

1989 Consolidated Financial Statements
Prototype



Prepared and Published by the
FINANCIAL MANAGEMENT SERVICE
Department of the Treasury

THE FINANCIAL MANAGEMENT SERVICE

DEPARTMENT OF THE TREASURY

The mission of the Financial Management Service is to improve the quality of Government financial management. Our commitment and our responsibility is to help our Government customers achieve success. We do this by linking program and financial management objectives, and by providing financial services, information, advice, and assistance to our customers. We serve taxpayers, the Treasury Department, Federal program agencies, and Government policy makers.



**CONSOLIDATED FINANCIAL STATEMENTS
of the
United States Government**

Fiscal Year 1989

Prepared and Published by the
FINANCIAL MANAGEMENT SERVICE

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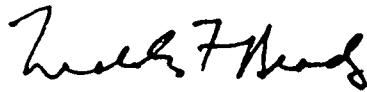
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Statement of the Secretary of the Treasury

The Department of the Treasury is pleased to present this set of Consolidated Financial Statements prepared by the Financial Management Service. These statements provide summary information on the financial condition and operations of the Federal Government.

The financial information in these reports originates in program agency accounting systems across Government. While substantial progress has been made in recent years to replace the most obsolete systems, much remains to be done to improve the remaining systems. The great majority of program agency systems now report based on the U.S. Government's Standard General Ledger. Almost all program agencies can now report via telecommunications to Treasury's computers. All new systems under development now have access to the Federal Government's *Core Systems Requirements*, issued just last year. These successes are improving the quality of financial data provided by the agencies.

Three additional actions now underway should complete the task of modernizing the Government's financial systems and reporting capabilities. First, a Presidential Management by Objective goal has been established to complete the integration of modernized program agency systems with the central systems at Treasury and OMB. Second, the Chief Financial Officers Council is preparing an implementation plan to complete this action across Government. Third, Executive Branch agencies are moving toward audited annual statements. Several Departments have already taken that step and the improved financial data is incorporated in these reports. With the completion of these actions, we will reach our goal, a Federal financial management program noted for both quality service and fiscal responsibility.



Nicholas F. Brady

... actions now underway should complete the task of modernizing the Government's financial systems and reporting capabilities.

Statement of the Comptroller General of the United States

The prototype consolidated financial statements in this document illustrate how information about the financial condition and operations of the federal government might be presented to better inform the Congress, federal executives and the public at large. As such, they represent progress in establishing accurate and complete financial information about government-wide activities.

When financial data from individual departments and agencies can withstand audit, it will be possible to prepare consolidated statements that accurately measure the magnitude of federal assets, liabilities, commitments and contingencies, as well as the cost of government operations and programs. Because accurate information is essential to building and maintaining public trust in the financial operations of the government, the General Accounting Office has strongly supported publication of consolidated financial statements that can withstand an audit. This is a goal we hope to see accomplished as a part of broader financial reforms that are essential throughout the federal government.

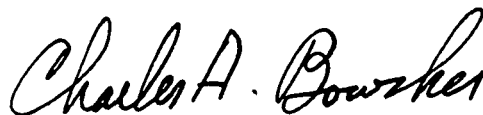
The attached consolidated statements are based on financial data furnished to Treasury by government departments, agencies and corporations. While the Treasury Department has improved their format and presentation, these statements remain neither accurate nor complete.

Only about a third of the government's outlays have been subjected to an independent audit. Those audits which have been completed show repeated instances of inadequate accounting systems, poor internal controls, and unreliable data, all of which limit the accuracy of the information provided to Treasury. For example, GAO's audits over the past year of the Air Force and the Federal Housing Administration have disclosed major errors, often amounting to several billion dollars, in the financial data. We expect to find similar problems in other agencies and military services which have yet to undergo financial audits. On the other hand, our experience has shown that audits frequently lead to development of better accounting systems, controls and improved accuracy of financial data reported to Treasury in subsequent years.

In the final analysis, major reform in the area of financial management is essential if Treasury's plan to present a set of complete consolidated financial statements is to succeed. A key to this effort is the enactment of legislation that would include:

- Appointment of a Chief Financial Officer for the United States, as well as CFOs within major agencies and departments. These officials would be charged with modernization of accounting systems and the strengthening of internal controls throughout the government.
- A requirement for the preparation and audit of annual financial statements by all major agencies, to be carried out in accordance with appropriate accounting standards, and
- The establishment of a system of reports to the Congress to facilitate congressional oversight.

I look forward to the day when the federal government's consolidated financial statements are no longer prototypes. Then, GAO would be able to report that the consolidated financial statements published by Treasury fairly present the financial condition and the results of operations of the federal government. With such information, taxpayers will have a true picture of how their money is being spent. Only then will the Congress and officials of the executive branch have the information they need on the implications and consequences of their economic policy decisions.



Charles A. Bowsher

Introduction

This year's report incorporates the results of continuing efforts to accumulate higher quality program data. Consequently, the Financial Management Service (FMS) is able to provide more reliable financial information in the accompanying statements.

Departments and agencies using the Government's standard general ledger as a nucleus contribute to this progress. Their support makes it possible for FMS to more fully respond to data user requirements through the application of its electronic network, meeting key analytical needs. Along these lines, FMS is committed to meeting the financial challenges it faces by actively improving the quality of Government financial management.

Highlights of the 1989 statements include:

- Agencies which have approximately 37 percent of the reported assets in 1989 have been audited in the past 5 years.
- Coverage of efforts by agencies to prepare complete annual reports has been expanded.

The process review begun last year by the independent CPA firm Price Waterhouse resumed in 1989. This involves primarily an examination of FMS' procedures for accumulating and summarizing information submitted by departments and agencies.

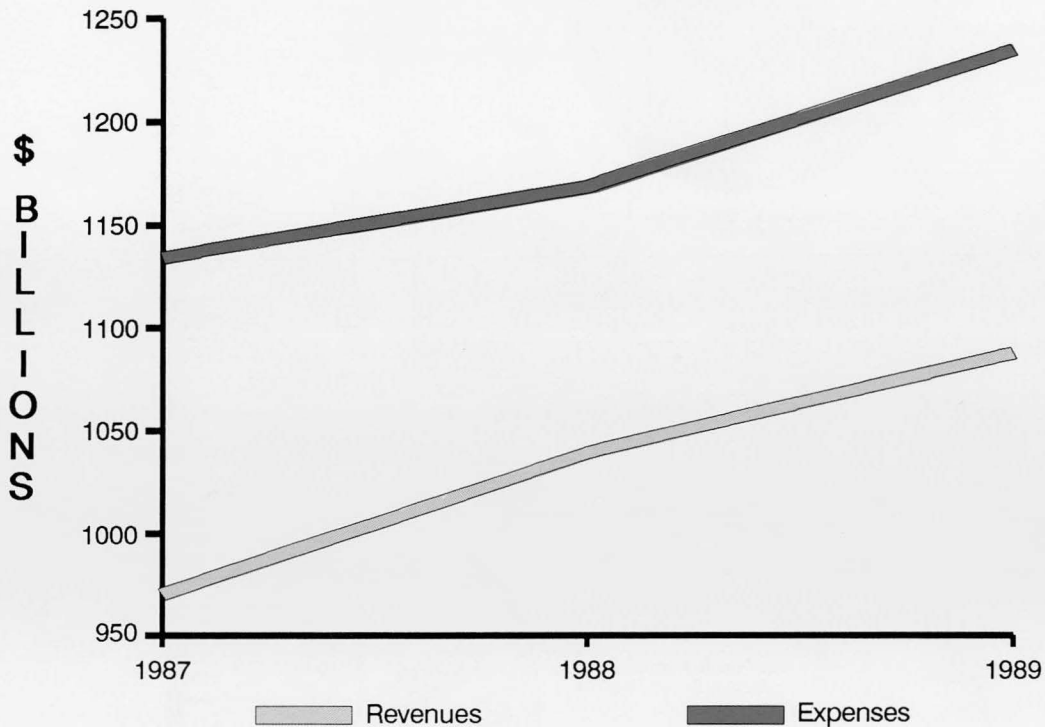
*... to provide more
reliable financial
information.*

FINANCIAL HIGHLIGHTS

Revenues and expenses

The following graphs show revenues and expenses for fiscal years 1987 through 1989, and the major categories of revenues by source and expenses by agency for fiscal 1989. Certain revenue amounts have been reported on the accrual basis and differ from those reported on the cash basis. The data supporting the graph of expenses by agency are also reported on the accrual basis and differ from those reported on the cash basis.

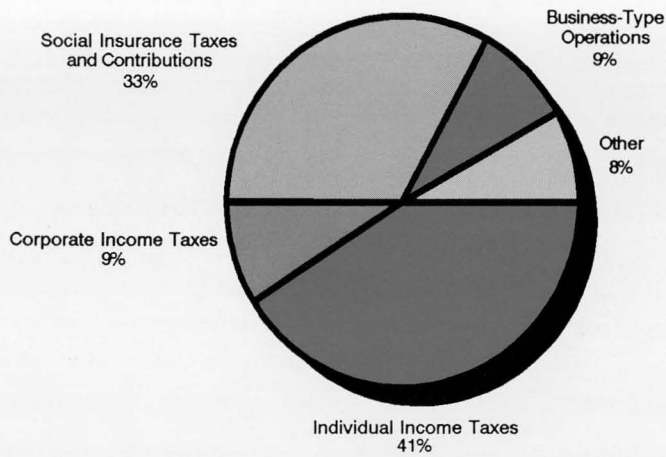
**TOTAL REVENUES AND TOTAL EXPENSES
FISCAL YEARS 1987-89**



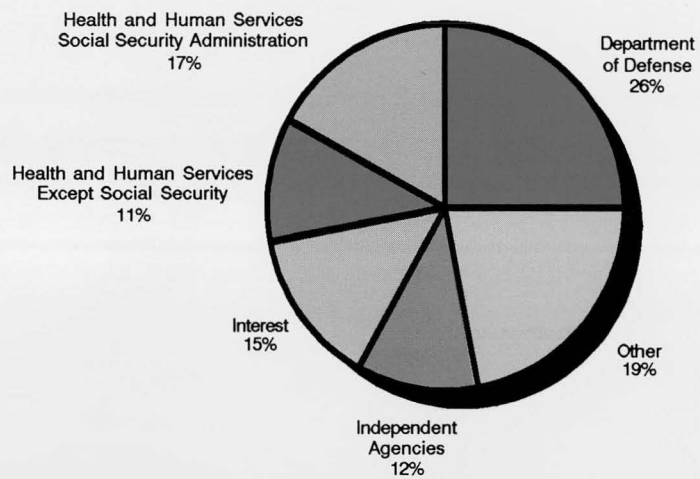
Revenues and expenses

FISCAL YEAR 1989

MAJOR SOURCES OF REVENUES



MAJOR CATEGORIES OF EXPENSES

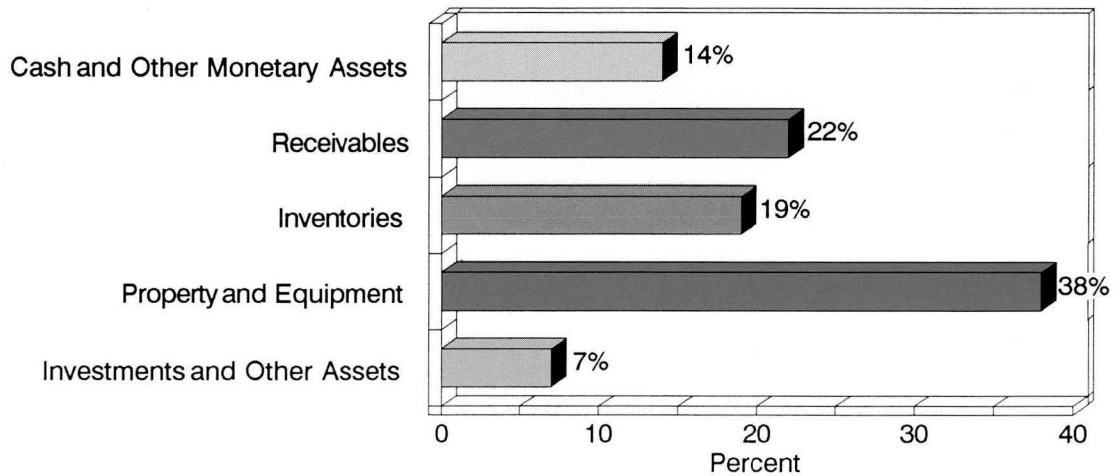


Major categories of assets

Assets are resources owned by the Federal Government that are available to pay liabilities or provide public services in the future. The following chart is derived from the Statement of Financial Position and depicts the major categories of assets for FY 1989 as a percent of total assets. The components for each of these major categories are contained in Notes to Financial Statements.

MAJOR CATEGORIES OF ASSETS

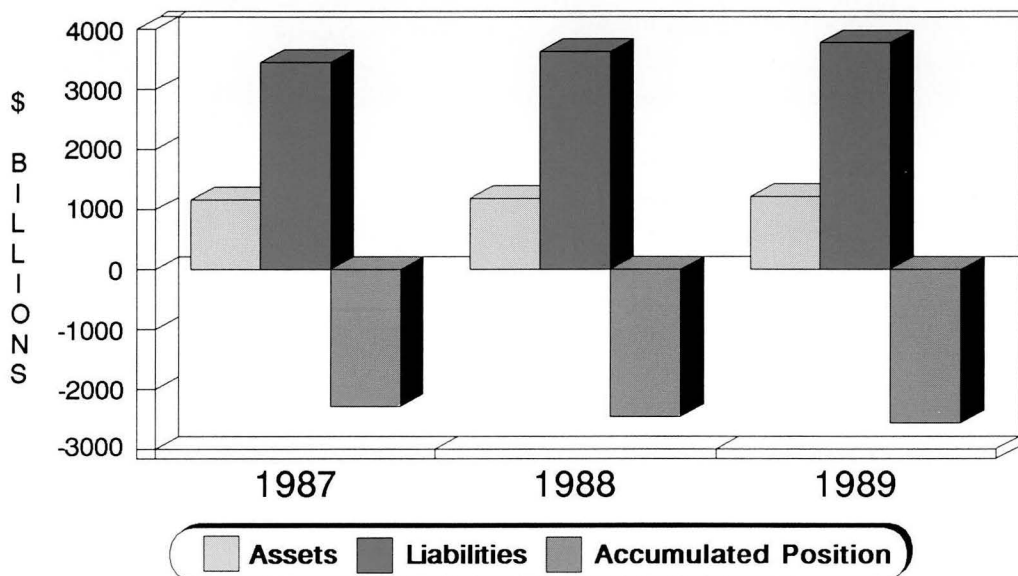
\$1,210.0 billion



Assets, liabilities, and accumulated position

The following graph depicts the assets, liabilities, and accumulated position reported in the Statement of Financial Position for fiscal years 1987 through 1989.

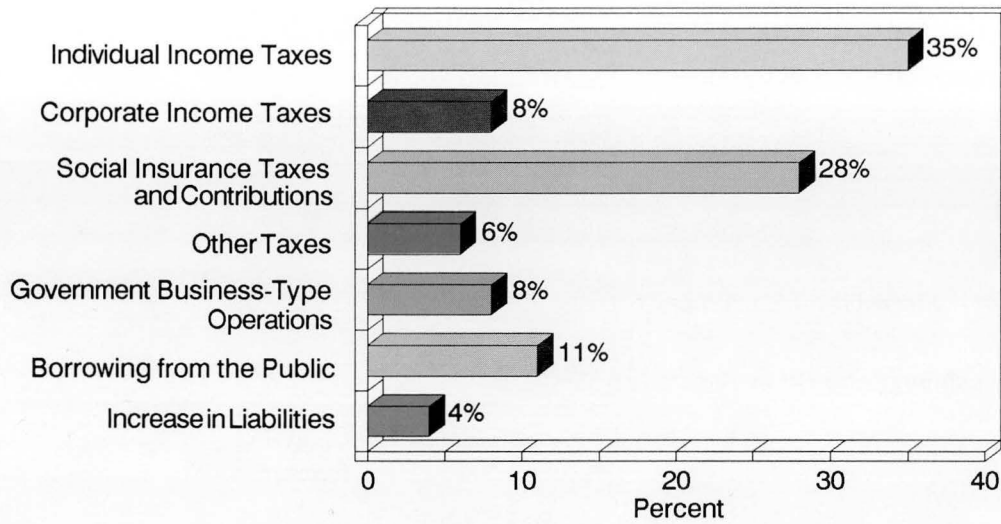
TOTAL ASSETS, TOTAL LIABILITIES, AND ACCUMULATED POSITION, FY 1987-89



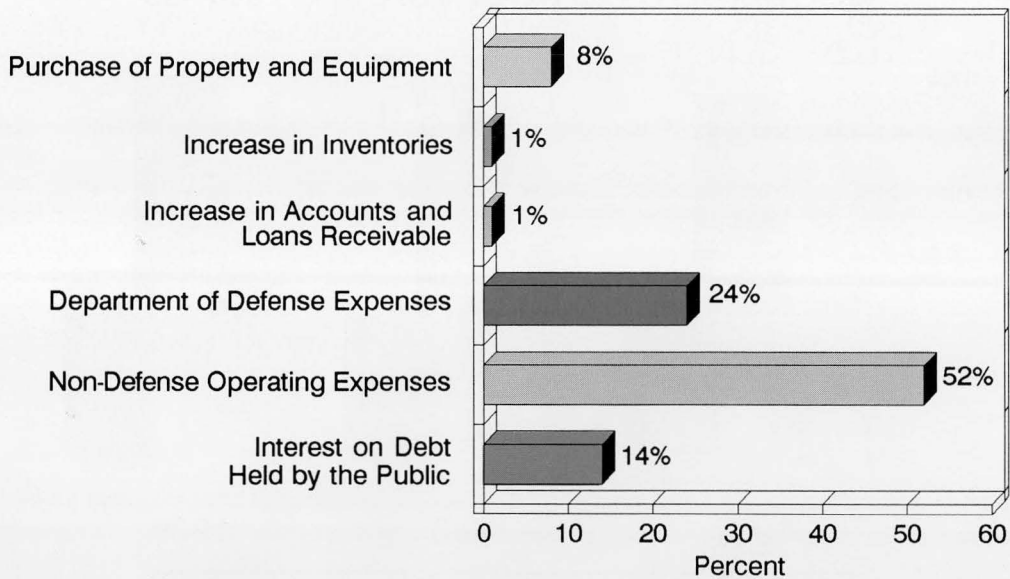
Sources of funds provided and applied

The charts below have been derived from the Statement of Operations and the Statement of Changes in Financial Position for fiscal 1989.

FUNDS PROVIDED FROM



FUNDS APPLIED TO





CONSOLIDATED FINANCIAL STATEMENTS

United States Government Consolidated Statement of Financial Position as of September 30, 1989 and 1988

(\$ billions)

	1989	1988
Assets		
Cash	41.0	44.4
Other monetary assets	124.6	133.4
Accounts receivable, net of allowances	87.9	73.3
Inventories, net.	227.7	212.5
Loans receivable, net of allowances	175.2	181.0
Property, plant and equipment, net of accumulated depreciation	463.6	437.1
Investments in international organizations	23.7	22.3
Deferred retirement costs	21.0	20.8
Other assets	<u>45.3</u>	<u>51.6</u>
Total assets	<u>1,210.0</u>	<u>1,176.4</u>
Liabilities		
Accounts payable	163.7	173.2
Interest payable	41.4	34.6
Accrued payroll and benefits	12.5	11.9
Unearned revenue	23.2	22.1
Debt issued under financing authority	2,188.8	2,050.0
Pensions and actuarial liabilities	1,235.5	1,212.9
Other liabilities	<u>112.2</u>	<u>81.5</u>
Total liabilities	<u>3,777.3</u>	<u>3,586.2</u>
Accumulated position	<u>-2,567.3</u>	<u>-2,409.8</u>

The accompanying notes are an integral part of this statement.

**United States Government Consolidated Statement
of Operations for the Years Ended September 30, 1989 and 1988**

(\$ billions)

	1989	1988
Revenues		
Levied under the Government's sovereign power		
Individual income taxes	445.7	401.2
Corporate income taxes	103.3	94.5
Social insurance taxes and contributions	359.4	334.3
Excise taxes	34.4	35.2
Estate and gift taxes	8.7	7.6
Customs duties	16.3	15.4
Miscellaneous	23.0	20.0
	<u>990.8</u>	<u>908.2</u>
Earned through Government business-type operations		
Sale of goods and services	73.7	82.2
Interest	10.7	11.9
Other	12.6	36.9
	<u>1,087.8</u>	<u>1,039.2</u>
Expenses by agency		
Legislative branch	1.6	1.5
Judicial branch	1.3	1.2
Executive branch		
Executive Office of the President . . . . .	.1	.1
Funds appropriated to the President	18.3	19.6
Departments		
Agriculture	43.7	62.2
Commerce	3.2	2.1
Defense	322.0	292.2
Education	16.5	17.0
Energy	16.1	15.3
Health and Human Services		
Social Security	215.2	211.6
Other	137.0	127.2
Housing and Urban Development	19.8	21.4
Interior	8.1	5.1
Justice	6.9	3.9
Labor	23.8	24.5
State	4.8	3.2
Transportation	25.1	24.3
Treasury		
Interest on debt held by the public	185.3	168.9
Other	16.3	12.4
Veterans Affairs	26.7	29.1
Independent agencies	145.5	129.0
	<u>1,237.3</u>	<u>1,171.8</u>
Total expenses	1,237.3	1,171.8
Excess of expenses over revenues	<u>-149.5</u>	<u>-132.6</u>

The accompanying notes are an integral part of this statement.

**United States Government Consolidated Statement
of Changes in Financial Position as of September 30, 1989 and 1988**

(\$ billions)

	1989	1988
Funds provided		
Total revenues	1,087.8	1,039.2
Borrowing from the public	138.8	161.9
Decrease in receivables	-	8.1
Decrease in miscellaneous assets	4.7	-
Increase in liabilities	<u>52.3</u>	<u>38.1</u>
Total funds provided	<u>1,283.6</u>	<u>1,247.3</u>
Funds applied		
Total expenses	1,237.3	1,171.8
Less accruals for:		
Depreciation	49.5	44.5
Pension and payroll benefits	3.3	7.8
Interest	3.6	6.5
Bad debts	<u>21.5</u>	<u>17.8</u>
Cash used in operations	1,159.4	1,095.2
Purchase of property and equipment (net of sales of \$7.5 in 1989 and \$12.2 in 1988)	104.4	100.2
Increase in inventories	15.2	30.4
Increase in accounts and loans receivable	8.8	-
Increase in miscellaneous assets	<u>-</u>	<u>14.3</u>
Total funds applied	<u>1,207.0</u>	<u>1,240.1</u>
Net increase/decrease(-) in cash and monetary assets	-4.2	7.2
Change in valuation of gold at market value	-8.0	-16.2
Cash and monetary assets at beginning of year	<u>177.8</u>	<u>186.0</u>
Cash and monetary assets at end of year	<u><u>165.6</u></u>	<u><u>177.0</u></u>

The accompanying notes are an integral part of this statement.

**United States Government Consolidated Statement
of Receipts and Outlays as of September 30, 1989 and 1988**

(\$ billions)

	1989			1988		
	Actual ¹	Budget ² 1/9	Budget ³ 7/18	Actual	Budget ⁴ 2/18	Budget ⁵ 7/28
Budget receipts						
Individual income taxes	445.7	425.2	445.3	401.2	393.4	405.2
Corporation income taxes	103.3	107.0	105.8	94.5	105.6	93.4
Social insurance taxes and contributions	359.4	363.9	361.5	334.3	331.5	335.0
Excise taxes	34.4	34.0	34.1	35.2	35.3	34.7
Estate and gift taxes	8.7	7.8	8.5	7.6	7.6	7.6
Customs duties	16.3	16.3	17.2	15.4	16.4	17.1
Miscellaneous receipts	23.0	21.4	23.4	20.0	19.4	20.4
Total budget receipts	990.8	975.6	995.8	908.2	909.2	913.4
Budget outlays						
Legislative branch	2.1	2.2	2.2	1.9	1.9	1.9
Judicial branch	1.5	1.5	1.5	1.3	1.4	1.4
Executive Office of the President . . . . .	.1	.1	.1	.1	.1	.1
Funds appropriated to the President	4.3	5.6	5.5	7.3	5.2	9.4
Departments						
Agriculture	48.4	52.1	51.4	44.0	50.7	46.9
Commerce	2.6	2.8	2.8	2.3	2.5	2.5
Defense	318.3	313.2	316.1	304.0	299.6	299.6
Education	21.6	20.8	21.3	18.2	18.8	19.0
Energy	11.4	11.4	11.4	11.2	10.5	10.9
Health and Human Services	399.8	401.5	401.1	373.2	375.1	374.6
Housing and Urban Development	19.8	20.4	20.2	19.0	18.6	19.5
Interior	5.3	5.5	5.5	5.1	5.4	5.4
Justice	6.2	6.0	6.1	5.4	5.2	5.2
Labor	22.7	22.8	22.6	21.9	22.0	22.0
State	3.7	3.6	3.7	3.4	3.3	3.3
Transportation	26.7	27.1	27.0	26.4	26.3	26.1
Treasury	230.6	227.7	230.5	201.6	198.9	202.3
Veterans Affairs	30.0	29.2	30.3	29.2	27.6	28.8
Independent agencies	77.0	71.5	73.1	66.3	60.5	65.6
Undistributed offsetting receipts	-89.2	-87.9	-88.3	-78.5	-77.7	-78.7
Total budget outlays	1,142.9	1,137.1	1,144.1	1,063.3	1,055.9	1,065.8
Total budget deficit	-152.1	-161.5	-148.3	-155.1	-146.7	-152.4

¹ The outlay and deficit figures differ from the FY 1991 Budget, released by the Office of Management and Budget on Jan. 29, 1990, by a net of \$128 million mainly due to revisions in data following the release of the Final September 1989 Monthly Treasury Statement of Receipts and Outlays of the U.S. Government.

² FY 1990 Budget of the U.S. Government, released by the Office of Management and Budget on Jan. 9, 1989.

³ Midsession review of the FY 1990 Budget, released by the Office of Management and Budget on July 18, 1989.

⁴ FY 1989 Budget of the U.S. Government, released by the Office of Management and Budget on Feb. 18, 1988.

⁵ Midsession review of the FY 1989 Budget, released by the Office of Management and Budget on July 28, 1988.

**United States Government Consolidated Statement
of Reconciliation of Accrual Operating Results to the
Cash Basis Budget as of September 30, 1989 and 1988**

(\$ billions)

	1989	1988
Expenses over revenues (current period results on accrual basis)	149.5	132.6
Additions		
Property and equipment (net of sales of \$7.5 in 1989 and \$12.2 in 1988)	104.4	100.2
Net loan disbursements	4.4	-8.0
Seigniorage . . . . .	.6	.5
Total additions	<u>109.4</u>	<u>92.7</u>
Deductions		
Increase or decrease (-) in actuarial liabilities	22.6	-41.9
Increase or decrease (-) in allowances	-10.7	-9.6
Depreciation expense	49.5	44.5
Other:		
Net accrual adjustments	74.9	50.7
Net agency accrual adjustments	-29.5	26.5
Total deductions	<u>106.8</u>	<u>70.2</u>
Reported budget outlays over receipts (cash basis)	<u>152.1</u>	<u>155.1</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Reporting entities

The Consolidated Financial Statements include the legislative, judicial, and executive branches and federally chartered corporations.

Significant intragovernmental transactions were eliminated in consolidation.

The Federal Reserve banks are excluded because they operate independently from the U.S. Government and are owned by member banks through the issuance of stock. Certain congressional activities are also excluded as are Government-sponsored enterprises such as the Federal land banks because they are privately owned.

Basis of accounting policies

The data presented in this report are unaudited.

The Consolidated Financial Statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable to the Federal Government in line with Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies. The Statements of Financial Position, Operations, and Changes in Financial Position are presented on the accrual basis of accounting. The Statement of Receipts and Outlays displays the budget deficit on a cash basis. The Statement of Reconciliation of Accrual Operating Results to the Cash Basis Budget presents a reconciliation of the budget deficit on the cash basis to the operating results on the accrual basis. Statements have been restated to reflect subsequent changes to the prior-year financial information which now appropriately reflect tax revenues net of refunds. (See notes 13 and 14.)

Principal financial statements

These consist of a Statement of Financial Posi-

tion, a Statement of Operations, a Statement of Changes in Financial Position, a Statement of Receipts and Outlays, and a Statement of Reconciliation of Accrual Operating Results to the Cash Basis Budget.

Fiscal year

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

Sources of information

The fiscal 1989 Statement of Financial Position and the Statement of Operations have been compiled from agency reports required by I TFM 2-4100, Federal Agencies' Financial Reports. The Statement of Receipts and Outlays has been taken from the Monthly Treasury Statement. Certain adjustments have been made to supplement information supplied by the agencies such as other monetary assets, unearned revenue, depreciation, other assets, pensions and actuarial liabilities, other liabilities, and allowance for losses.

2. Cash

This represents balances of tax collections, customs duties, other revenues, miscellaneous receipts, public debt receipts, and a variety of other receipts maintained in accounts at Federal Reserve banks and branches as well as in the U.S. Treasury tax and loan accounts. The Federal Reserve banks and branches act as fiscal agents for the Government by reporting this information on a daily basis. The tax and loan accounts refer to accounts of special depositaries in which the proceeds of certain tax payments and public debt sales are held until the funds are needed at the Federal Reserve banks and branches to meet cash disbursements from Treasury's general account.

Accounting for outlays is on the basis of checks issued and cash payments made; therefore, "Other liabilities" is credited for checks issued, until they are cleared through the Federal Reserve banks.

3. Other monetary assets (consist of the items summarized below)

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Gold (at market value of \$367.00 per ounce as of Sept. 30, 1989, and \$397.75 as of Sept. 30, 1988)	96.2	104.2
Special drawing rights	9.5	9.1
U.S. reserve position in the International Monetary Fund	8.8	9.4
Accountability for cash and other assets held outside the Treasury	8.1	8.8
Other U.S. Treasury monetary assets	1.7	1.6
Nonpurchased foreign currencies . . . . .	.3	.3
	<u>124.6</u>	<u>133.4</u>

Gold

Gold is valued at market. The market value has been used for FY 1989 and for FY 1988. The market value represents the price reported for gold on the London fixing, and is based on 262,061,692.577 and 262,005,370.106 fine troy ounces as of September 30, 1989 and 1988, respectively (as reported by the Treasury general ledger). The statutory price of gold is \$42.2222 per ounce.

One of the accounting issues being studied by GAO is how refined precious metals including gold should be valued in the Consolidated Statement of Financial Position. Valuing gold at market value is in accordance with acceptable accounting principles and is consistent with the current preliminary GAO position.

International Monetary Fund special drawing rights

The value is based on a weighted average of exchange rates for the currencies of selected member countries. The value of a special drawing right was \$1.27981 and \$1.29039 as of September 30, 1989 and 1988, respectively.

Accountability for cash and other assets held outside the Treasury

This item is composed of amounts held by Government collecting and disbursing officers, agencies'

undeposited collections, and unconfirmed deposits including cash transfers.

4. Accounts and loans receivable

All receivables in the Statement of Financial Position are shown net of allowances for losses.

Summary of net accounts and loans receivable¹

	Accounts receivable		Loans receivable	
	1989	1988	1989	1988
	(\$ billions)			
Beginning balance, Oct. 1	73.3	67.6	181.0	194.8
Additions to receivables	115.5	90.7	38.0	31.1
Repayments and reclassifications	-71.9	-77.4	-39.0	-24.3
Amounts written off	-29.0	-7.6	-4.8	-20.6
Ending balance, Sept. 30	<u>87.9</u>	<u>73.3</u>	<u>175.2</u>	<u>181.0</u>

¹ Excludes intragovernmental receivables.

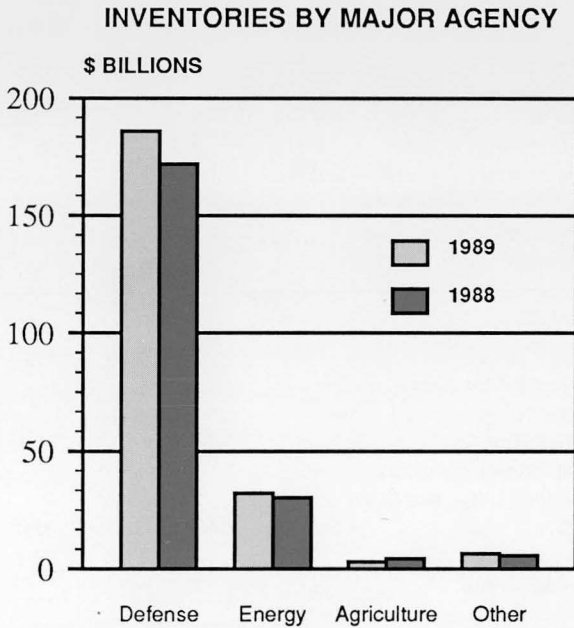
5. Inventories

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Operating consumables	135.2	129.9
Product or service components	48.6	46.1
Stockpiled materials	38.5	32.7
Other	5.4	3.8
	<u>227.7</u>	<u>212.5</u>

Product or service components contain amounts reported in goods-for-sale, work-in-process, and raw materials. Agencies have reported inventory totals net of allowance accounts, where appropriate.

Agencies disclosed their costing method for inventory totals. The first-in-first-out valuation method was used more often than moving or weighted averages or last-in-first-out valuations. However, the Department of Defense used the moving average valuation more

often than weighted average or last-in-first-out or first-in-first-out valuations. Several agencies reported estimated inventory amounts.



6. Property, plant and equipment

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Structures, facilities and leasehold improvements	184.2	169.9
Military equipment	468.7	415.1
Equipment	67.7	68.6
Construction-in-progress	63.7	58.1
Land	12.4	11.7
Other	17.6	14.9
	<u>814.3</u>	<u>738.3</u>
Less accumulated depreciation	<u>350.6</u>	<u>301.2</u>
	<u>463.7</u>	<u>437.1</u>

“Other” includes ADP software, assets under capital lease, and other fixed assets that have been capitalized. The amounts shown for fiscal 1989 and 1988 are reported at cost.

Land purchased by the Federal Government is valued at 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.

Pending the outcome of a General Accounting Office study to determine how land and natural resources should be valued, no value has been assigned to the Outer Continental Shelf and other offshore lands. More than 662 million acres of public domain land have been assigned a minimal value of \$1 per acre, and are included in the total land amount.

Depreciation accounting is encouraged for all depreciable fixed assets, but only business-type operations are required to report depreciation on their financial statements.

The accumulated depreciation shown in the Statement of Financial Position is estimated using the straight-line method applied to the total of reported depreciable assets. The useful lives applied to each classification of asset are:

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

The amounts of accumulated depreciation reported by Federal agencies on their statements for business-type operations amounted to \$40.3 billion and \$33.7 billion for fiscal 1989 and 1988, on assets of \$143.5 billion and \$99.9 billion for fiscal 1989 and 1988, respectively. The straight-line depreciation method is used more often for overall fixed assets. Capitalization policies varied greatly with thresholds in the ranges of \$500 to \$5,000.

7. Investments in international organizations

This item represents the Government’s investment in international organizations. Some of the larger organizations are the:

- International Bank for Reconstruction and Development (World Bank)
- International Development Association
- Inter-American Development Bank
- Asian Development Fund
- African Development Bank

8. Other assets

Other assets reported are summarized in the following table, by agency.

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Funds appropriated to the President	7.6	8.3
Federal Deposit Insurance Corp.--		
Federal Savings and Loan Insurance Corp., resolution fund	7.9	7.9
Bank insurance fund	4.7	4.0
Defense	4.5	8.1
Agriculture	2.0	3.5
Tennessee Valley Authority	3.4	2.8
Other	<u>15.2</u>	<u>17.0</u>
Total	<u>45.3</u>	<u>51.6</u>

9. Unearned revenue

Unearned revenue is summarized in the following table, by agency.

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Funds appropriated to the President	11.6	11.2
Housing and Urban Development	6.3	5.6
U.S. Postal Service	1.8	1.7
Agriculture . . . . .	.9	1.2
Energy . . . . .	.8	1.1
Interior	1.8	-
Other	<u>-</u>	<u>1.3</u>
Total	<u>23.2</u>	<u>22.1</u>

10. Debt issued under financing authority

The amount of Federal debt outstanding is reported net of unamortized premiums and discounts. The amounts reported for fiscal years 1989 and 1988 reflect a reduction for intragovernmental holdings of \$692.3 billion and \$566.9 billion, respectively.

	Sept. 30, 1989		Sept. 30, 1988	
	Average interest rate (percent)	Total debt (\$ bil.)	Average interest rate (percent)	Total debt (\$ bil.)

Public debt				
Marketable	9.043	1,859.4	8.770	1,774.0
Nonmarketable	7.826	284.6	7.861	263.3
Other	8.999	<u>21.1</u>	8.830	<u>.3</u>
Total		<u>2,165.1</u>		<u>2,037.6</u>

Agency debt				
Housing and Urban Development . . . . .		.3		-
Federal Deposit Insurance Corporation:				
Bank insurance fund		3.1		.9
Federal Savings and Loan Insurance Corp., resolution fund		18.6		9.7
Tennessee Valley Authority		1.4		1.4
U.S. Postal Service . . . . .		.3		.3
Miscellaneous		-		.1
Total		<u>23.7</u>		<u>12.4</u>

Federal debt held by the public				
Current period		2,188.8		2,050.0
Prior period		<u>2,050.0</u>		<u>1,888.1</u>
Net increase		<u>138.8</u>		<u>161.9</u>

11. Pensions and actuarial liabilities

The Federal Government administers over 40 pension plans. The largest are those administered by the Office of Personnel Management for civilian employees and the Department of Defense for military personnel. These plans comprise over 96 percent of the pension liability reported at September 30, 1989. 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 following.

	Sept. 30, 1989	Sept. 30, 1988
(\$ billions)		
Pensions--accumulated benefits obligation		
Civilian employees (CSRS and FERS)	586.3	548.1
Military personnel	446.3	457.1
Other pension plans	<u>21.0</u>	<u>20.0</u>
Subtotal	1,053.6	1,025.2
Actuarial liabilities		
Veterans compensation	135.2	139.9
Federal employees compensation	21.2	21.5
Other benefits	<u>25.5</u>	<u>26.3</u>
Total	<u>1,235.5</u>	<u>1,212.9</u>

Civilian employees and military personnel

The latest available information for civilian employees and military personnel pensions is as of September 30, 1988. For fiscal 1988, data from fiscal 1987 were used.

Pension expense for the various Federal pension plans is calculated for budgetary purposes by a variety of actuarial funding methods. For financial reporting purposes, Federal pension plans report their accumulated benefit obligation (ABO) pursuant to directions developed by the General Accounting Office and the Office of Management and Budget under the provisions of Public Law 95-595. The ABO is calculated with the "unit credit" actuarial cost method, and is substantially similar to the ABO reported by pension plans pursuant to Financial Accounting Standards Board Statement No. 35. The ABO is recognized as a liability in the Consolidated Statement of Financial Position of the United States. Most Federal pension plans are funded with obligations issued by the U.S. Treasury as expense is recognized pursuant to the actuarial method specified by the governing law. These plan assets (Treasury bonds or other debt), being obligations of the United States, are eliminated from these consolidated statements. Hence, within these statements, periodic pension cost for the Government as a whole is, in effect, the change in the accumulated benefit obligations.

Veterans compensation

Veterans Affairs has a future liability for benefits expected to be paid in future fiscal periods and, if ap-

plicable, to veterans' survivors who have met or are expected to meet defined eligibility criteria.

The future liability for compensation and pension benefits represents the present value, using a 9.0-percent discount rate, of projected annual benefit payments. Projected benefit payments are based on assumed cost-of-living increases ranging from 3.6 percent to 4.7 percent for 1990 to 1994 and 3.3 percent to 4.0 percent thereafter. In addition, the mortality and accession rates used are based on trends in the current veteran population.

This calculation was not based on an independent actuarial study, and thus there is a risk that the assumptions and methods underlying it may not be reflective of actual economic and demographic trends affecting veterans.

The present value of the estimated future liability for compensation and pension benefits payable for the next 5 fiscal years and thereafter is as follows:

	(\$ billions)
1990	14.0
1991	12.7
1992	11.4
1993	10.4
1994	9.5
Thereafter	<u>77.2</u>
Total	<u>135.2</u>

Federal employees compensation

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

Other pension plans

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

Because railroad retirement operates similarly to Social Security (see Note 16), railroad retirement has

been eliminated from other pension plans for FY 1989 and retroactively for FYs 1988 and 1987 pending pertinent changes to GAO's title 2 standards. The cumulative adjustment amounted to \$51.5 billion.

Other benefits

Other benefits consist of various items the Government is responsible for such as life insurance and health benefits for veterans and Federal employees.

Thrift Savings Plan

The Thrift Savings Plan is a retirement savings and investment plan for Federal employees authorized by Congress in the Federal Employees' Retirement System Act of 1986. It is a defined contribution plan eligible to employees covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The plan offers both FERS and CSRS employees tax deferral advantages. FERS employees may contribute up to 10 percent of basic pay per pay period to the plan; CSRS employees may contribute up to 5 percent of basic pay per pay period. Total individual's contributions could not exceed \$7,627 in 1989. The plan was started in April 1987 and as of September 30, 1989, the total invested was \$4.3 billion, mainly in U.S. Government non-marketable certificates, which is included in debt issued under financing authority in the Statement of Financial Position. The amounts invested in either the Common Stock Index or the Fixed Income Funds are less than \$100 million, respectively.

12. Other liabilities

Other liabilities reported are summarized in the following table, by agency.

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Treasury	56.2	34.8
Federal Deposit Insurance Corp.:		
FDIC--bank insurance fund	2.8	4.5
Federal Savings and Loan Insurance Corp.--resolution fund	20.7	25.6
Labor	14.3	.1
Housing and Urban Development	5.6	.4
Tennessee Valley Authority	2.8	3.0
Defense	1.1	4.9
Interior	1.6	3.2
Other	7.1	5.0
Total	<u>112.2</u>	<u>81.5</u>

13. Accumulated position

	(\$ billions)
Accumulated position beginning of period, Oct. 1, 1987	-2,289.4
Cumulative effect of error in debt issued under financing authority	18.2
Cumulative effect of accounting policy change	<u>10.2</u>
Accumulated position beginning of period, revised	-2,261.0
Prior-period results as originally reported, Sept. 30, 1988	-147.0
Adjustments for:	
Change in accounts receivable	2.7
Change in advances and prepayments	-8.9
Change in loans receivable	1.2
Change in other assets	-3.0
Change in accounts payable	-72.3
Cumulative effect of error in debt issued under financing authority	-20.4
Change in other liabilities	81.2
Change in pensions and actuarial liabilities adjusted for cumulative accounting policy change	<u>33.9</u>
Prior-period results restated, Sept. 30, 1988	-132.6
Change in market value of gold	<u>-16.2</u>
Accumulated position end of period, Sept. 30, 1988	-2,409.8
Current period results, Sept. 30, 1989	-149.5
Change in market value of gold	<u>-8.0</u>
Accumulated position end of period, Sept. 30, 1989	<u>-2,567.3</u>

The accumulated position represents the excess of liabilities over assets. It has been restated to reflect prior-period adjustments identified in the above table.

14. Prior-period adjustments and reclassifications

The Consolidated Financial Statements include, in fiscal 1989, adjustments to prior years' figures, which were necessary due to changes in interpreting financial information, and accounting policy concerning the deletion of railroad retirement pension in the fiscal 1988 statements. The changes concerned the following accounts: accounts receivable, advances and prepayments, other assets, loans receivable, accounts payable, pensions and actuarial liabilities, debt issued under financing authority, and other liabilities. After adjustments, a net increase of \$14.4 billion affected the accumulated position for fiscal 1988.

In addition to these adjustments, amounts shown in the Statement of Operations were reclassified and adjusted to provide for more accurate amounts within each category and to enhance presentation.

Two categories reported separately in the Statement of Financial Position in 1988 have been reclassified into other assets for 1989. They are advances and prepayments and investments. Two categories which were previously included in the statement have been broken out this year to provide more clarity. They are investments in international organizations and deferred retirement costs.

15. Leases

Federal agencies were first required to provide financial information about lease commitments in 1986. Agencies are attempting to accumulate the desired lease information that is required. At September 30, 1989, the future aggregate minimum rental commitments for capital leases and noncancelable operating leases were:

	Operating leases	Capital leases
	(\$ billions)	
Years ending Sept. 30,--		
1990	1.3	2.4
1991	1.1	1.1
1992 .....	.8	.1
1993 .....	.7	.1
1994 .....	.5	-
Thereafter	<u>1.3</u>	<u>1.0</u>
Total minimum lease payments	<u>5.7</u>	<u>4.7</u>

The majority of these lease commitments relate to building and office space rental. The current and long-term portions of lease costs are included in accounts payable and other liabilities, respectively. Intragovernmental leasing transactions have not been eliminated or identified due to a lack of information.

Lease revenues identified on the agency statements were negligible.

16. Social Security

No liability for Social Security is included in the Statement of Financial Position, but the program is included in the list of open-ended programs and fixed costs (page 36). For purposes of disclosure, however, the total unfunded actuarial liability is determined annually. As of September 30, 1989, this liability was \$6,077.5 billion. (As of September 30, 1988, this liability was \$5,739.6 billion.) This liability represents the present value of the projected excess of future benefit payments to present participants over the contribution still to be made by the same group and their employers on their behalf. If Social Security were accounted for as if it were a pension plan, a portion of the unfunded actuarial liability would be recognized for financial reporting purposes. Such an amount has not been presented in these financial statements.

The Congress and the trustees of the funds prepare estimates based on a different financing method they regard as more appropriate for social insurance programs. The following actuarial amounts are calculated on the assumption that future workers will be covered by the program as they enter the labor force.

	Sept. 30, 1989	Sept. 30, 1988
	(\$ billions)	
Actuarial liabilities	16,493.2	15,480.0
Actuarial assets	<u>15,643.7</u>	<u>14,816.0</u>
Actuarial surplus or deficit (-)	<u>-849.5</u>	<u>-664.0</u>

17. Contingencies

A contingent liability is a liability involving uncertainty as to a possible loss to the Government that will be resolved when one or more future events occur or fail to occur. If the future event or events are likely to occur and the amounts can be reasonably estimated, the liabilities are reported in the Statement of Financial Position under "Other liabilities." Contingencies within the Federal Government result from a number of sources including loan and credit guarantees, insurance programs, and unadjudicated claims.

The following table shows the contingent liabilities reported in the Statement of Financial Position for losses that are likely to occur and the maximum risk of exposure that the Government has without regard to probability of occurrence and without deduction for existing and contingent assets which would be available to offset potential losses.

	Sept. 30, 1989		Sept. 30, 1988	
	Maxi- mum risk	Liabil- ity	Maxi- mum risk	Liabil- ity
	(\$ billions)			
Insurance in force	4,130.2	94.5	3,975.2	19.4
Government loan and credit guarantees	580.8	6.8	555.2	1.6
Unadjudicated claims	¹ 366.9	-	¹ 365.5	-
Other contingencies	228.8	-	198.8	-
		<u>101.3</u>		<u>21.0</u>

¹ Includes \$304 billion due to litigation against the Dept. of Energy.

The administration has provided a range for the total cost of protecting deposits in insolvent thrift insti-

tutions at \$89 billion to \$132 billion in present value terms. This range reflects an increased estimated cost of \$16-\$59 billion from the original cost estimate of \$73 billion. At this time, the administration believes that there are too many unknown factors to provide a single estimate of the ultimate cost. The cost estimate includes \$50 billion provided by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) for the thrifts resolved during 1989-92 and the \$23 billion that will be available to replenish the savings association insurance fund during the 8 years after 1992.

The \$50 billion provided by FIRREA included \$18.2 billion in appropriations, \$1.2 billion from the industry, and \$30 billion from bond issuances by the Resolution Funding Corporation. FIRREA also provided \$40 billion for payment of prior commitments from the old Federal Savings and Loan Insurance Corporation (FSLIC) fund. It appears that the cost associated with these commitments may be higher than originally estimated. However, a more accurate total cost figure for the old FSLIC commitments is not currently available.

The Department of Energy recognizes a contingent liability as of September 30, 1989, of about \$19 billion for environmental cleanup through fiscal 1995. Of that amount, \$2 billion has been appropriated for 1990. The Department has established a goal to achieve cleanup within 30 years and annually update a 5-year plan to establish a public reviewed agenda for compliance and cleanup against which progress will be measured. This plan, which includes projections through 1995, does not authorize departmental budgetary resources beyond those already appropriated for such activities by the Congress. Liabilities beyond those cited above cannot be reasonably estimated at this time.

18. Audited financial statements

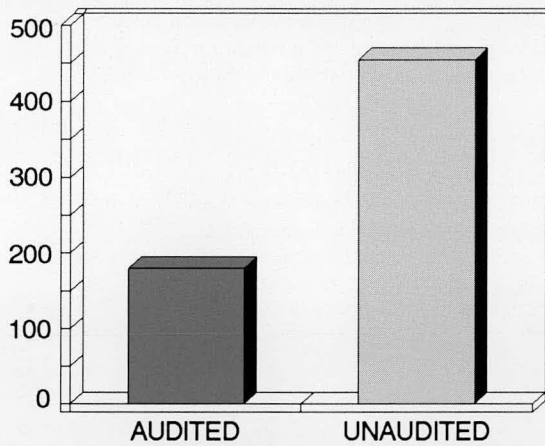
A review showed that agencies which have approximately 37 percent of the reported assets in 1989 have been audited in the past 5 years. As this percent increases, the quality of the data used to prepare this report will improve proportionally as will the usefulness of the results in making financial decisions. A recap of activity from agencies audited is provided below and identifies those organizations reviewed.

Agencies or departments audited in whole or in substantial part consisted of the following:

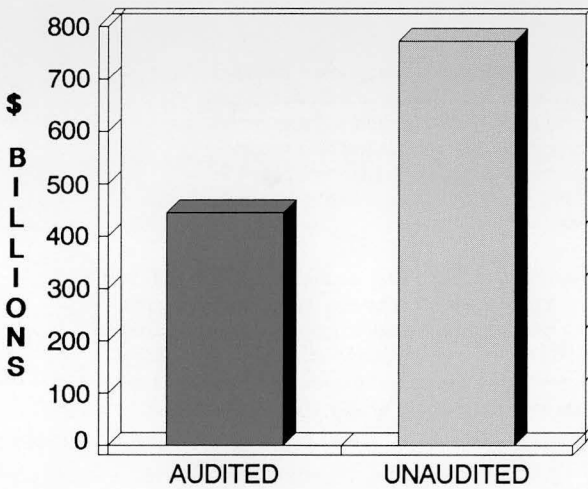
- | | |
|-------------------------------|---------------------------------|
| Agriculture | Veterans Affairs |
| Energy | Environmental Protection Agency |
| Housing and Urban Development | General Services Administration |
| Health and Human Services | Government Printing Office |
| Labor | Independent agencies |
| Treasury | |

Financial Quality Performance Measures

**STATUS OF ENTITIES AUDITED
NUMBER**



**STATUS OF ENTITIES AUDITED
ASSETS**



Statement of Price Waterhouse

Director, Accounting Group Financial Management Service of the U.S. Treasury Department

We are pleased to have had the opportunity to consult with the Treasury Department regarding its process for preparing the 1989 Prototype U.S. Government Consolidated Financial Statements (Consolidated Financial Statements). The process involves accumulating and consolidating financial information submitted by all of the departments and agencies that conduct and administer the Federal government's programs. At your request we have (1) read the sections of the Treasury Financial Manual and related Bulletins that govern preparation of the Consolidated Financial Statements, (2) reviewed the bases of Treasury's adjustments of information submitted by departments and agencies, (3) reviewed Treasury's procedures for identifying all entities to be included in the Consolidated Financial Statements, (4) reviewed Treasury's procedures for accumulating and summarizing information submitted by departments and agencies and (5) reviewed Treasury's efforts to compare submitted information with other Treasury data, OMB data, GAO reports, and reports of independent accountants and consultants. The following is a summary of our more important observations concerning matters which continue to require resolution in the Consolidated Financial Statement preparation process.

The preparation of Consolidated Financial Statements is an important step in Treasury's efforts to improve the reliability and usefulness of the government wide financial information. Nevertheless, we believe it is necessary to recognize that the current preparation process requires a number of significant refinements before the resulting Consolidated Financial Statements can be viewed as providing reliable financial information and the "Prototype" description removed. Improving the process will involve (1) obtaining more accurate financial information from the departments and agencies, (2) improving some of Treasury's accumulation and report preparation practices, and (3) resolving a number of important accounting and reporting issues. The following is a discussion of the most significant matters which should receive your attention.

Accuracy

In recent years the financial information of an increasing number of departments and agencies from which the Consolidated Financial Statements are prepared has been subjected to either an internal or external independent audit or review process. Such audits and reviews provide increased assurance that the information submitted is reliable and prepared in accordance with applicable accounting principles. Accordingly, the Treasury should develop, in concert with department Inspectors General and internal auditors, the GAO, and external auditors, a comprehensive financial data review requirement.


Accumulation

Treasury's accumulation and summarization process, while detecting many errors, does not identify all significant errors which a more comprehensive review process would identify and correct. In other cases, as a result of incomplete reporting instructions, it is necessary for Treasury to make significant adjustments for amounts omitted from agency reports. The process also requires many adjustments of agency submitted information, some of which is not accompanied by adequate supporting documentation. Lastly, there is a need for refinement of the procedures to permit more accurate allocation of consolidating adjustments to reported departmental expenses; expanded reporting of grant and loan commitments and guarantees; and appropriate application of generally accepted reporting standards for outstanding checks.

Accounting and Reporting

There continue to be a number of important accounting and reporting issues studied by GAO, OMB, Treasury, and others, the resolution of which could have a significant effect on the Consolidated Financial Statements. For example, the extent to which actual and budget data is reported and reconciled, whether military hardware should be capitalized and depreciated, the accounting and reporting for public domain, and whether Social Security liabilities should be recorded in the Consolidated Financial Statements must each be resolved. In addition there is a need to further refine and, where appropriate, expand financial statement reporting and disclosures.

We recognize that these areas are not entirely within Treasury's direct control. Resolving issues associated with the quality of submitted final information and other important issues will involve a concerted effort by the entire Federal government financial management community. Nevertheless, resolution of these matters is essential to improving the reliability and usefulness of the Consolidated Financial Statements. We did not audit or review the Consolidated Financial Statements in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion or any other assurance on the 1989 Prototype U.S. Government Consolidated Financial Statements or any of its components.



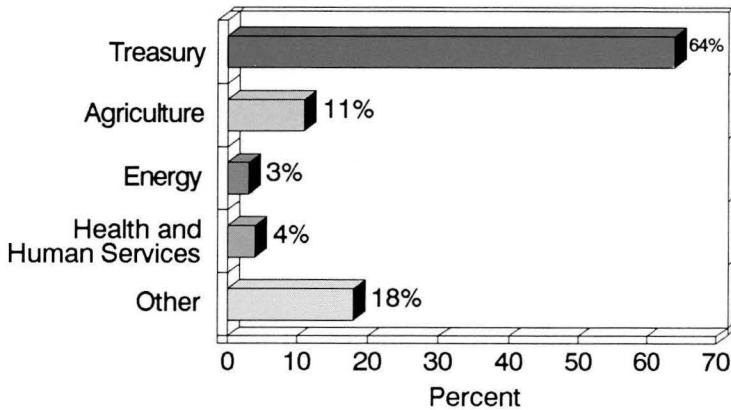
Office of Government Services
Washington, D.C.
July 13, 1990

SUPPLEMENTAL TABLES

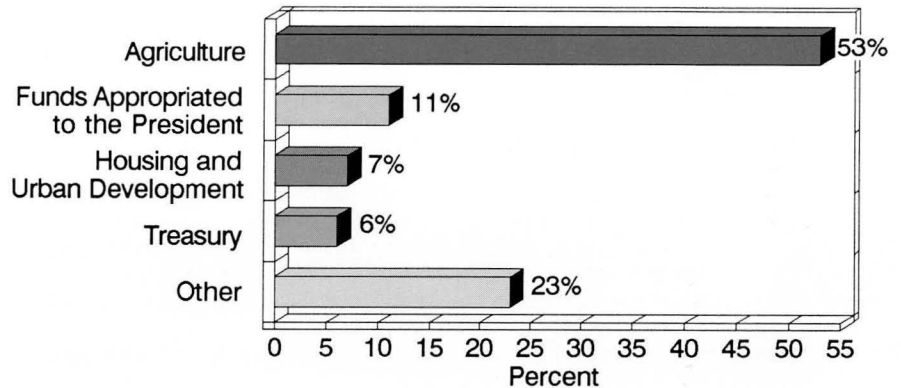
SUMMARY OF ACCOUNTS AND LOANS RECEIVABLE DUE FROM THE PUBLIC

Total accounts receivable amounted to \$98.5 billion in FY 1989, an increase of \$0.4 billion over FY 1988. Total loans receivable amounted to \$211.8 billion in FY 1989, a decrease of \$2.3 billion from FY 1988. Graphically depicted below are summaries by selected agencies of accounts and loans receivable data.

ACCOUNTS RECEIVABLE
\$98.5 billion



LOANS RECEIVABLE
\$211.8 billion



The Debt Collection Act of 1982 (31 U.S.C. 3719) requires the Director of the Office of Management and Budget, in consultation with the Secretary of the Treasury and the Comptroller General of the United States, to establish regulations requiring each agency with outstanding debts to prepare and transmit to OMB and the Treasury a report which summarizes the status of accounts and loans receivable managed by each agency. These receivables result from a wide range of Federal activities including tax assessments; sale of Government services such as satellite launchings; sale of Government goods such as natural resources from Federal lands; overpayments to annuitants; and various loan programs such as student and housing loans. The data in the reports will enable the Federal Government to improve collection activity.

The amounts in the graphs and the following tables have been summarized from the Report on Accounts and Loans Receivable Due from the Public (SF 220-9). This schedule reflects all receivables reported by Federal agencies.

Accounts and Loans Receivable by Agency

(\$ billions)

	Accounts receivable		Loans receivable	
	1989	1988	1989	1988
Legislative branch	*	*	-	-
Executive branch				
Funds appropriated to the President	1.3	1.5	24.2	24.5
Departments				
Agriculture	11.0	10.9	112.2	117.5
Commerce .....	.1	.1	.5	.6
Defense	1.6	1.7	1.7	1.8
Education .....	.6	.5	7.9	7.0
Energy	2.5	4.3	*	.1
Health and Human Services	4.2	3.2	.8	.8
Housing and Urban Development .....	.4	1.2	14.1	13.4
Interior	2.4	2.2	.3	.2
Justice	1.6	.8	-	*
Labor	¹ 4.9	¹ 4.3	¹ .8	¹ 1.2
State	*	*	*	*
Transportation .....	.1	.1	1.4	1.7
Treasury	² 62.9	² 61.0	13.6	19.0
Veterans Affairs	1.1	3.0	4.6	2.2
Other independent agencies	<u>3.8</u>	<u>3.3</u>	<u>29.7</u>	<u>24.1</u>
Gross receivables	98.5	98.1	211.8	214.1
Less allowances for losses	<u>10.6</u>	<u>24.8</u>	³ 36.6	<u>33.1</u>
Net receivables due from the public	<u>87.9</u>	<u>73.3</u>	<u>175.2</u>	<u>181.0</u>

Aging Schedule of Accounts and Loans Receivable as of September 30, 1989

	Accounts receivable (\$ bil.)	Percent delinquent	Loans receivable (\$ bil.)	Percent delinquent
Delinquent				
1-30 days	6.0	7.9	0.5	1.8
31-60 days	2.8	3.7	.4	1.4
61-90 days	2.6	3.4	.4	1.4
91-180 days	9.4	12.4	1.0	3.6
181-360 days	9.7	12.7	5.0	17.8
Over 360 days	<u>45.6</u>	<u>59.9</u>	<u>20.8</u>	<u>74.0</u>
Total delinquent	76.1	<u>100.0</u>	28.1	<u>100.0</u>
Not delinquent	13.9		26.4	
Noncurrent receivables	<u>8.5</u>		<u>157.3</u>	
Total gross receivables	<u>98.5</u>		<u>211.8</u>	

* Less than \$50 million.

¹ Labor Department accounts and loans receivable were increased by \$4.2 billion and \$0.8 billion, respectively, in FY 1989 and \$2.7 billion and \$1.2 billion, respectively, in FY 1988 to correct understatement.

² Totals reported by the Internal Revenue Service for gross delin-

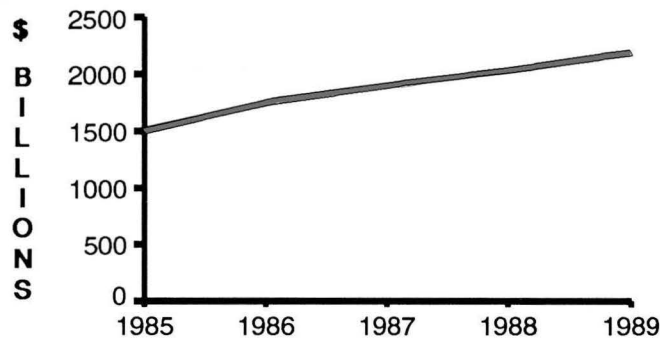
quent taxes for fiscal 1989 and 1988 were \$61.0 billion and \$56.6 billion, respectively.

³ The allowance for losses on loans receivable has been increased by \$4.8 billion on Export-Import Bank to reflect future losses.

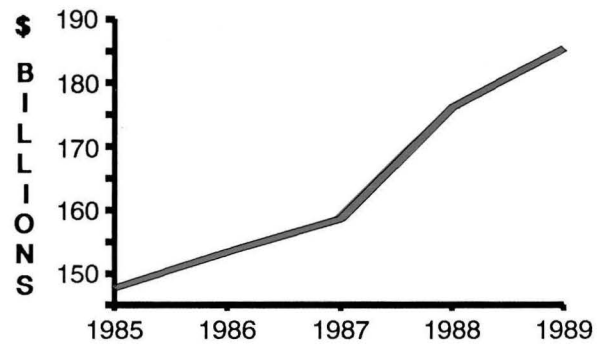
FEDERAL DEBT

Total Federal debt held by the public amounted to \$2,188.8 billion in FY 1989, an increase of \$138.8 billion from FY 1988. This chart has been presented to graphically show the increase in Federal debt and the interest expense.

FEDERAL DEBT HELD BY THE PUBLIC FY 1985-89



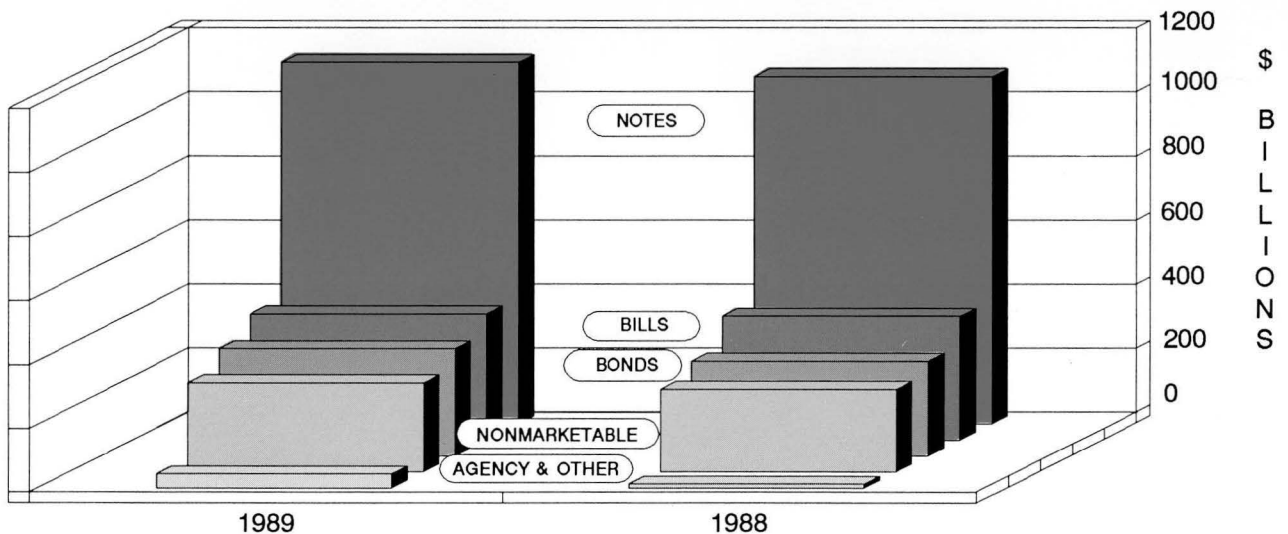
INTEREST EXPENSE FY 1985-89



The two debt tables which follow reflect information on the borrowing of the Federal Government needed to finance the Government's operations. These tables support the balance sheet caption, "Debt issued under financing authority," which is shown net of intragovernmental holdings and unamortized premium or discount. Intragovernmental holdings represent that portion of the total Federal debt held by Federal entities, including the major trust funds.

The distribution of 1989 and 1988 net debt from the public by major type of securities is graphically depicted.

NET DEBT BY TYPE OF SECURITIES



Summary of Public Debt Outstanding as of September 30, 1989 and 1988 ¹

	1989		1988	
	Average interest rate (percent)	Total debt (\$ bil.)	Average interest rate (percent)	Total debt (\$ bil.)
Marketable				
Bills	8.527	394.5	7.329	389.0
Notes	8.901	1,129.3	8.848	1,086.1
Bonds	10.077	335.6	10.220	298.9
	<u>9.043</u>	<u>1,859.4</u>	<u>8.770</u>	<u>1,774.0</u>
Nonmarketable				
Foreign government series	8.170	6.8	7.498	6.3
Government account series	9.401	4.8	9.523	2.8
U.S. savings bonds	7.032	114.0	7.076	106.2
Other	8.333	159.0	8.409	148.0
	<u>7.826</u>	<u>284.6</u>	<u>7.861</u>	<u>263.3</u>
Other	8.999	21.1	8.830	.3
	<u>8.999</u>	<u>21.1</u>	<u>8.830</u>	<u>.3</u>
Total		<u>² 2,165.1</u>		<u>² 2,037.6</u>

¹ Administered by the Bureau of the Public Debt, Department of the Treasury.

² Net of intragovernmental holdings of \$692.3 billion and \$566.9 billion, respectively, and net of unamortized premiums or discounts.

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 Agency Debt Outstanding as of September 30, 1989 and 1988
(\$ billions)

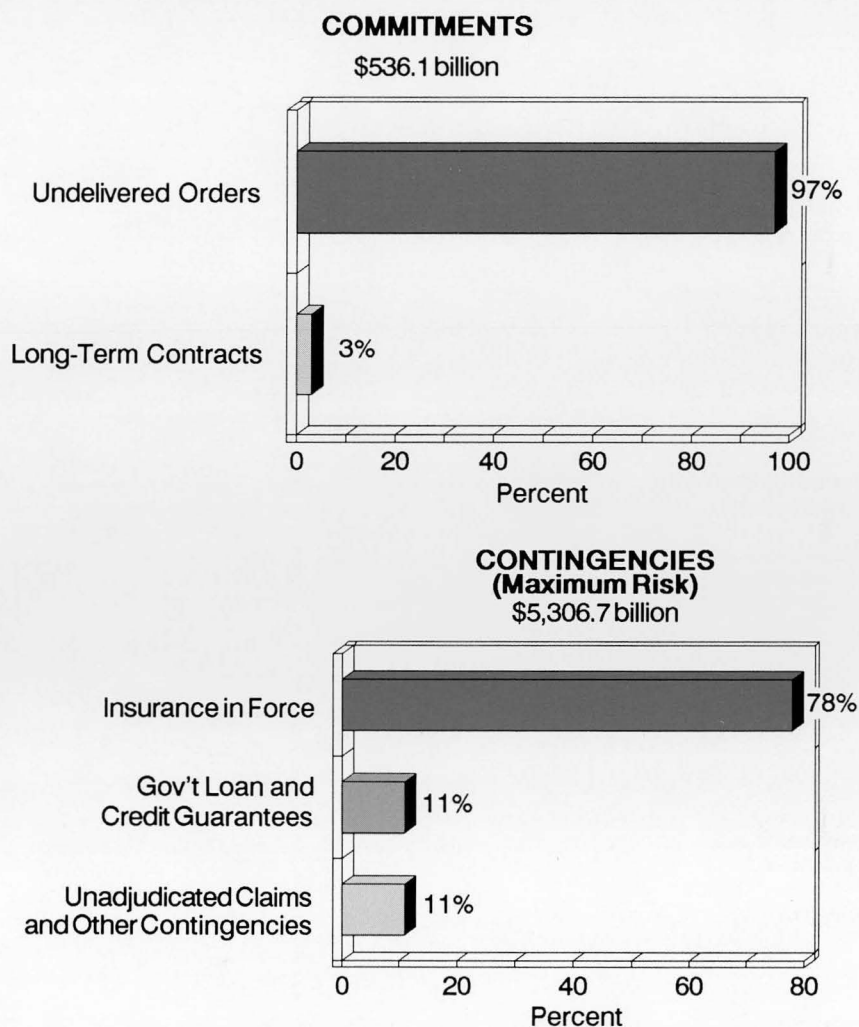
	1989	1988
Housing and Urban Development	0.3	-
Federal Deposit Insurance Corporation		
Bank insurance fund	3.1	0.9
Federal Savings and Loan Insurance Corporation, resolution fund	18.6	9.7
Tennessee Valley Authority	1.4	1.4
U.S. Postal Service .....	.3	.3
Miscellaneous	-	.1
Total	<u>23.7</u>	<u>12.4</u>

COMMITMENTS AND CONTINGENCIES

Commitments are long-term contracts for which appropriations have not been provided by the Congress and undelivered orders which represent obligations.

A contingency is a liability involving uncertainty as to a possible loss to the Government that will be resolved when one or more future events occur or fail to occur. If the future event or events are likely to occur and the amounts can be reasonably estimated, the liabilities are reported in the Statement of Financial Position under "Other liabilities." Contingencies within the Federal Government result from a number of sources including loan and credit guarantees, insurance programs, and unadjudicated claims.

In FY 1989, total commitments amounted to \$536.1 billion and total contingencies amounted to \$5,306.7 billion. Total contingencies represent the maximum risk of exposure without regard to probability of occurrence and without deduction for existing and contingent assets which would be available to offset potential losses. The charts below show the percentage distribution of 1989 commitments and contingencies by source category.



The table that follows shows commitments and contingencies by type. For contingencies, the maximum risk that the Government is exposed to is shown.

**Commitments and Contingencies
of the United States Government
for the Years Ended September 30, 1989 and 1988**
(\$ billions)

	Amounts outstanding	
	1989	1988
Commitments		
Long-term contracts		
Tennessee Valley Authority	4.9	5.7
Defense	2.8	5.5
General Services Administration	3.4	3.0
U.S. Postal Service	1.9	1.9
Energy . . . . .	.2	.4
Other . . . . .	.9	.8
Subtotal	<u>14.1</u>	<u>17.3</u>
Undelivered orders		
Housing and Urban Development	192.6	195.1
Defense	143.8	167.6
Funds appropriated to the President	39.3	36.2
Transportation	37.7	33.4
Health and Human Services	33.9	31.8
Other	74.7	61.0
Subtotal	<u>522.0</u>	<u>525.1</u>
Total commitments	<u>536.1</u>	<u>542.4</u>
Maximum risk exposure for contingencies		
Government loan and credit guarantees		
Housing	359.4	¹ 340.5
Veterans benefits	65.3	65.2
Education	58.6	53.1
Farm ownership and rural development	21.3	10.1
Other	76.2	86.3
Subtotal	<u>580.8</u>	<u>555.2</u>
Insurance in force		
Federal Deposit Insurance Corporation:		
Bank insurance fund	1,750.3	1,682.8
Savings association insurance fund	950.0	972.5
Pension Benefit Guaranty Corporation	819.7	² 755.5
Transportation	220.7	201.8
Federal Emergency Management Agency	182.7	168.8
National Credit Union Administration	161.9	157.3
Other	44.9	36.5
Subtotal	<u>4,130.2</u>	³ 3,975.2
Unadjudicated claims		
Energy	304.4	304.2
Transportation	39.3	39.6
Other	23.2	21.7
Subtotal	<u>366.9</u>	<u>365.5</u>
Other contingencies		
Housing and Urban Development	166.5	⁴ 177.7
Treasury (IRS--returns processing)	34.1	-
Veterans Affairs	11.6	10.1
Multilateral development banks	6.5	4.3
Other	10.1	6.7
Subtotal	<u>228.8</u>	<u>198.8</u>
Total	<u>5,306.7</u>	<u>5,094.7</u>

¹ Government loan and credit guarantees for 1988 was revised for housing.

² Insurance in force for 1988 was revised to include Pension Benefit Guaranty Corporation.

³ Insurance in force for 1988 was revised by \$72.5 billion for Nuclear

Regulatory Commission due to expiration of a section on indemnity on nuclear plants in Price-Anderson Act.

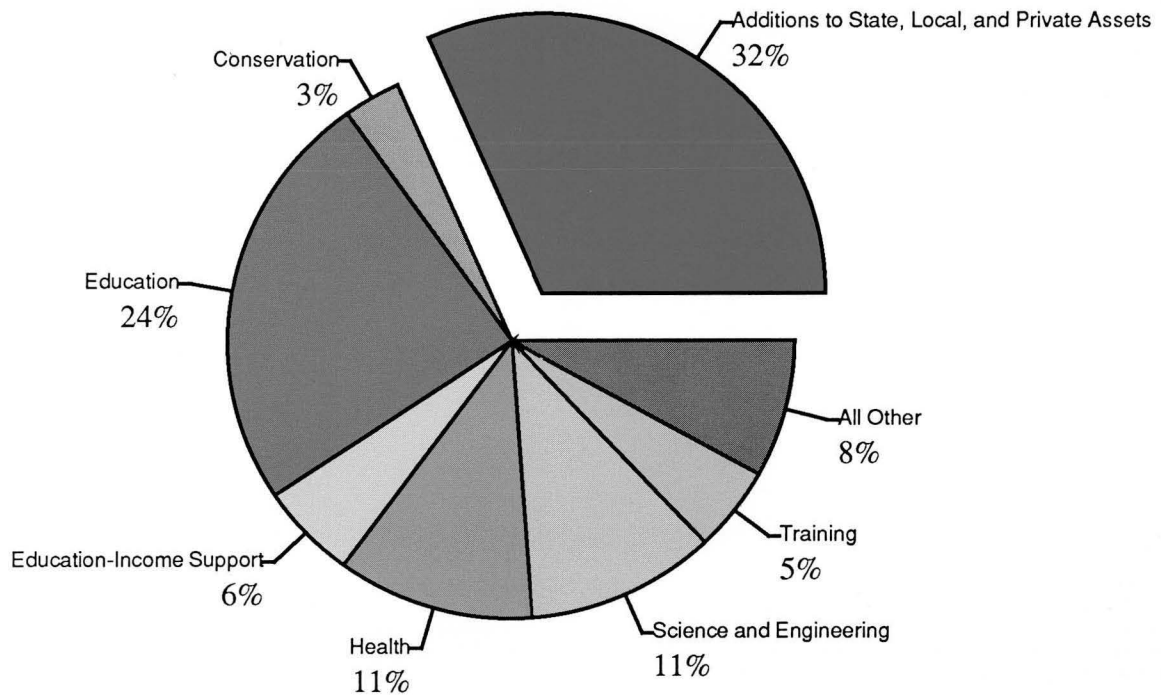
⁴ Other contingencies for 1988 was revised for Housing and Urban Development.

ADDITIONS TO NON-FEDERAL ECONOMIC RESOURCES

The following chart indicates the ways in which the Government uses its resources to add to the physical and human resources of the Nation without acquiring physical assets.

ADDITIONS TO NON-FEDERAL ECONOMIC RESOURCES, FISCAL 1989

Total: \$77.3 billion



The table which follows shows the amounts of these expenditures. Some of these investment-type expenditures, while not adding to the Federal assets, add to the assets of State and local governments or private institutions, and all enhance the future productivity of the Nation.

Additions to State, local, and private assets include construction grants for highways, hospitals, and airports, subsidies to the merchant fleet, and conservation projects, which increase the value of private farmland and water resources. Other developmental expenditures reflect current Federal expenditures and grants which will benefit the Nation in future years by increasing productivity or well-being. These include research and development costs and education and training.

**Additions to Non-Federal
Economic Resources
for the Years Ended September 30, 1989 and 1988**
(\$ billions)

	1989	1988
Additions to State, local, and private assets		
Community and regional development	3.8	4.0
Environment	3.1	2.8
Transportation		
Highways and mass transit	16.1	16.1
Rail and air	1.1	.8
Other	<u>.4</u>	<u>.3</u>
Total additions	<u>24.5</u>	<u>24.0</u>
Other developmental expenditures		
Agriculture . . . . .	.9	1.0
Conservation	2.5	2.9
Economic development	-	.4
Education	18.9	16.2
Education-income support	4.3	4.1
Environment	2.5	.3
Health	8.7	8.1
Science and engineering	8.4	7.1
Training	3.8	3.8
Transportation	1.9	.3
Other	<u>.9</u>	<u>.8</u>
Total developmental expenditures	<u>52.8</u>	<u>45.0</u>
Total investment outlays	<u>77.3</u>	<u>69.0</u>

Source: *Budget of the United States Government, Fiscal Year 1991.*

ESTIMATES FOR TAX EXPENDITURES IN THE INCOME TAX

The following table is designed to show the revenue losses attributable to tax law provisions that allow special exclusions, exemptions, or deductions from gross income or provide special credits, tax rates, or deferrals. The schedule shows the approximate cost of tax benefits.

Revenue loss estimates do not take into account the additional resources, if any, that would be required to provide the same after-tax incentives if the expenditure program were administered as a direct outlay rather than through the tax system. These revenue loss estimates are not equivalent to estimates of the increase in Federal receipts that would result from the repeal of tax expenditure provisions.

Some minor distortions may have occurred since data presented have been condensed for purposes of this report. For further 1989 information, refer to *Budget of the United States Government, Fiscal Year 1991*, "Estimates for Tax Expenditures in the Income Tax," table C-1. For 1988 refer to "Special Analysis G: Tax Expenditures" in *Special Analyses, Budget of the United States Government, Fiscal Year 1990*. In addition, further information concerning revenues and expenses can be found in "Federal Transactions in the National Income and Product Accounts," *Budget of the United States Government, Fiscal Year 1991*.

Fiscal Years 1989 and 1988 (\$ billions)

	Estimated amount of revenue loss	
	1989	1988
Income exclusions		
Capital gains at death	12.3	11.5
Disability and retirement benefits (private)	56.0	60.1
Social Security benefits	18.8	17.4
Education allowances (scholarships and GI benefits) . . . . .	.7	1.3
Foreign earnings and investment incentives (income earned abroad)	3.2	4.3
Interest and dividends (State and local bonds and debt, and life insurance)	23.2	26.6
Medical care and insurance (employer premiums paid)	32.6	30.1
Payroll benefits and allowances (group life, accident, and unemployment)	5.5	4.9
Other (age 55 or over credit on home sales)	3.2	6.2
Income deferrals		
Interest on U.S. saving bonds	1.0	.9
Real estate (home sales)	12.0	4.0
Foreign earnings (foreign sales corporations) . . . . .	.5	.1
Other deferrals		
Taxes (shipping companies) . . . . .	.1	.2
Deductions and credits		
Agriculture related (capital outlays and gains on certain income) . . . . .	.5	.5
Contributions (charitable and political)	11.1	13.5
Earned income	1.5	1.0
Employee stock ownership plans (funded through investment and tax credits) . . . . .	.7	.4
Excess bad debt reserves (financial institutions)	*	.1
Exemptions (credit unions) . . . . .	.4	.2
Foreign earnings (corporations doing business in U.S. possessions)	1.9	1.8
Interest (mortgage and consumer)	38.1	40.3
Investments (commercial capital gains, credits, other investment incentives, construction period interest, and expensing developmental costs)	5.6	14.1
Medical	2.7	2.0
Mining and timber (capital gains treatment of royalties and certain income)	-	1.1
Old-age, disability, and other personal exemptions	1.3	2.2
Other (deductions of motor carrier rights, certain adoption expenses, and energy credit for intercity buses)	*	1.5
Property damages and losses (casualty losses) . . . . .	.1	.3
State and local property tax and other taxes	28.6	27.4
Work incentives (employment credits under work programs) and dependent care	3.0	3.7
Accelerated depreciation (rental housing, buildings other than rental housing, and machinery and equipment)	37.5	24.4

* Less than \$50 million.

OPEN-ENDED PROGRAMS AND FIXED COSTS

The Government commits itself to provide services by passing laws that make spending mandatory. Since a significant amount of future spending is fixed by law, it is very probable that the Government will pay for these programs in future years. Listed below are the programs for fiscal years 1989 and 1988 that can be terminated only if the laws are changed. For further information, refer to "Historical Tables" in the *Budget of the United States Government, Fiscal Year 1991*.

Open-ended Programs and Fixed Costs, Fiscal Years 1989 and 1988 (\$ billions)

	1989	1988
Payments for individuals		
Social Security and railroad retirement	234.2	220.3
Federal employees' retirement insurance	62.1	59.3
Unemployment assistance	14.2	13.8
Assistance to students	10.8	3.9
Food and nutrition assistance	21.1	4.3
All other	3.3	2.9
Medical care	141.6	114.7
Public-assistance-related programs	32.1	28.8
Housing assistance	14.7	13.8
	<u>534.1</u>	<u>461.8</u>
Net interest	169.1	151.7
General revenue sharing .....	.	.
Farm price supports	11.6	12.2
Other open-ended programs and fixed costs	7.1	8.7
	<u>721.9</u>	<u>634.4</u>
Total		

* \$50 million or less.

FEDERAL OBLIGATIONS

"Obligations" are the basis on which the use of funds is controlled in the Federal Government. They are recorded at the point at which the Government makes a firm commitment to acquire goods or services and are the first of the four key events--order, delivery, payment, and consumption--which characterize the acquisition and use of resources. In general, they consist of orders placed, contracts awarded, services received, and similar transactions requiring the disbursement of money. All intragovernmental items have been eliminated.

The obligational stage of Government transactions is a strategic point in gauging the impact of the Government's operations on the national economy, since it frequently represents for business firms the Government's commitment which stimulates business investment, including inventory purchases and employment of labor. Disbursements may not occur for months after the Government places its order, but the order itself usually causes immediate pressure on the private economy.

For more detail refer to the *Treasury Bulletin*, March 1990.

Gross Obligations of the Federal Government by Object Class, as of Sept. 30, 1989 and 1988 (\$ millions)

	1989	1988
Personal services and benefits		
Personnel compensation	144,314	139,751
Personnel benefits	9,305	8,499
Benefits for former personnel	865	1,395
Contractual services and supplies		
Travel and transportation of persons	5,412	5,112
Transportation of things	7,595	7,124
Rent, communications, and utilities	11,736	11,273
Printing and reproduction	1,039	330
Other services	137,370	138,121
Supplies and materials	57,563	63,148
Acquisition of capital assets		
Equipment	57,215	74,846
Lands and structures	20,529	17,319
Investments and loans	17,681	32,032
Grants and fixed charges		
Grants, subsidies, and contributions	207,958	192,008
Insurance claims and indemnities	405,761	394,660
Interest and dividends	195,551	188,000
Refunds	769	871
Other		
Unvouchered	97	108
Undistributed U.S. obligations	<u>11,598</u>	<u>9,734</u>
Gross obligations incurred	<u>1,292,358</u>	<u>1,284,331</u>

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