General science, space, and technology

This function includes programs whose resources are allocated to general science and basic research, space flight, space science, applications and technology, and supporting space activity.

Agriculture

This function includes those programs that promote the economic stability of agriculture and the Nation's capability to maintain and increase agricultural production. The programs included are: farm income stabilization, and agricultural research and services.

Administration of justice

This function includes those programs designated to provide judicial services, police protection, law enforcement and the promotion of the general maintenance of domestic order. The programs included are: Federal law enforcement activities, Federal litigative and judicial activities, Federal correction activities, and criminal justice assistance.

Interest

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

General Government

This function includes the general overhead costs of the Federal Government, including legislative and executive activities, personnel, and property activities. The programs included are: legislative functions, executive direction and management, central fiscal operations, general property and records management, central personnel management, and other general Government.

United States Government Consolidated Statement of Net Cost for the Year Ended September 30 (Unaudited)

(In billions of dollars)

Costs of Government Functions	Gross Costs 1996	Gross Costs 1995	Exchange Revenues 1996	Exchange Revenues 1995	Net Costs 1996	Net Costs 1995
National Defense	230.2	194.6	9.4	11.1	220.8	183.5
Human resources:						
Education, training, employment, and social services	54.5	82.5	1.6	3.2	52.9	79.3
Health	132.9	132.2	5.4	4.8	127.5	127.4
Medicare	224.7	211.1	20.3	21.2	204.4	189.9
Income security	227.8	186.0	11.8	10.6	216.0	175.4
Social Security	380.8	364.1	1.1	-	379.7	364.1
Veterans' benefits and services	13.3	81.0	3.6	3.7	9.7	77.3
Subtotal	1,034.0	1,056.9	43.8	43.5	990.2	1,013.4
Physical resources:						
Energy	31.2	15.1	14.0	10.2	17.2	4.9
Natural resources and environment	29.8	23.8	3.0	2.9	26.8	20.9
Commerce and housing credit	73.2	70.0	66.2	68.9	7.0	1.1
Transportation	53.7	37.4	2.1	2.5	51.6	34.9
Community and regional development	8.1	13.7	.9	1.5	7.2	12.2
Subtotal	196.0	160.0	86.2	86.0	109.8	74.0
Net interest:						
Interest on the public debt	241.7	234.3	-	-	241.7	234.3
Other	.1	.1	-	-	.1	.1
Subtotal	241.8	234.4	-	-	241.8	234.4
Other functions:						
International affairs	20.8	19.3	6.0	2.7	14.8	16.6
General science, space, and technology	16.5	17.9	-	.1	16.5	17.8
Agriculture	16.7	7.0	2.8	2.9	13.9	4.1
Administration of justice	21.5	16.9	1.0	1.1	20.5	15.8
General Government	26.7	50.3	8.5	8.8	18.2	41.5
Subtotal	102.2	111.4	18.3	15.6	83.9	95.8
Total	1,804.2	1,757.3	157.7	156.2	1,646.5	1,601.1

The accompanying notes are an integral part of this statement.

Statement of Changes in Net Position

The Statement of Changes in Net Position reports the beginning net position, the items which caused net position to change during the reporting period, and the ending net position. It shows the revenues generated principally by the Government's sovereign power to tax, levy duties, and assess fines and penalties, as well as any prior period adjustments that affect the net position.

Net cost of Government operations

Net cost of Government operations is the cost of operations reported on the Statement of Net Cost. Financing sources from non-exchange revenues are taxes and other non-exchange revenues, including donations, which the Federal Government is able to demand or receive due to its sovereign powers.

Prior period adjustments

Prior period adjustments are limited to corrections of errors and accounting changes with retroactive effects that can either increase or decrease net position depending upon their nature, including adjustments occasioned by the adoption of new Federal financial accounting standards. Adjustments are included in the calculation of the net change in cumulative results of operations, rather than as an element of net results for the period. Prior period statements should not be restated for prior period adjustments.

Net position-beginning of period

The amount is the net position reported on the prior year's balance sheet.

Net position-end of period

This amount shall agree with the amount reported as net position on the current year's balance sheet.

United States Government Consolidated Statement of Changes in Net Position for the Year Ended September 30 (Unaudited)

(In billions of dollars)

	1996	1995
Net cost of Government operations	-1,646.5	-1,601.1
Less financing sources from non-exchange revenues:		
From income taxes:		
Individual	656.4	590.2
Corporate	171.8	157.0
From employment taxes and contributions:		
Social Security	371.4	355.0
Medicare	105.0	96.0
Unemployment insurance	28.6	28.9
From other taxes and Governmental receipts:		
Excise taxes	54.0	57.5
Estate and gift taxes	17.2	14.8
Customs duties	18.7	19.3
Miscellaneous	25.5	27.3
Total non-exchange revenues	1,448.6	1,346.0
Net results of operations	-197.9	-255.1
Prior period adjustments	-	[1] 109.7
Change in net position	-197.9	-145.4
Net position, beginning of period	-4,151.6	-4,006.2
Net position, end of period	-4,349.5	-4,151.6

[1] Prior period adjustments consist of: environmental clean-up cost of -$227.2 billion; Bureau of Indian Affairs, -$1.6 billion; defense inventories and fixed assets, -$82.4 billion; and depreciation, $420.9 billion. (See note 6 for explanation of adjustment for depreciation.)

notes to financial statements

1. Summary of significant accounting policies

Principles of consolidation

The ‘‘Consolidated Financial Statements of the United States Government, Prototype 1996’’ (CFS) were prepared using Federal agencies’ financial data. Agencies submit their pre-closing adjusted trial balances under the Federal Agencies’ Centralized Trial-Balance System (FACTS) to the Financial Management Service electronically, via the Government On-Line Accounting Link System (GOALS).

The Consolidated Financial Statements report on the financial activity of the legislative, judicial, and executive branches of the Federal Government, and those Government corporations that are part of the Federal Government; the Federal Reserve System and the Government-sponsored enterprises are excluded. The legislative branch provides limited reports voluntarily. The judicial branch does not provide financial reports to Treasury.

All significant intragovernmental transactions were eliminated in consolidation.

Basis of accounting

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States, principals of the Joint Financial Management Improvement Program (JFMIP), established the Federal Accounting Standards Advisory Board (FASAB) in October 1990. FASAB recommends accounting standards to the JFMIP principals for approval. Upon approval, they become effective on the date specified in the standards published by OMB and GAO.

In March 1991, the JFMIP principals approved the FASAB’s recommendations governing interim accounting standards used in preparing financial statements for audit. Until a sufficient set of comprehensive ‘‘generally accepted accounting principles’’ have been published by JFMIP principals, the revised guidance recommends a hierarchy of ‘‘other comprehensive basis of accounting’’ to be used for preparing Federal agency financial statements. The hierarchy is as follows:

1. Individual standards agreed to and published by the JFMIP principals.
2. Form and content requirements included in OMB bulletin 94-01, dated November 16, 1993.
3. Accounting standards contained in an agency accounting policy, procedures manuals and/or related guidance as of March 29, 1991, so long as they are prevalent practices.
4. Accounting principles published by authoritative standard-setting bodies and other sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improves the meaningfulness of the financial statements.

To date, FASAB has recommended eight statements of accounting standards and two statements of accounting concepts. However, the majority were not effective for fiscal 1996.

Principal financial statements

The principal statements are unaudited and consist of the Statements of Financial Position, Net Cost, and Changes in Net Position, and use the accrual basis of accounting in their presentation. Revenues levied under the Government’s sovereign power are reported on the cash basis.

Fiscal year

The fiscal year of the U.S. Government ends September 30.

2. Cash and other monetary assets

Cash

The cash reported in the financial statements represents balances from tax collections, customs duties, other revenues, public debt receipts, foreign currencies, and various other receipts maintained in accounts at the Federal Reserve banks and the U.S. Treasury tax and loan accounts.

Gold

Gold is valued at market for fiscal 1996 and 1995. The market value represents the price reported for gold on the London fixing, and is based on 261,702,958.879 and 261,734,796.787 fine troy ounces as of September 30, 1996 and 1995, respectively (as reported in Treasury’s general ledger). The statutory price of gold is $42.2222 per troy ounce.

Cash and other monetary assets as of September 30

(In billions of dollars)	1996	1995
Operating cash	68.2	66.8
Gold (at market value of $379.00 per troy ounce for 1996 and $385.00 for 1995)	99.2	100.5
U.S. reserve position in the International Monetary Fund	15.4	14.7
Special drawing rights	10.2	11.0
Nonpurchased foreign currencies	.3	.3
Other	.1	.2
Total cash and other monetary assets	193.4	193.5

Special drawing rights

The value of special drawing rights is based on a weighted average of exchange rates for the currencies of selected member countries. The value of a special drawing right was $1.4394 and $1.5063 as of September 30, 1996 and 1995, respectively.

3. Accounts and loans receivable

Summary of accounts and loans receivable due from the public

The Federal Government is the Nation's largest source of credit and underwriter of risk. The Debt Collection Act of 1982 (31 U.S.C. 3719) requires agencies to prepare and transmit a report summarizing any outstanding receivables on their books.

Agencies are required to submit those reports to the OMB and the Department of the Treasury. The Federal Government uses the data in these reports to improve the quality of its debt collection methods.

In 1990, the Credit Reform Act was enacted to improve the Government's budgeting and management of credit programs. The primary focus of the Act is to provide an accurate measure of the long-term costs of both direct loans and loan guarantees, and to include these costs at the time of loan origination. Most direct loans obligated and loan guarantees committed after September 30, 1991, are reported on the present value basis.

Accounts and loans receivable as of September 30

	Accounts receivable		Loans receivable	
(In billions of dollars)	1996	1995 [3]	1996	1995
Gross receivables	59.0	53.7	189.4	189.6
Less: Allowance for losses [1]	14.4	12.7	54.3	61.6
Less: Allowance for subsidy [2]	-	-	8.0	7.2
Net receivables	44.6	41.0	127.1	120.8

[1] Allowance for losses represents estimated amount of uncollectable receivables.
[2] Allowance for subsidy represents unamortized credit reform subsidy for direct loans and for defaulted guaranteed loans assumed for collection by the Federal Government.
[3] Accounts receivable for 1995 are reduced by taxes receivable, which are shown on the next page. The fiscal 1995 figures have been restated to reflect this change.

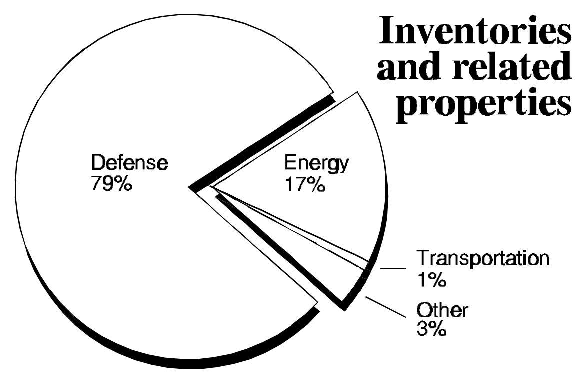
4. Taxes receivable

The mission of the Internal Revenue Service is to collect the proper amount of tax revenue at the least cost and encourage voluntary compliance with the Internal Revenue Laws.

Taxes receivable are composed of receivables, net of allowance for loss, reported by the IRS for Individual and Corporate income taxes only. Taxes receivable are presented in the table at right.

Taxes receivable as of September 30

(In billions of dollars)	1996	1995
Gross taxes receivable	122.4	112.7
Less: allowance for losses	88.6	66.5
Net taxes receivable	33.8	46.2



5. Inventories and related properties

Inventories and related properties consist of several categories. Inventories held for sale are tangible personal property that is either (a) being held for sale, (b) in the process of production for sale, or (c) to be consumed in the production of goods for sale or in the provision of services for a fee. Operating materials and supplies are tangible personal property to be consumed in normal operation. Stockpiled materials are strategic and critical materials held due to statutory requirements or for use in national defense, conservation, or national emergencies. Other includes forfeited property, foreclosed property, commodities and other. For amounts see the table at right.

Agencies use a wide variety of methods to value inventories (e.g. first-in-first-out, last-in-first-out, latest acquisition cost, and weighted or moving averages). The Department of Defense uses the latest acquisition method to value its inventories. The Department of Energy uses the lower of cost or market to value its inventories.

Inventories and related properties as of September 30

(In billions of dollars)	1996	1995
Inventories held for sale	141.6	60.3
Operating supplies	41.2	57.0
Stockpiled materials	44.1	97.3
Other	5.2	5.3
Total inventories	232.1	219.9

Note: Some of the differences between 1995 and 1996 are due to reclassification of defense inventories.

6. Property, plant, and equipment

Property, plant, and equipment include land, buildings, structures and facilities, ships and service craft, industrial equipment in plant, and construction-in-progress. It also includes automated data processing software, assets under capital lease, and other fixed assets that have been capitalized.

Land purchased by the Federal Government is valued at historical cost. The land acquired through donation, exchange, bequest, forfeiture, or judicial process is estimated at amounts the Government would have paid if purchased at the date of acquisition. No value has been assigned to the Outer Continental Shelf and other offshore lands. More than 677.8 million acres of public domain land have been assigned a minimal value of $1 per acre, and are included in the total land amount.

The accumulated depreciation reported by agencies in fiscal 1996 and 1995 was $96.3 billion and $76.5 billion, respectively. Most agencies use the straight-line method.

Property, plant, and equipment as of September 30

(In billions of dollars)	1996	1995
Buildings, structures, facilities, and lease-hold improvements	265.1	242.3
Military equipment	587.7	542.7
Equipment, other	105.6	110.1
Other	20.4	11.7
Construction in process	56.0	82.1
Land	30.6	22.0
Subtotal	1,065.4	1,010.9
Less: Accumulated depreciation	96.3	76.5
Total property, plant, and equipment	969.1	934.4

In the past, Treasury provided estimates for those agencies that did not report depreciation. However, beginning with this report, the depreciation will reflect the calculations that have been provided by the agencies. Thus, a prior period adjustment of $420.9 billion was necessary to reinstate the depreciation for prior years.

The useful lives for each classification of assets are as follows:

- Buildings . . . . 50 yrs.
- Structures and facilities . . . . . 21 yrs.
- Ships and service craft. . . . . . 13 yrs.
- Industrial equipment in plant 13 yrs.
- All other assets . . . . 13 yrs.

The largest ownership of Federal property, plant, and equipment, except for land, remains within the domain of the Department of Defense, whose major equipment items and weapons systems are valued at acquisition cost. When the acquisition cost cannot be determined, the estimated fair market value of such equipment and the costs of obtaining the equipment in the form and place to be put into use are recorded. Real and personal property are also recorded at acquisition cost. For more information see the table above.

7. Other assets

Other assets are comprised of advances and prepayments, receivables and other assets from banking assistance and failures, deferred retirement costs from the Postal Service, and investments held by the agencies and other miscellaneous assets. Other assets are summarized by agency in the table below.

Other assets as of September 30

(In billions of dollars)	1996	1995
Funds Appropriated to the President	37.8	56.0
U.S. Postal Service	31.9	28.9
Resolution Trust Corporation	-	13.6
Federal Deposit Insurance Corporation	14.5	5.9
Health and Human Services	12.5	3.6
U.S. Air Force	7.1	8.1
Other	20.0	17.5
Total	123.8	133.6

8. Federal debt held by the public

Total Federal debt held by the public amounted to $3,730.0 billion and $3,603.3 billion at the end of fiscal 1996 and 1995, respectively. The three debt tables on pages 22 through 24 reflect information on borrowing to finance Government operations. These tables support the Statement of Financial Position caption, ''Federal debt securities held by the public,'' and are shown net of intragovernmental holdings and unamortized premium or discount. Intragovernmental holdings represent that portion of the total Federal debt held as investments by Federal entities, including major trust funds.

Federal debt held by the public as of September 30

	1996		1995	
	Average interest rate (percent)	Total debt (in billions of dollars)	Average interest rate (percent)	Total debt (in billions of dollars)
Public debt:				
Marketable	6.706	3,418.4	6.869	3,260.5
Nonmarketable	7.392	1,802.4	7.500	1,690.2
Non-interest-bearing debt		4.0		23.3
Total public debt outstanding		5,224.8		4,974.0
Plus premium on public debt securities		1.5		1.2
Less discount on public debt securities		79.4		81.2
Total public debt securities		5,146.9		4,894.0
Agency debt:				
Tennessee Valley Authority		23.3		24.8
Farm Credit System Financial Assistance Corporation		-		1.3
Housing and Urban Development		3.9		.1
Federal Deposit Insurance Corporation, FSLIC resolution fund		.1		.2
National Archives and Records Administration		.3		.3
Architect of the Capitol		.1		.2
Postal Service		4.3		-
Total agency securities		32.0		26.9
Total Federal securities		5,178.9		4,920.9
Less Federal securities held as investments by Government accounts		1,448.9		1,317.6
Total Federal debt held by the public		3,730.0		3,603.3

Summary of Federal Debt Outstanding Part I

Total Debt Outstanding as of September 30

(In billions of dollars)	1996 Average interest rate (percent)	1996 Total debt	1995 Average interest rate (percent)	1995 Total debt
Marketable:				
Bills	5.442	761.2	5.897	742.5
Notes	6.540	2,098.7	6.610	1,980.4
Bonds	9.012	543.5	9.134	522.6
Federal Financing Bank	8.917	[1] 15.0	8.917	15.0
Total marketable	6.706	3,418.4	6.869	3,260.5
Nonmarketable:				
Foreign Government series	7.523	37.5	7.696	40.9
Government account series	7.550	1,454.7	7.693	1,324.3
State and local Government series	5.000	95.7	5.000	113.4
U.S. savings bonds	6.695	184.1	6.763	181.2
Other	6.585	30.4	6.570	30.4
Total nonmarketable	6.222	1,802.4	6.210	1,690.2
Total interest-bearing debt	6.479	5,220.8	6.517	4,950.7
Non-interest-bearing debt		[2] 4.0		23.3
Total public debt outstanding		5,224.8		4,974.0
Plus premium on public debt securities		1.5		1.2
Less discount on public debt securities		79.4		81.2
Total public debt (Treasury securities)		5,146.9		4,894.0
Agency securities		32.0		26.9
Total Federal securities		5,178.9		4,920.9
Less Federal securities held as investments by Government accounts		1,448.9		1,317.6
Total Federal debt held by the public		3,730.0		3,603.3

[1] These marketable securities were issued to the Civil Service Retirement Fund and are not currently traded in the market.

[2] Includes matured debt of $2.5 billion and other various non-interest-bearing debt of $1.5 billion.

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.

Summary of Federal Debt Outstanding Part II

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

(In billions of dollars)

Intragovernmental holdings	1996 Federal Funds [1]	1996 Trust Funds [2]	1996 Total	1995 Federal Funds	1995 Trust Funds	1995 Total
Legislative branch	.6	.1	.7	.4	.1	.5
Judicial branch	-	.3	.3	-	.3	.3
Executive branch:						
Funds Appropriated to the President	2.3	-	2.3	2.1	-	2.1
Departments:						
Agriculture	-	-	-	-	.3	.3
Defense	-	[3] 119.6	119.6	-	115.2	115.2
Energy	5.8	-	5.8	5.0	-	5.0
Health and Human Services	-	[4] 154.1	154.1	-	144.4	144.4
Housing and Urban Development	12.7	-	12.7	11.1	-	11.1
Interior	3.6	.3	3.9	3.4	.3	3.7
Justice	.4	-	.4	.5	-	.5
Labor	6.6	[5] 54.0	60.6	5.8	47.2	53.0
State	-	8.4	8.4	-	7.8	7.8
Transportation	.1	[6] 30.9	31.0	.5	31.6	32.1
Treasury	12.1	.2	12.3	3.1	.2	3.3
Veterans Affairs	.6	13.7	14.3	-	13.6	13.6
Independent agencies:						
Environmental Protection Agency	-	7.5	7.5	-	7.3	7.3
Office of Personnel Management	-	[7] 418.2	418.2	-	389.9	389.9
Export-Import Bank	.5	-	.5	.1	-	.1
Farm Credit System Insurance Corporation	1.9	.1	2.0	1.4	.2	1.6
Federal Deposit Insurance Corporation	27.6	-	27.6	25.2	-	25.2
National Credit Union Administration	3.5	-	3.5	3.3	-	3.3
U.S. Postal Service	.9	-	.9	1.3	-	1.3
Railroad Retirement Board	-	17.1	17.1	-	14.4	14.4
Social Security Administration	-	549.5	549.5	-	483.2	483.2
Tennessee Valley Authority	1.0	-	1.0	1.2	-	1.2
Various scholarship funds	-	.4	.4	-	.4	.4
Subtotal	80.2	1,374.4	1,454.6	64.4	1,256.4	1,320.8
Less discount on Federal securities held as investments by Government accounts	5.7	-	5.7	3.2	-	3.2
Total	74.5	1,374.4	1,448.9	61.2	1,256.4	1,317.6

[1] Federal funds are monies held by Government accounts that are not trust funds.
[2] Trust funds are monies held by the Government in accounts established by law or by trust agreement for specific purposes and designated by law as being trust funds.
[3] Includes military retirement fund of $116.9 billion.
[4] Includes medicare trust funds of $153.0 billion.
[5] Unemployment Trust Fund.
[6] Includes Highway Trust Fund of $21.2 billion and Airport and Airway Trust Fund of $7.7 billion.
[7] Includes civil service retirement and disability fund of $394.0 billion and employee life insurance fund of $17.0 billion.

9. Pensions and other actuarial liabilities

The Federal Government administers more than 40 pension plans. The largest are administered by the Office of Personnel Management (OPM) for civilian employees and by the Department of Defense (DOD) for military personnel. The majority of the pension plans are defined benefit plans.

The accounting for accrued pension, retirement, disability plans, and annuities is subject to several different assumptions, definitions, and methods of calculation. Each of the major plans is summarized in the table at the bottom of the page, and the actuarial liability is included on the Statement of Financial Position.

Civilian employees and military personnel

Pension expense for the various Federal pension plans is calculated for budgetary purposes by a variety of methods. For financial reporting purposes, Federal pension plans report their accumulated benefit obligation (ABO) pursuant to directions under the provisions of Public Law Number 95-595. The ABO is calculated with the ‘‘unit credit’’ actuarial cost method. The ABO is recognized as a liability in the Consolidated Statement of Financial Position. An expense is recognized equal to the annual change in the ABO. Most Federal pension plans are funded with obligations issued by the Treasury pursuant to the actuarial method and funding requirements specified by the governing law. These plan assets (Treasury bonds or other debt), being obligations of the United States, were eliminated from the consolidated statements.

Civilian

The Federal Government has both defined benefit and defined contribution pension plans.

■ Defined benefit

The principal plan is administered by OPM and covers approximately 90.0 percent of all Federal civilian employees. It includes two components of defined benefits, the Civil Service Retirement System (CSRS) and the Federal Employee’s 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), and all disbursements for both are made from the CSRDF. Most employees covered by CSRS contribute 7.0 percent of their basic pay, an amount fixed by statute. The FERS employees contribution is 0.8 percent in fiscal 1996. The valuation of the Retirement Program has been prepared by OPM in accordance with Financial Accounting Standard (FAS) 35.

■ Defined contribution

The Federal Retirement Thrift Investment Board is a Federal agency that operates the Thrift Savings Plan. The fund’s assets are owned by Federal employees and retirees, who have individual accounts. For this reason, the fund is excluded from the CFS and the fund’s

Pensions and other actuarial liabilities as of September 30[1]

	Actuarial liabilities		Plan assets		Unfunded liabilities	
(In billions of dollars)	1996	1995	1996	1995	1996	1995
Civilian retirement-OPM [2] .	774.4	722.4	398.8	344.3	375.6	378.1
Military retirement-Defense	547.5	547.7	148.0	148.6	399.5	399.1
Veterans’ compensation and benefits	240.0	266.6	-	-	240.0	266.6
Compensation programs. .	17.9	20.3	-	-	17.9	20.3
Other pension programs . .	35.6	30.8	17.3	16.2	18.4	14.6
Other benefits	36.1	40.4	38.7	35.9	-2.7	4.5
Total	1,651.5	1,628.2	602.8	545.0	1,048.7	1,083.2

[1] Does not include actuarial liability for future costs of post-retirement health benefits.

[2] OPM’s accumulated benefit obligation is presented as of the beginning of the year, under FAS 35. To make the unfunded liabilities more meaningful, plan assets are also presented at the same valuation date.

Note.--For Social Security and Medicare, see note 14.

Veterans' compensation and benefits as of September 30

(In billions of dollars)	1996	1995
Compensation:		
Veterans	167.0	169.3
Survivors	40.6	59.7
Total compensation	207.6	229.0
Pension and burial benefits:		
Veterans	22.9	23.7
Survivors	6.5	10.3
Burial benefits	3.0	3.6
Total pension and burial benefits	32.4	37.6
Total	240.0	266.6

holdings of Federal debt are considered part of the debt held by the public rather than debt held by the Government.

The Thrift Savings Plan is a defined contribution plan for eligible employees covered under the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS).

FERS employees may contribute up to 10.0 percent of base pay to the plan, which is matched by the Government up to 5.0 percent. CSRS employees may contribute up to 5.0 percent of base pay with no Government match. An individual's total annual contribution could not exceed $9,500 in 1996.

The plan was started in April 1987 and as of September 30, 1996, the total invested was $42.0 billion. Investments include U.S. Government nonmarketable certificates of $23.2 billion, which are included in ''Federal debt held by public'' in the Statement of Financial Position. In addition, $16.3 billion and $2.5 billion have been invested in the Common Stock Index and the Fixed Income Funds, respectively.

Military

The Department of Defense Military Retirement Fund was authorized in Public Law Number 98-94 for the accumulation of funds in order to finance liabilities of the Department of Defense under military retirement and survivor benefit programs. The fund provides retirement benefits for military personnel and their survivors.

Veterans' compensation and pension benefits

Veterans or their dependents receive compensation benefits if the veteran was disabled or died from military service- connected causes. War veterans or their dependents receive pension benefits, based on annual eligibility review, if the veterans were disabled or died from nonservice-connected causes. Certain pension benefits are subject to specific income limitations.

VA has a liability for benefits expected to be paid in future fiscal years to veterans and, if applicable, their survivors who have met or are expected to meet defined eligibility criteria. The liability of the Compensation and Pension Programs (C&P) is not currently funded, nor is there any intent to do so. Rather, payments for benefits that become due in a particular year are financed from that year's appropriation, in effect, on a pay-as-you-go basis.

The actuarial present value of the liability of C&P benefits as determined by VA on September 30, 1996 and 1995, is shown in the table above.

Compensation programs

This amount represents the estimated future costs for injuries incurred to date for approved Federal Employees' Compensation Act cases and Black Lung cases.

Other pension programs

Other annual pension reports received from plans covered by Public Law Number 95-595 are reported in the same manner as those for military personnel and civilian employees (described earlier).

Other benefits

Other benefits consist of various items for which the Government is responsible, such as life insurance benefits for veterans and Federal employees. VA insurance includes the following programs: United States Government Life Insurance; National Service Life Insurance; Veterans Insurance and Indemnities; Veterans Special Life Insurance; Veterans

Reopened Insurance; Service Disabled Veterans Insurance; and Servicemen's Group Life Insurance.

The Federal insurance program is the Federal Employees Government Life Insurance. These other benefits do not include the actuarial liability for the future costs of post-retirement health benefits for retirees.

Post employment benefits other than pensions

The Federal Government operates a pay-as-you-go system for health benefits for both civilian and military retirees. The actuarial estimates on retirees' health care costs are summarized below.

Civilian employees retiree health benefits

Generally, employees are eligible for post-retirement health benefits if they participated in the Program for the 5 years immediately preceding their retirement. As a condition of participation, retirees must make contributions toward their premiums, which, for the vast majority, are deducted directly from their monthly annuity payments. Contributions for future post-retirement health benefit premiums are required neither of active employees nor their employers.

The Federal Accounting Standards Advisory Board (FASAB) has recommended standards for the calculation and reporting of a retirement health benefits obligation. These standards were promulgated in the Statement of Federal Financial Accounting Standards Number 5, (SFFAS No. 5), Accounting for Liabilities of the Federal Government, issued in December 1995.

When it is effective, the standard will require the use of the accrual method of accounting to recognize the cost of retirement health benefits over the active years of employee service. Upon the implementation of SFFAS No. 5, the Program will recognize a retirement obligation (RO), which is the future cost of retirement benefits for future retirees relating to active service rendered up to the date of implementation. The Program plans to adopt the standard for fiscal 1997, as required by SFFAS No. 5.

In computing the Program's RO, an actuary will apply actuarial assumptions to historical health benefit cost information to estimate the future cost of retirement benefits for current and future retirees. This estimate will be adjusted for the time value of money (through discounts for interest) and the probability of having to pay (by means of decrements, such as those for death and withdrawal).

Although the standard has not yet been implemented by the Program, the initial (or transition) RO, has been calculated in accordance with methodology prescribed to be $134.0 billion on October 1, 1995, and $113.4 billion on October 1, 1994. [Note: Due to the time-frame under which these statements must be prepared and audited, all of the information needed to compute the RO as of the end of the year is not available. Therefore, the RO is presented as of the beginning of the year.] The program's RO expense in 1996 was $14.4 billion and $12.3 billion for 1995, rather than the $4.9 billion for 1996 and $4.2 billion for 1995 recognized as contributions expense (deductions from plan assets) under current accounting practice. Based on this calculation, employing agencies were required to recognize a 1996 retirement health benefit expense of $2,093 per enrolled employee for 1996 and $1,844 for 1995.

In these calculations, an annual rate of increase in health benefits costs and a discount rate of 7.0 percent were assumed. Demographic assumptions are based on the experience of the Retirement Program, with adjustments based on recent Health Benefits Program trends and experience. For more information, see OPM's financial statements.

Military retiree health plans

Military retirees and their dependents are entitled to health care in military medical facilities if the facility can provide the needed care. Until they reach age 65, military retirees and their dependents also are entitled to health care financed by the Civilian Health and Medical Programs of the Uniformed Services (CHAMPUS). No premium is charged for CHAMPUS-

Retiree health care costs as of September 30
Actuarial estimates (unfunded)

(In billions of dollars)	1996	1995
Military health programs	210.2	210.2
Federal Employees Health Benefits Program	134.0	113.4
Total unfunded retiree health care costs	344.2	323.6

Other liabilities as of September 30

(In billions of dollars)	1996	1995
Funds Appropriated to the President	8.2	6.9
Departments:		
Treasury	79.7	34.9
Health and Human Services	36.4	22.4
Social Security Administration	35.6	34.4
Tennessee Valley Authority	24.5	24.4
Energy [1]	18.4	17.5
Education	15.0	17.8
Housing and Urban Development	14.2	13.7
Defense [2]	10.8	.9
Agriculture	10.6	10.5
Other	30.2	45.3
Total	283.6	228.7

[1] Shown net of environmental cleanup liabilities of $228.9 billion in 1996 and $227.2 billion in 1995.
[2] Shown net of environmental cleanup liabilities of $17.6 billion in 1996 and $.2 billion in 1995.

financed care, but there are deductible and copayment requirements.

After they reach 65 years of age, military retirees are entitled to Medicare. The Department of Defense costs for retiree health care include costs of buildings, equipment, education and training, staffing, operations, and maintenance of military medical treatment facilities. They also consist of claims paid by CHAMPUS and the administration of that program.

Costs are funded annually by direct appropriations in the year services are rendered, except for CHAMPUS. CHAMPUS is funded when services are billed. The 1995 cost for CHAMPUS was $3.3 billion, which included both benefit and administrative costs. The funded cost totaled $3.3 billion. The estimate of the actuarial liability for CHAMPUS is $48.6 billion for fiscal 1997.

10. Other liabilities

Other reported liabilities are summarized by agency in the table above. Included in other liabilities are liabilities arising from loan guarantees, capital leases, and contingencies. They also include checks outstanding, the liabilities incurred from bank resolution and litigation losses, and other miscellaneous accrued liabilities.

11. Environmental liabilities

Since environmental liabilities comprise a significant portion of Other Liabilities, a separate disclosure is provided. The Departments of Defense and Energy contain a significant portion of environmental liabilities as indicated below.

Environmental liabilities as of September 30

(In billions of dollars)	1996	1995
Department of Defense:		
Air Force	4.2	
Army	13.4	
Subtotal	17.6	
Department of Energy	228.9	227.2
Total	246.5	227.2

12. Net position

The net position, as presented in the table on the following page, represents the excess of liabilities over assets. It does not, however, reflect the range of the Government's resources, such as the sovereign power to tax, beyond the conventional assets, nor does it reflect the range of the Government's responsibilities.

Net position as of September 30

(In billions of dollars)	1996	1995
Net position at beginning of period	-4,151.6	-4,006.2
Prior period adjustment	-	[1] 109.7
Current period results	-197.9	-255.1
Net position at end of period	-4,349.5	-4,151.6

[1] See page 17.

13. Leases

Federal agencies were first required to provide financial information about lease commitments in 1986. Agencies are attempting to accumulate the lease information required. The future aggregate minimum rental commitments for noncancelable capital and operating leases as of September 30, 1996, are detailed in the chart at right.

The majority of these lease commitments relate to buildings, equipment, and office space rental. The current portions of lease costs are included in accounts payable. The long term portion of capital leases is reported as ‘‘other liabilities.’’ Data for intragovernmental leasing transactions were not available at the time of publication.

Leases for fiscal 1997 and beyond

(In billions of dollars)	Operating leases	Capital leases
1997	2.0	.2
1998	1.7	.1
1999	1.5	.1
2000	1.3	.1
Thereafter	5.6	1.9
Total	12.1	2.4

14. Social Security and Medicare

Social Security

Two trust funds have been established by law to finance the Social Security Federal Old-age Survivors Insurance (OASI) and the Federal Disability (DI) programs (OASDI). OASI pays retirement and survivors’ benefits, and DI pays benefits after a worker becomes disabled.

Revenue to OASDI consists of taxes on earnings that are paid by employees, their employers, and the self-employed. OASDI also receives revenue from the taxation of Social Security benefits and interest on its holdings of Government securities. Revenues not needed to pay current benefits or administrative expenses are invested in special issue Government securities guaranteed as to both principal and interest and backed by the full faith and credit of the United States Government.

The Board of Trustees of the OASI and DI Trust Funds provides the President and the Congress with short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund balance in its annual report. Because the future cannot be predicted with certainty, SSA trustees use three alternative sets of economic and demographic assumptions to show a range of possibilities. Assumptions are made about many economic, demographic, and programmatic factors including gross domestic product, earnings, the consumer price index, unemployment, fertility, immigration, mortality, and disability incidents and termination. The intermediate assumptions, used in the table on page 30, reflect the trustees’ best estimate of what the future experience will be. The low-cost assumption is more optimistic than the high-cost assumption. They show how the trust funds would operate if economic and demographic conditions are better or worse than the best estimate.

The present values of actuarial estimates have been computed as of the beginning of the valuation period, September 30, 1996. The expenditures consist of the sum of the present value of all estimated payments during the valuation period, and the contributions consist of the sum of the present value of all estimated income during the period. The estimates have been prepared on the ba-

Social Security present value estimates (P.V.) for the period of 75 years into the future, beginning September 30, 1996

(In trillions of dollars)	OASI	DI	OASDI
P.V. of actuarial contributions to the year 2071	16.7	2.8	19.5
P.V. of actuarial expenditures to the year 2071	19.8	3.3	23.1
P.V. of future resources needed	-3.1	-.5	-3.6
Net assets of Social Security as of September 30, 1996	.5	-	.5

sis of the financing method regarded by both the Congress and the trustees of the trust funds as the appropriate one to use for social insurance programs, namely that future workers will be covered by the program as they enter the labor force.

Under current legislation and using intermediate assumptions, the DI Trust Fund and the OASI Trust Fund are projected to be exhausted in 2016 and 2031 respectively. Combined OASDI expenditures will exceed current tax income beginning in 2012, and they will exceed total current income (including current interest income) for calendar year 2019 and later. Thus, current tax income plus a portion of annual interest income will be needed to meet expenditures for years 2012 through 2018. Thereafter, in addition to current tax income and current interest income, a portion of the principal (i.e., combined OASDI assets) will be needed each year until the combined trust funds are totally depleted in 2029.

Medicare

Revenue to the Federal Hospital Insurance Trust Fund (HI-Medicare Part A) consists of taxes on earnings that are paid by employees, their employers, and the self-employed. HI also receives revenue from the taxation of Social Security benefits and interest on its holdings of Government securities. Revenues that are not needed to pay current benefits or administrative expenses are invested in special issue U.S. Government securities guaranteed as to both principal and interest, and backed by the full faith and credit of the U.S. Government.

The HI (Medicare Part A) has an actuarial deficit of $1,689.7 billion as computed 25 years into the future to fiscal 2021. It includes the book value of assets as of Septem-

Medicare Part A present value (P.V.) estimates for the period of 25 years into the future, beginning September 30, 1996

(In billions of dollars)

P.V. of actuarial contributions to the year 2021	2,442.7
P.V. of actuarial expenditures to the year 2021	4,257.6
P.V. of future resources needed	-1,814.9
Assets of HI Trust Fund as of September 30, 1996	125.3

Medicare Part B Estimates as of September 30, 1996

(In billions of dollars)

Total trust fund assets	27.0
Total unpaid benefits	2.3
Excess of trust fund assets over unpaid benefits	24.7

ber 30, 1996, and the present value of various program income items expected to be received through the year 2021, less: (a) the present value of outlays through the year 2021, (b) claims incurred to October 1, 1996, but unpaid as of that date, and (c) any administrative expenses related to those claims. See the table on the previous page for a summary.

The Federal Supplementary Medical Insurance Trust Fund (SMI-Medicare Part B) benefits and administrative expenses are financed by monthly premiums paid by Medicare beneficiaries and additional contributions by the Federal Government. The Omnibus Budget Reconciliation Act of 1990 set specific monthly premium levels for 5 calendar years beginning in 1991. The monthly premium in calendar year 1996 covered 27 percent of the SMI program's estimated 1996 costs.

The Federal Supplementary Medical Insurance Trust Fund (SMI-Medicare Part B) has a surplus of $24.7 billion. This represents the amount of the estimated book value of the Trust Fund's assets as of September 30, 1996, less unpaid benefits and related administrative expenses, as summarized on the previous page.

15. Commitments and contingencies

Commitments are long-term contracts entered into by the Federal Government, such as leases and undelivered orders, which represent obligations.

Contingencies involve uncertainty as to a possible loss to the Federal Government that will be resolved when one or more future events occur. Contingencies of the Federal Government include loan and credit guarantees, insurance, and unadjudicated claims.

In accordance with OMB Bulletin 94-01, ''Form and Content of Agency Financial Statements,'' estimated losses for commitments and contingencies, namely, insurance, indemnity agreements, unadjudicated claims, and commitments to international institutions are reported if the amounts can be reasonably estimated and the losses are probable. OMB Bulletin 94-01 establishes guidelines for the reporting of liabilities for loan guarantees and capital leases.

OMB Bulletin 94-01 states that contingencies that do not meet all the conditions for liability recognition should be disclosed. The table on the following pages shows the face value of commitments and contingencies reported by Federal agencies. The amounts reported in the commitments and contingencies table are presented without regard to the probability of occurrence and without deduction for existing and contingent assets that might be available to offset potential losses.

''Long-term leases'' includes both operating and capital leases. ''Government loan and credit guarantees'' includes guarantees in force as well as contracts to guarantee. ''Insurance'' includes insurance in force, contracts to insure, and indemnity agreements.

The Department of Energy manages one of the largest environmental programs in the world. The primary focus of the program is to reduce health and safety risks from radioactive waste and contamination resulting from production, development and testing of nuclear weapons. The Department of Energy issued in fiscal 1995 its first annual Baseline Environmental Management Report (BEMR).

The estimate of life cycle costs for the environmental management program ranges from $189 billion to $265 billion in constant 1996 dollars. The estimate begins in fiscal 1996 and ends in approximately 2071, when environmental activities are expected to be substantially completed. In fiscal 1996, the Department of Energy recorded a BEMR liability of $202.1 billion. For more information, see the Department of Energy's financial statements.

The Federal Government, in 1996, continued to be the Nation's largest source of credit and underwriter of risk. Large portions of all non-Federal credit outstanding have been assisted by Federal credit programs, Government-sponsored enterprises, or deposit insurance. In particular, most credit for housing, agriculture, and education is Federally guaranteed. For more information on commitments and contingencies, refer to the tables on the following pages.

Commitments and Contingencies of the United States Government for Years Ended September 30

(In billions of dollars)

Commitments	1996	1995
Long-term leases:		
General Services Administration	12.2	11.7
Tennessee Valley Authority	.5	.5
U.S. Postal Service	-	1.7
Other	1.9	1.5
Subtotal	14.6	15.4
Undelivered orders, public:		
Defense [1]	77.3	94.8
Education	27.9	30.3
Health and Human Services	46.3	36.3
Housing and Urban Development	148.6	171.7
Transportation	14.7	17.6
Other	75.7	71.9
Subtotal	390.5	422.6
Total commitments	405.1	438.0

See footnotes on the following page.

Commitments and Contingencies, continued

(In billions of dollars)

Face value of contingencies	1996	1995
Insurance:		
FDIC Bank Insurance Fund	2,671.8	1,915.3
FDIC Savings Association Insurance Fund	688.2	708.6
Federal Emergency Management Agency	369.5	325.8
National Credit Union Administration	265.1	255.6
Pension Benefit Guaranty Corp. [2]	-	853.0
Transportation	2.0	2.0
Veterans Affairs	574.5	504.9
Other	59.0	58.0
Subtotal	4,630.1	4,623.2
Government loan and credit guarantees:		
Agriculture	17.1	15.5
Education	89.0	90.2
Export-Import Bank	30.5	28.9
Housing and Urban Development	420.6	438.3
Small Business Administration	32.3	28.3
Veterans Affairs	52.0	59.0
Other	27.7	24.7
Subtotal	669.2	684.9
Unadjudicated claims:		
Health and Human Services	37.5	25.6
Transportation	30.6	30.0
Other	3.6	4.1
Subtotal	71.7	59.7
Other contingencies:		
Defense [3]	7.1	26.8
Housing and Urban Development	10.6	11.9
Multilateral Development Banks [4]	53.3	6.5
Other	5.2	6.5
Subtotal	76.2	51.7
Total contingencies	5,447.2	5,419.5

[1] Includes Army, Air Force and Defense agencies.
[2] Data not available.
[3] Decrease is due to recognition as a liability.
[4] Increase is due to disclosure of appropriated and program limitation amounts.

supplemental tables

Reconciliation of the change in net position to the deficit for the year

This statement reconciles the budget deficit to the change in net position, identifying the key elements that cause the difference. The Federal Government uses budgetary accounting to control the use of funds and for fiscal planning by recording obligations (orders placed, contracts awarded, services received, and similar actions requiring payments) and cash outlays. With few exceptions, outlays and receipts are measured on a cash rather than an accrual basis, and a largely cash basis thus becomes the yardstick by which the budget deficit is measured. In financial accounting, the focus is on the cost of operations, which dictates the use of accrual accounting. The differences between the two bases of accounting are primarily explained by their timing differences in the recognition of revenue and costs. The budget deficit for the year, with minor exceptions, is financed by and reflected in the Federal debt.

Change in net position is reported on the Statement of Changes in Net Position. Increase or decrease in net position is due to timing differences in the recognition of revenue. This amount is derived by comparing the amount of exchange and nonexchange revenue reported on the statement of net cost and changes in net position with the receipts reported in the budget for similar items. Increase or decrease in net position due to timing differences in the recognition of costs is derived by comparing the costs reported on the Statement of Net Cost with outlays for corresponding categories in the budget. The increase or decrease in net position as a result of nonrecurring items is reported separately from other differences.

United States Government Reconciliation of the Change in Net Position to the Deficit for the Year Ended September 30 (Unaudited)

(In billions of dollars)

	1996	1995
Change in net position	-197.9	-145.4
Increase (decrease) in net position due to timing differences in the recognition of revenue:		
Accrued exchange revenue	-115.0	-106.5
Accrued non-exchange revenue	-.6	.6
Increase (decrease) in net position due to timing differences in the recognition of costs:		
National defense	-35.5	-77.5
Human resources	75.7	133.1
Physical resources	131.9	100.8
Net interest	.7	2.2
Other functions	33.4	38.4
Increase (decrease) in net position as a result of nonrecurring items:		
Prior period adjustments	-	-109.7
Budget deficit for the year	-107.3	-164.0

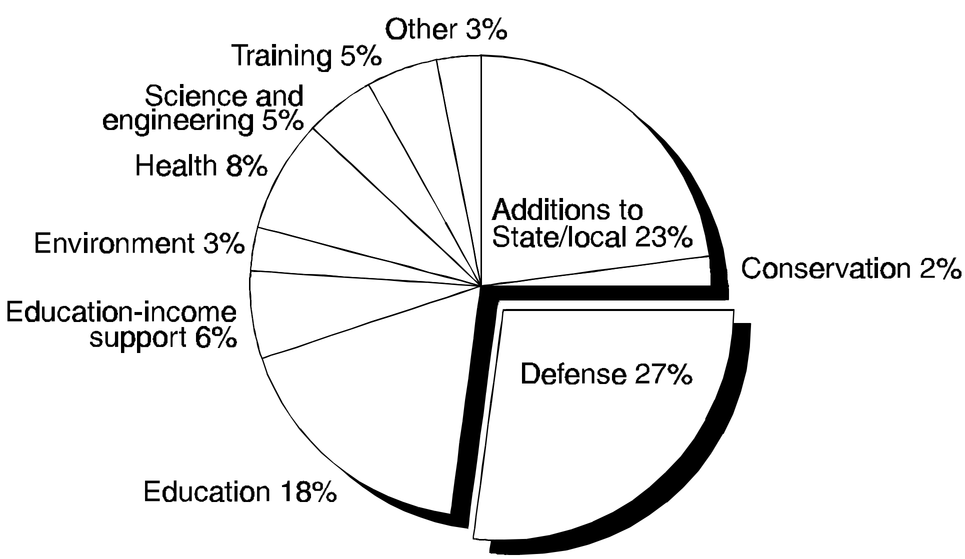
Additions to non-Federal economic resources, fiscal 1996

The Government uses its resources to add to the physical and human resources of the Nation without acquiring physical assets. The table on page 36, compiled from the fiscal 1998 and 1997 ‘‘Budget of the United States Government,’’ shows the amounts of these expenditures.

Some of these investment-type expenditures, while not adding to Federal assets, add to the assets of State and local governments or private institutions. All are intended to enhance the future productivity of the Nation.

Additions to State and local assets include construction grants for highways, community development, airports, and mass transit. Other developmental expenditures include outlays for education and training, and research and development. (See the chart below.)

Fiscal 1996
Total: $146 billion



Additions to Non-Federal Economic Resources for the Year Ended September 30

(In billions of dollars)

Additions to State and local government assets	1996	1995
Community and regional development	5.7	5.3
Environment	2.6	2.9
Transportation:		
Highways and mass transit	23.3	22.8
Rail and air	1.7	1.8
Other	1.0	1.0
Total additions	34.3	33.8

Other developmental expenditures	1996	1995
Agriculture	.9	1.2
Conservation	2.9	3.2
Defense	39.4	37.6
Education	26.9	28.8
Education-income support	8.8	8.7
Environment	3.7	3.6
Health	11.0	12.1
Science and engineering	7.7	8.9
Training	7.1	7.6
Transportation	1.7	1.4
Other	1.9	1.2
Total developmental expenditures	112.0	114.3
Total additions to non-Federal economic resources	146.3	148.1

Estimates for tax expenditures in the income tax

This table shows tax expenditures that are considered revenue losses because of Federal tax law provisions that allow special exclusions, exemptions, deductions from gross income, or that provide for special credits, tax rates, and deferrals.

Revenue loss estimates do not take into account any additional resources required to provide the same after-tax incentives if the expenditure program was administered as a direct outlay rather than through the tax system.

Revenue loss estimates are not necessarily equivalent to the increase in Federal receipts, or the reduction in budget deficits, that would result from the repeal of the special provision.

For more information about estimates for 1996 and 1995 see table 5-1, ‘‘Total Revenue Loss Estimates for Tax Expenditures in the Income Tax,’’ in the fiscal 1998 and 1997 ‘‘Budget of the United States, Analytical Perspectives.’’

Estimates for Tax Expenditures in the Income Tax for the Year Ended September 30

(In billions of dollars)

	Estimated amount of revenue loss	
Income exclusions	**1996**	**1995**
Disability and retirement benefits (private)	75.0	71.0
Medical care and insurance (employer premiums paid)	64.7	59.6
Interest and dividends (State and local bonds and debt, and life insurance)	31.0	30.3
Capital gains at death	29.5	28.3
Social Security benefits	22.5	21.6
Payroll benefits and allowances (group life, accident, and unemployment)	5.1	4.9
Foreign earnings and investment incentives (income earned abroad)	4.8	4.4
Education allowances (scholarships and GI benefits)	.9	.9
Other (e.g., age 55 or over credit on home sales)	5.9	5.2
Income deferrals		
Real estate (home sales)	14.6	14.2
Interest on U.S. savings bonds	1.2	1.1
Deductions and credits		
Interest (mortgage and consumer)	50.6	48.1
State and local property tax and other taxes	50.3	43.0
Accelerated depreciation (rental housing, buildings other than rental housing, machinery, and equipment)	35.1	32.9
Contributions (charitable and political)	24.8	23.6
Earned income	5.7	4.9
Foreign earnings (corporations doing business in U.S. possessions)	2.8	2.7
Medical	3.8	3.5
Work incentives (employment credits under work programs) and dependent care	2.9	2.7
Investments (commercial capital gains, credits, other investment incentives, construction period interest, and expensing developmental costs)	3.3	2.9
Old-age, disability, and other personal exemptions	2.2	2.2
Employee stock ownership plans (funded through investment and tax credits)	1.7	2.2
Property damages and losses (casualty losses)	.4	.8
Exemptions (credit unions)	.7	.6

Outlays for mandatory and related programs

The Government commits itself to provide benefits and services by passing laws that make spending mandatory. Outlays for mandatory programs consist of spending for programs whose budget authority is controlled by means other than appropriation acts or by entitlement authority and budget authority for the food and stamp program.

For further information on fiscal 1996, refer to table 14-3, ‘‘Outlays for Mandatory and Related Programs under Current Law,’’ in the ‘‘Budget of the United States Government, Analytical Perspectives, Fiscal Year 1998,’’ pages 242-243. For fiscal 1995, see table 13-3, ‘‘Outlays for Mandatory and Related Programs under Current Law’’ in the ‘‘Budget of the United States Government, Analytical Perspectives, Fiscal Year 1997,’’ pages 211-212.

Outlays for Mandatory and Related Programs for the Year Ended September 30

(In billions of dollars)

Human resources programs	1996	1995
Social Security	347.1	333.3
Income security	188.0	181.3
Medicare	171.3	156.9
Health	96.8	93.4
Veterans benefits and services	18.8	19.9
Education, training, and social services	13.9	15.7
Total human resources	835.9	800.5
Other		
Other mandatory programs	-13.4	-14.7
Offset prior to the total mandatory programs	-37.6	-44.5
Total mandatory programs	784.9	741.3
Net interest	241.1	232.2
Total	1,026.0	973.5

Federal obligations

"Obligations" are binding agreements that will result in Government outlays, either immediately or in the future. Before obligations can be incurred legally, budgetary resources must be available, comprising either new budget authority or unobligated balances of budget authority provided in earlier years. Obligations are recorded at the point at which the Government makes a binding agreement to acquire goods and services or makes other arrangements requiring the payment of money. In the case of acquiring goods and services, obligations are the first of the key elements that characterize the acquisition and use of resources–order, delivery, payment, and consumption.

In general, obligations consist of orders placed, contracts awarded, services received, and similar transactions requiring the disbursement of money.

The obligational stage of Government transactions is a strategic point in gauging the impact of the Government's operations on the national economy. Obligations frequently stimulate business investment, including inventory purchases and employment of labor, to fulfill those Government orders.

Disbursements may not occur for months after the Government places its order, but the order itself usually places immediate pressure on the private economy.

For more detail, see "Object Class Analysis, Budget of the United States Government," for fiscal years 1998 and 1997.

Obligations by Object Class for the Year Ended September 30

(In billions of dollars)

Personal services and benefits	**1996**	**1995**
Personnel compensation	113.9	113.2
Personnel benefits	40.9	42.1
Benefits for former personnel	28.5	29.8
Contractual services and supplies		
Supplies and materials	24.9	26.5
Rent, communications, and utilities	13.0	15.1
Travel and transportation of persons	6.3	6.5
Transportation of things	4.8	4.6
Printing and reproduction	.7	.9
Other services	153.0	175.8
Acquisition of capital assets		
Equipment	45.5	47.6
Investments and loans	5.5	16.2
Lands and structures	11.2	9.4
Grants and fixed charges		
Insurance claims and indemnities	672.7	633.3
Grants, subsidies, and contributions	405.7	395.6
Interest and dividends	358.1	355.3
Refunds	19.9	15.8
Other		
Undistributed U.S. obligations	13.6	24.6
Total direct obligations	1,918.2	1,912.3
Reimbursable and below reporting threshold obligations	263.8	232.5
Total gross obligations	2,182.0	2,144.8