CONSOLIDATED FINANCIAL STATEMENTS OF THE UNITED STATES GOVERNMENT

CFS 1994

PROTOTYPE

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

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.

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from the secretary of the treasury...

STATEMENT OF THE SECRETARY OF THE TREASURY

The Department of the Treasury is pleased to present the "Consolidated Financial Statements of the United States Government, Prototype 1994." These unaudited Statements, which provide summary information on Federal operations and financial position on an accrual basis, were prepared by the Financial Management Service (FMS).

In the past year, significant progress has been made toward establishing uniform accounting standards for all Federal agencies. The implementation of these accounting standards, which constitutes a major challenge, will improve the quality of the financial data presented in future Statements.

In 1994, paperwork was reduced and reporting simplified. For the first time, agencies electronically transmitted adjusted trial balances to FMS. This saved time and resources by replacing manual tasks with an automated system.

In addition, the Federal Accounting Standards Advisory Board (FASAB) will recommend a comprehensive set of new accounting standards for the Federal Government by the end of 1995. Meanwhile, the Office of Management and Budget is taking action to accommodate the new financial concepts and accounting standards.

The Government Management Reform Act of 1994 directs all major Federal agencies to prepare audited financial statements for fiscal 1996 by March 1, 1997. It also mandates that Treasury issue the first audited Government-wide financial statements covering fiscal 1997, by March 31, 1998.

Treasury is working diligently with the Office of Management and Budget and the General Accounting Office to meet those mandates. A Task Force made up of agency CFOs and IGs is also providing valuable advice to ensure that all necessary financial information is available for the Government-wide audited statements.

This is a challenging time for Federal financial management. The effort to improve the quality of Federal financial statements has become a high priority for all agencies. It is our hope that these improvements will allow us to serve the public more effectively.

Robert E. Rubin

Robert E. Rubin

from the comptroller general...

Comptroller General of the United States

Washington, D.C. 20548

We are pleased that as a result of the Government Management Reform Act (GMRA) of 1994, all 24 major federal agencies will for the first time in fiscal year 1996 prepare and have audited financial statements covering their entire operations. The discipline of annually preparing and auditing agencywide financial statements, as first required by the Chief Financial Officers (CFO) Act of 1990 for pilot agencies, has proven to be successful in highlighting weaknesses and high-risk areas, providing more realistic assessments of agencies' finances, and improving both the usefulness and reliability of financial information.

Over the next few years, as agency financial managers work to implement this mandate, they will need to (1) build integrated information systems capable of producing reliable financial, cost, and performance information, (2) establish effective systems of internal control to better control risks, and (3) develop more effective financial organizations with the strong leadership needed to produce auditable financial statements and provide quality services in an efficient manner.

GMRA also requires a consolidated set of annual governmentwide financial statements to be prepared by the Department of the Treasury and audited by GAO beginning with fiscal year 1997. These new statements will replace the accompanying unaudited prototype financial statements, which have limited usefulness and reliability. These statements are to reflect new accounting, cost, and financial reporting standards that the Federal Accounting Standards Advisory Board designed specifically for the unique circumstances of the federal government. The agency statements and other financial reports reflecting these new standards will enable decisionmakers to more effectively manage government operations and provide a clearer and more reliable picture of the overall state of the federal government's finances and its stewardship of national resources.

Overall, progress is being made to improve the financial management of our national government, but much more remains to be done. For example, a number of agencies, including the Department of Defense, have not moved quickly to improve the financial systems essential to delivering the cost and performance information government managers and policymakers need. Only by enhancing the momentum to achieve the goals of the CFO Act can the national government put in place the strong financial management and accountability our citizens deserve. Better financial management will improve government operations, save taxpayer dollars, and help restore confidence in the government.

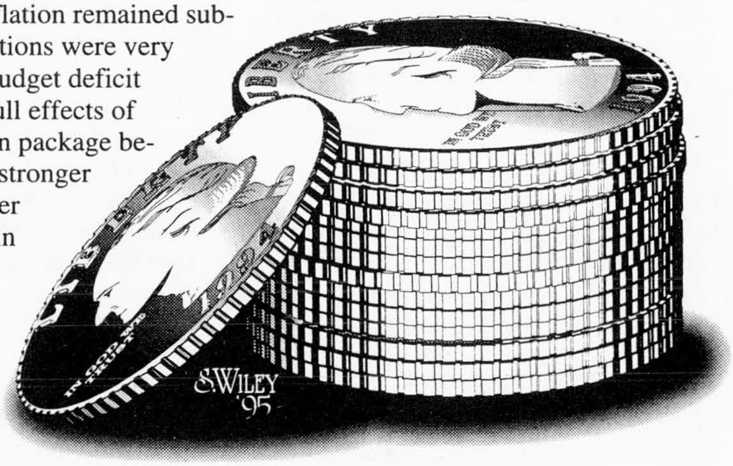
Charles A. Bowsher

Charles A. Bowsher

discussion and analysis

Economic and budget results for fiscal 1994

ECONOMIC GROWTH ACCELERATED THROUGH FISCAL 1994 as the recovery went into full swing. Employment growth picked up and the unemployment rate dropped by almost a full percentage point. Inflation remained subdued and financial conditions were very favorable. The Federal budget deficit dropped sharply as the full effects of the 1993 deficit reduction package began to take hold and the stronger economy generated higher revenues. Improvement in the deficit continued into fiscal 1995.



The economy in fiscal 1994

Real gross domestic product (GDP) grew by 4.4 percent across the four quarters of fiscal 1994, much faster than the 3.0 percent increase over the four quarters of fiscal 1993. Growth was led by a boom in business investment spending for equipment, which increased by more than 17 percent over the four quarters of the fiscal year. Consumer spending was also strong, especially for purchases of automobiles and other consumer durables. The housing sector contributed to the stronger pace of GDP growth in fiscal 1994 as well, with the value of real residential construction rising by more than 9.0 percent over the fiscal year.

These sectors were spurred by historically low long-term interest rates at the start of the fiscal year. Through the course of the prior fiscal year, long-term interest rates fell by 134 basis points, the result of a strong program of deficit reduction and reduced inflationary expectations. By the first quarter of fiscal 1994, long-term interest rates were at 25-year lows. Rates moved up through the course of the fiscal year as economic growth accelerated, but have since moderated.

Employment growth strengthened in fiscal 1994, with 3-1/2 million new jobs added to the economy compared with just under 2-1/2 million in fiscal 1993. Most of those jobs were in the private service-producing sector of the economy, with especially strong growth in business services. The manufacturing sector added 300,000 new jobs after remaining virtually unchanged through fiscal 1993. The unemployment rate fell to 5.8 percent by the end of the fiscal year from 6.7 percent at the end of fiscal 1993, although a change in the survey method suggests that the earlier rate may have been even higher.

Broad measures of inflation remained very subdued in fiscal 1994. Consumer prices increased by 3.0 percent over the year, just slightly ahead of a 2.7 percent advance in fiscal 1993. Excluding food and energy, the "core" rate of inflation was also 3.0 percent, and this was a bit lower than the 3.2 percent in the previous year. Producer prices were also well-behaved. Growth of the fixed-weighted price index for GDP remained at 2.9 percent across the four quarters of fiscal 1994, the same as during the prior fiscal year and below rates of 3.1 percent and 3.8 percent in the prior 2 fiscal years.

The economy was accelerating as fiscal 1995 began. Growth in the first quarter of the 1995 fiscal year reached an unsustainably high rate, and has since eased back to a level that is more consistent with the economy's long-term potential trend. Inflationary pressures briefly flared up, particularly at early stages of processing, but those have also abated and the Federal Reserve was able to ease monetary policy slightly. The economy appears to be on a moderate growth track that is compatible with low inflation.

Budget results

For the second year in a row, the Federal budget deficit narrowed significantly in fiscal 1994. The deficit declined by almost $52 billion to $203.3 billion, the lowest in 5 years. This followed a decline of $35.3 billion in fiscal 1993.

The large improvement in 1994 resulted from passage of the President's Economic Plan in 1993 (the Omnibus Budget Reconciliation Act) as well as from the speed-up in economic growth over the course of the year. The 1993 Budget Act provided for $505 billion in total deficit reduction across the 5 years ending in fiscal 1998 from what otherwise would have occurred. That figure was about evenly split between increases in receipts and curbs on growth of spending.

Growth of outlays was held to $52 billion in fiscal 1994, or 3.7 percent, but that figure would have been even lower if large asset sales in the deposit insurance account had not held down outlays in fiscal 1993, and if not for some timing shifts in fiscal 1994. A more accurate measure of underlying budget trends is reflected by excluding the timing differences and the outlays of the deposit insurance agencies. On that basis, outlays increased just $26 billion in fiscal 1994 and the deficit narrowed by more than $78 billion, indicating even greater progress in deficit reduction than the $52 billion implied by the overall figures.

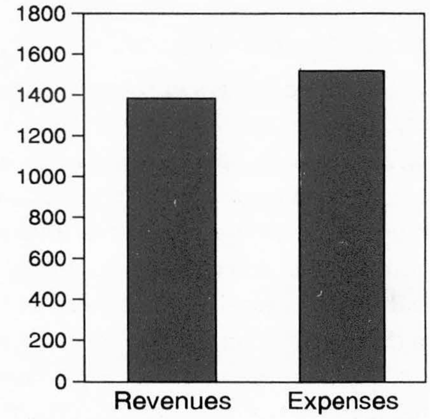
Growth in outlays in fiscal 1994 was held down by declines in such areas as defense, farm support payments, and unemployment insurance benefits. Income support payments continued to advance. Growth of total health care spending had slowed significantly in fiscal 1993 and slowed further in 1994. Spending on Medicare rose at a more rapid rate in fiscal 1994 than in the previous fiscal year, but all other categories of Federal health expenditures, including Medicaid, posted much slower rates of gain.

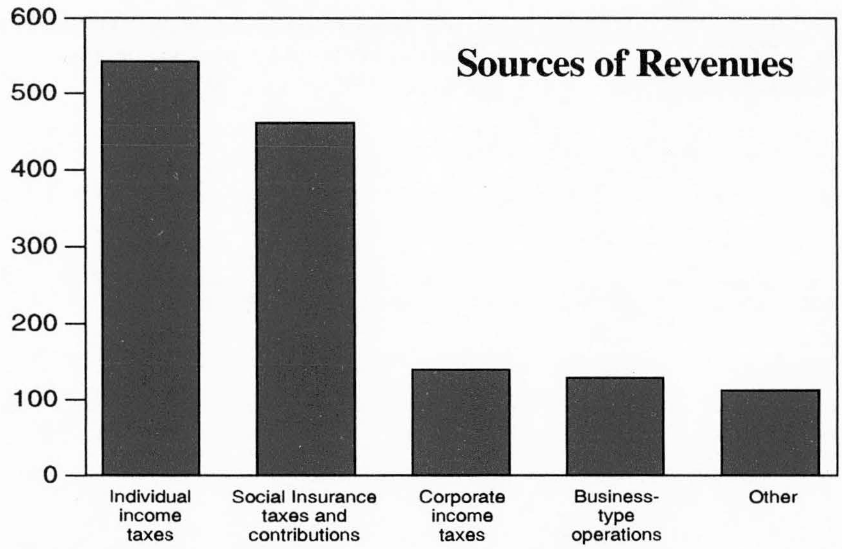
Receipts increased by a solid 9.0 percent, well above the 5.8 percent increase in fiscal 1993. Growth in 1994 was led by a 19.5 percent advance in corporate income tax receipts. Withheld individual income and employment tax receipts rose by 7.2 percent.

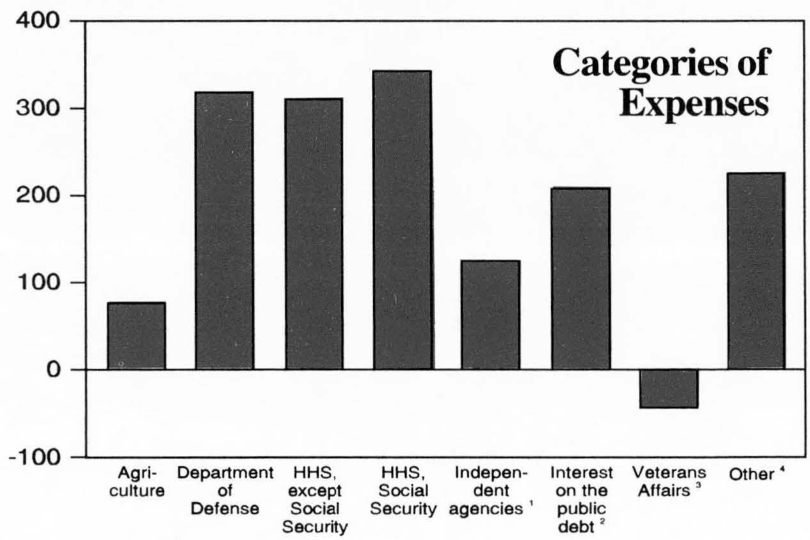
The fiscal 1994 deficit dropped to 3.1 percent as a share of GDP from 4.1 percent in the previous fiscal year. Further improvement has occurred through fiscal 1995. The deficit is projected to fall by $43 billion in fiscal 1995 to about $160 billion, or just 2.3 percent of GDP. This would represent the lowest share of GDP since 1979.

Revenues and Expenses

The chart at right shows the amounts of the U.S. Federal Government revenues and expenses for fiscal 1994. The charts below show categories of revenues by source, and a breakdown of the Government's expenses by agency. All charts are in billions of dollars. All revenues levied under the Government's sovereign power are reported on the cash basis. Revenues earned through Government business-type operations and the data supporting the graph of expenses by agency are reported on the accrual basis.







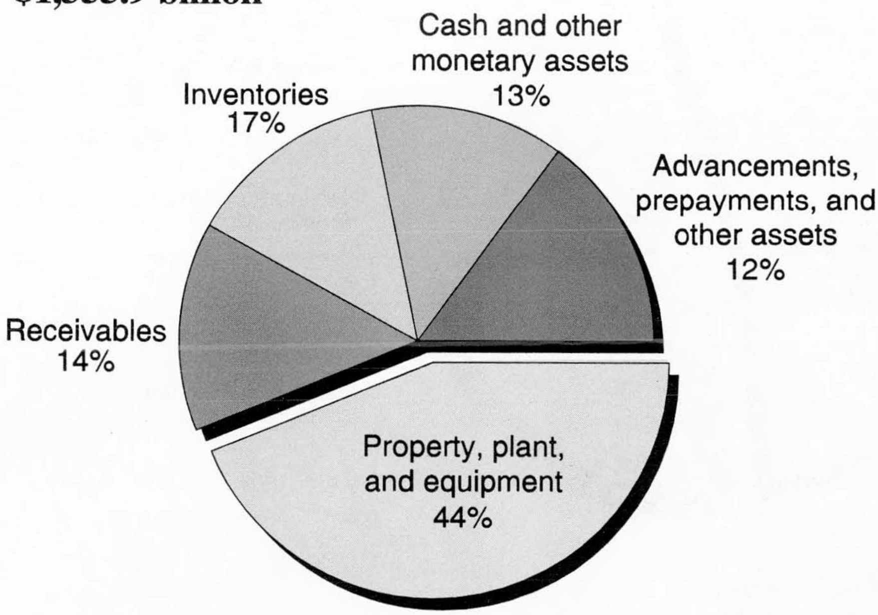
[1] Includes EPA, GSA, NASA, OPM, SBA, and other independent agencies.
[2] Does not include interest on investments held by Government agencies.
[3] Refer to Veterans Affairs adjustment for actuarial liability change, and footnote 2, page 12.
[4] Departmental agencies with expenses less than $50 billion.

FOR MORE INFORMATION SEE PAGE 12

Major Categories of Assets as of September 30, 1994

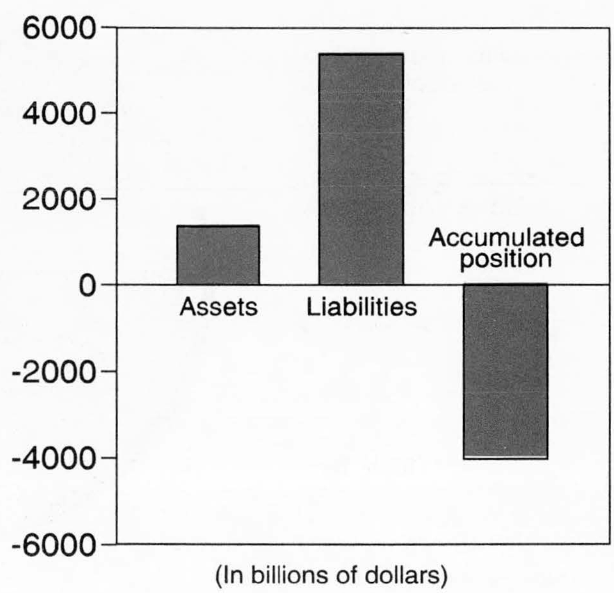
Assets are resources owned by or owed to the Federal Government that are available to pay liabilities or to provide future public services. The chart below is derived from the Statement of Financial Position (page 11). It depicts the major categories of assets as of September 30, 1994, as a percentage of total assets. The components for each of these categories are contained in Notes to the Financial Statements.

Total Assets: $1,355.9 billion



Assets, Liabilities, and Accumulated Position, as of September 30, 1994

The chart at right depicts assets, liabilities, and accumulated position reported in the Statement of Financial Position, as of September 30, 1994.

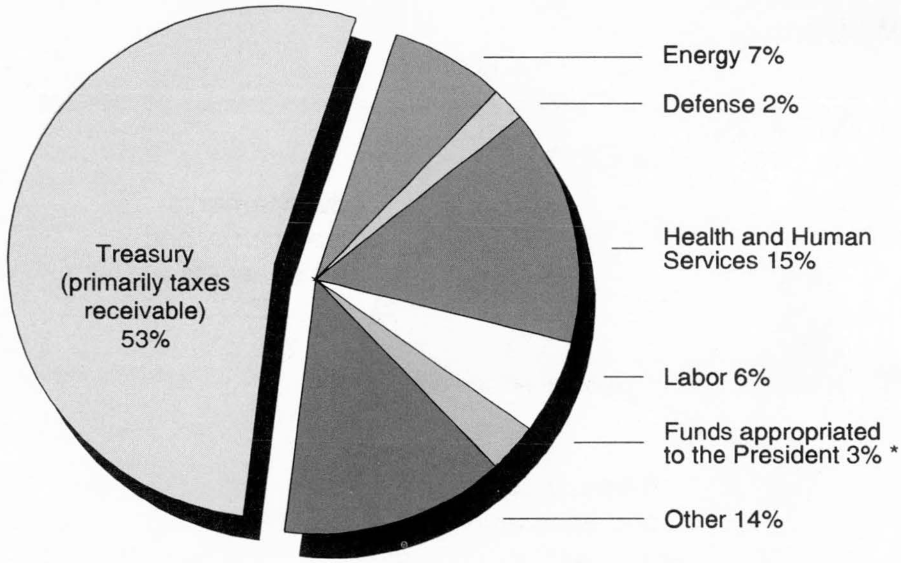


FOR MORE INFORMATION 11,14 SEE PAGES

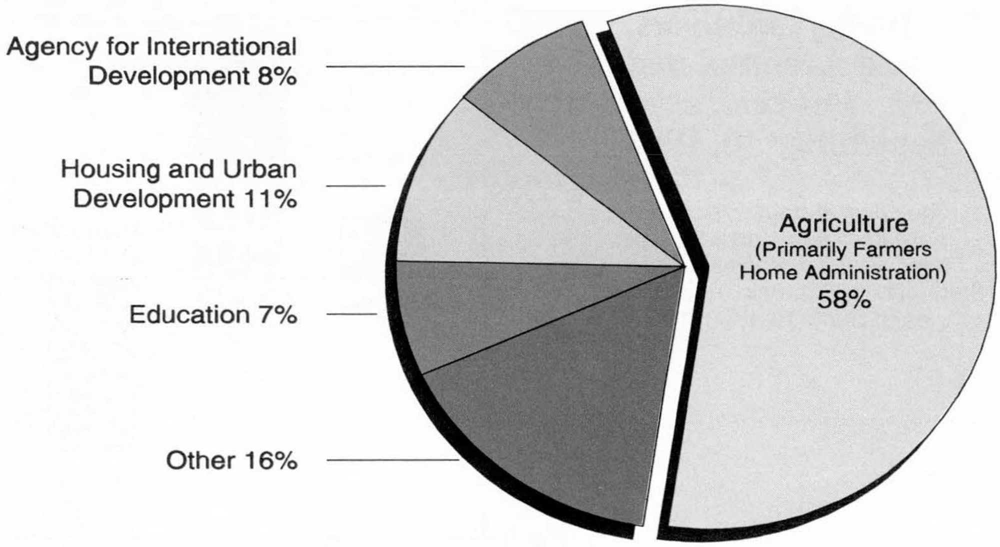
Gross Accounts and Loans Receivable as of September 30, 1994

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 amounts, less allowances, are included in the Statement of Financial Position on page 11.

Accounts Receivable Total: $144.5 billion



Loans Receivable Total: $181.4 billion



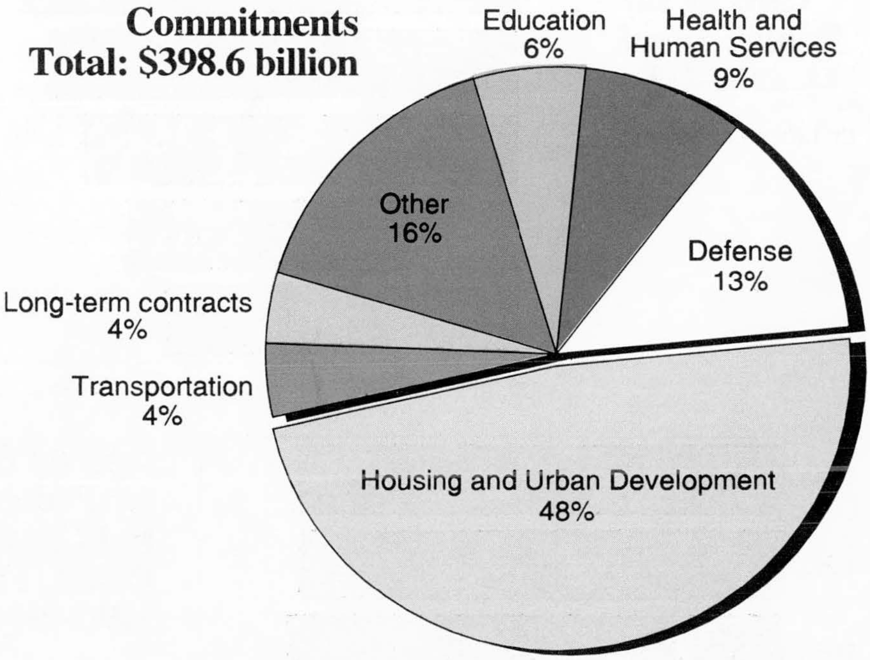
* Includes Executive Office of the President.

FOR MORE INFORMATION SEE PAGES 11,14

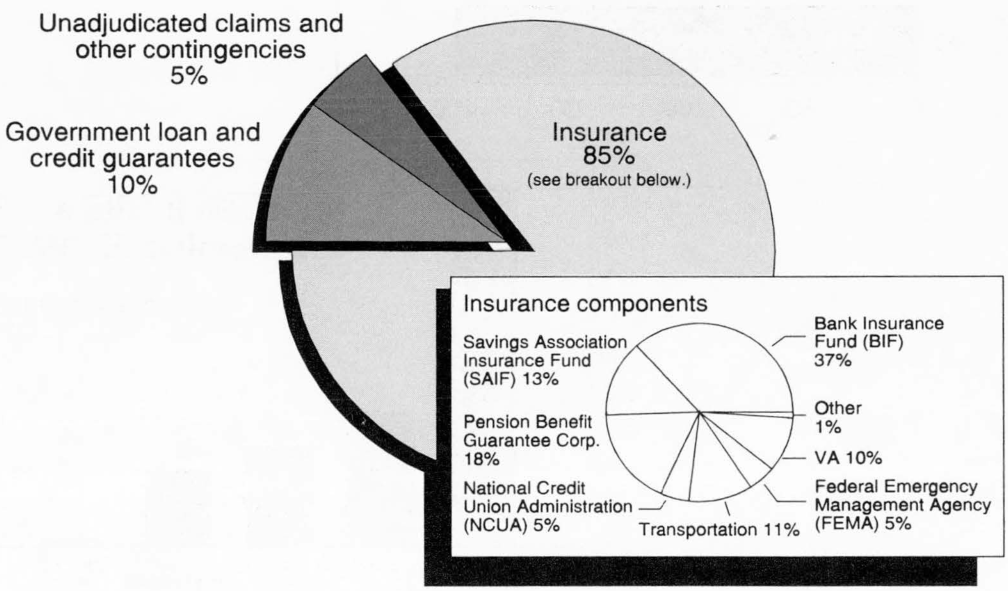
Commitments and Contingencies

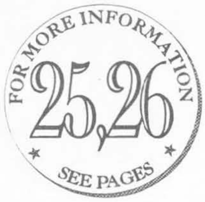
For a breakdown of the figures illustrated in these charts, see Commitments and Contingencies of the United States Government for the Year Ended September 30, 1994, on pages 25 and 26.

Commitments
Total: $398.6 billion



Contingencies (at face value)
Total: $6.1 trillion



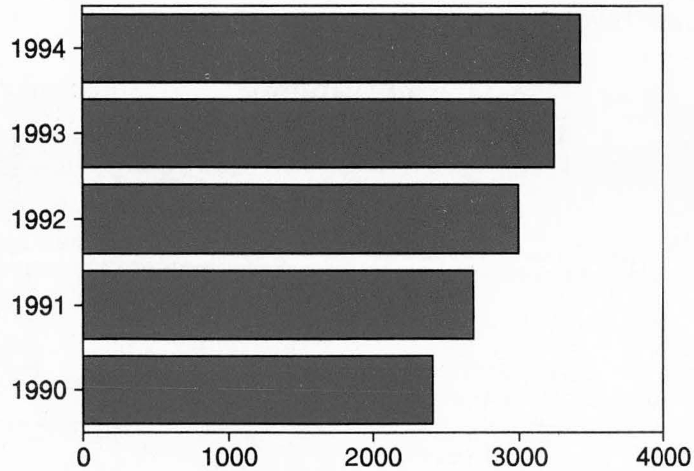


Federal Debt

The following charts represent different facets of the net Federal debt, excluding intragovernmental investments. For a breakdown of the Federal debt, see the tables on pages 17 and 18.

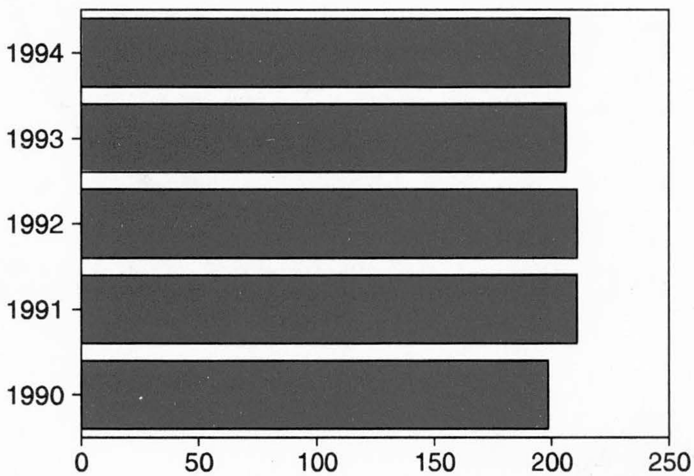
Federal Debt Held by the Public, Fiscal 1990-1994

(In billions of dollars)



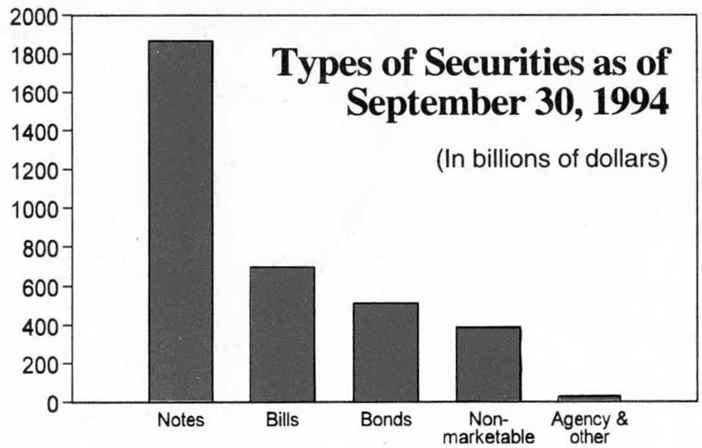
Interest Expense for Federal Debt Held by the Public, Fiscal 1990-1994

(In billions of dollars)



Types of Securities as of September 30, 1994

(In billions of dollars)



FOR MORE INFORMATION SEE PAGES 11, 16-18

consolidated financial statements

United States Government Consolidated Statement of Financial Position, as of September 30, 1994 (Unaudited)

(In billions of dollars)

Assets

Cash	56.3
Other monetary assets (Note 3)	126.2
Accounts receivable, net of allowances (Note 4)	76.6
Inventories and related properties	224.1
Loans receivable, net of allowances (Note 4)	118.8
Advances and prepayments	12.9
Property, plant, and equipment, net of accumulated depreciation	589.9
Other assets	151.1
Total assets	1,355.9

Liabilities

Accounts payable	48.4
Interest payable	45.1
Accrued payroll and benefits	17.2
Unearned revenue (Note 8)	36.0
Federal Debt held by the public (Note 9)	3,432.3
Pensions and actuarial liabilities (Note 10)	1,526.2
Other liabilities	251.9
Total liabilities	5,357.1
Accumulated position	-4,001.2

FOR MORE INFORMATION 7,14 SEE PAGES

The accompanying notes are an integral part of this statement.

United States Government Consolidated Statement of Operations for the Year Ended September 30, 1994 (Unaudited)

(In billions of dollars)

Revenues

Levied under the Government's sovereign power:	
Individual income taxes	543.1
Corporate income taxes	140.4
Social insurance taxes and contributions	461.5
Excise taxes	55.2
Estate and gift taxes	15.2
Customs duties	20.1
Miscellaneous	22.0
	1,257.5
Earned through Government business-type operations:	
Sale of goods and services	82.1
Interest	10.6
Other	35.9
Total revenues	1,386.1

Expenses by agency

Legislative branch	2.5
Judicial branch	2.6
Executive branch:	
Funds appropriated to the President [1]	1.2
Departments:	
Agriculture	73.5
Commerce	3.2
Defense (military)	280.9
Defense (civil)	26.5
Education	29.0
Energy	26.1
Health and Human Services, except Social Security	300.8
Health and Human Services, Social Security	330.1
Housing and Urban Development	29.0
Interior	6.7
Justice	6.9
Labor	34.3
State	6.8
Transportation	37.5
Treasury:	
Interest on debt held by the public	207.7
Other	26.1
Veterans Affairs	21.1
Independent agencies [2]	134.1
Total	1,586.6
Veterans Affairs adjustment for actuarial liability change [3]	-65.6
Total expenses	1,521.0
Expenses in excess of revenues	-134.9

FOR MORE INFORMATION 6 SEE PAGE

The accompanying notes are an integral part of this statement.
[1] Includes Executive Office of the President.
[2] Includes EPA, GSA, NASA, OPM, SBA, and other independent agencies.

[3] The net decrease in the actuarial present value of future liability of C&P benefits from 1993 to 1994 is mainly caused by the change in the discount rate. For more information, see VA's 1995 Accountability Report.

notes to financial statements

1. Summary of significant accounting policies

Principles of consolidation

The "Consolidated Financial Statements of the United States Government, Prototype 1994" (CFS) reflect several changes designed to streamline preparation and presentation methods. These changes were brought about through the increased use by Federal agencies of the U.S. Government Standard General Ledger (SGL).

Although the means of submitting financial data to the Department of Treasury's Financial Management Service (FMS) have not changed, the format of the data has. Federal agencies will continue to submit their data to FMS electronically via the Government On-line Accounting Link System (GOALS). However, agencies now submit their financial data in the form of a pre-closing adjusted trial balance under the new Federal Agencies' Centralized Trial Balance System (FACTS). This system replaces the traditional SF 220 series of reports under the former Federal Agencies' Financial Reports or FAFR system.

Because the data for 1994 are the first to reflect these changes, the 1994 CFS is not presented in a comparative format with 1993 data. Also, the agencies' reporting entities and levels of reporting have changed. Agencies now have the option of reporting data on a fund group and business line level to better reflect their activity and spending. This differs considerably from the previous appropriation-based reporting levels established by reporting requirements under I TFM 2-4100. FMS will resume report presentation in a comparative format with the 1995 CFS.

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. Thus, the financial information on the judicial branch presented in the CFS is an estimate based on the "Final Monthly Treasury Statement."

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 93-02, dated October 22, 1992, and subsequent issuance, OMB Bulletin 94-01.
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.

Principal financial statements

The principal statements are unaudited and consist of the Statements of Financial Position and Operations, and use the accrual basis of accounting in their presentation. However, revenues levied under the Government's sovereign power are reported on the cash basis. The statements of Cash Flows, Budget Receipts and Outlays, and Reconciliation of Accrual Operating Results to the Budget will no longer be presented in order to streamline the CFS.

Fiscal year

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

2. Cash

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

3. Other monetary assets

Gold

Gold is valued at market for fiscal 1994. The market value represents the price reported for gold on the London fixing, and is based on 261,806,237.617 fine troy ounces as of September 30, 1994 (as reported in Treasury's general ledger). The statutory price of gold is $42.2222 per troy ounce.

International Monetary Fund 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 $1.467 as of September 30, 1994. For details see the table above right.

Other monetary assets as of September 30, 1994

(In billions of dollars)	
Gold (at market value of $394.85 per troy ounce)	103.4
U.S. reserve position in the International Monetary Fund	12.0
Special drawing rights	10.0
Nonpurchased foreign currencies	.3
Other	.5
Total other monetary assets	126.2

4. 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 present value basis.

Accounts and loans receivable as of September 30, 1994

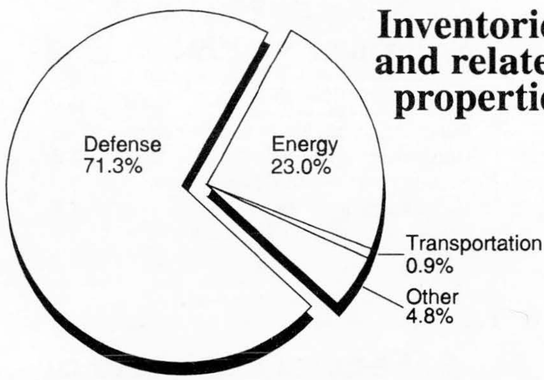
(In billions of dollars)	Accounts receivable	Loans receivable
Gross receivables	144.5	181.4
Less: Allowances for losses	67.9	41.8
Less: Allowance for subsidy	-	20.8
Net receivables	76.6	118.8

For more information see pages 7, 8, 11

5. Inventories and related properties

Inventories and related properties consist of several categories. Inventory held for sale is 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.

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 their inventories. Department of Energy uses the lower of cost or market to value their inventories. For details see the table at left.



Inventories and related properties

Inventories and related properties as of September 30, 1994

(In billions of dollars)

Inventories held for sale	17.9
Operating supplies	92.1
Stockpiled materials	92.7
Other	21.4
Total inventories	224.1

6. Property, plant, and equipment

Property, plant, and equipment includes 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 651 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 1994 was $66.8 billion.

Property, plant, and equipment as of September 30, 1994

(In billions of dollars)

Military equipment	478.6
Buildings, structures, facilities, and lease-hold improvements	267.4
Other	157.8
Construction in process	110.0
Equipment, other	102.5
Land	23.2
Subtotal	1,139.5
Less: Accumulated depreciation	549.6
Total property, plant, and equipment	589.9

FOR MORE INFORMATION 11 SEE PAGE

Most agencies use the straight-line method. Treasury estimates the depreciation for those agencies that do not report, using the straight-line method applied to the total of reported depreciable assets.

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 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.

7. Other assets

Other assets includes receivables and other assets from banking assistance and failures, deferred retirement costs from Postal service, and investments held by the agencies and other miscellaneous assets. Other assets are summarized by agency in the table below.

8. Unearned revenue

Unearned revenue represents an obligation to provide goods or services for which payment has already been received. Examples of unearned revenue include unearned rent, unearned subscriptions, and advances from customers. Unearned revenue is summarized by agency in the table below.

Unearned revenue as of September 30, 1994

(In billions of dollars)

Funds Appropriated to the President	*14.2
Department of the Interior	3.5
Housing and Urban Development ..	7.0
U.S. Postal Service	2.8
Other.........................	8.5
Total.......................	36.0

* Includes Executive Office of the President.

9. Federal debt held by the public

Total Federal debt held by the public amounted to $3,432.3 billion at the end of fiscal 1994. The three debt tables on the following pages reflect information on borrowing to finance Government operations. These tables support the Statement of Financial Position caption, "Federal debt 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.

Other assets as of September 30, 1994

(In billions of dollars)

Funds Appropriated to the President....................................	* 70.6
Federal Deposit Insurance Corporation..................................	9.9
Resolution Trust Corporation..	28.5
U.S. Postal Service	27.2
Other..	14.9
Total...	151.1

* Includes Executive Office of the President.

FOR MORE INFORMATION SEE PAGES 10,11

Federal debt held by the public as of September 30, 1994

	Average interest rate (percent)	Total debt (in billions of dollars)
Public debt:		
Marketable	6.507	3,091.6
Nonmarketable	7.667	1,598.0
Non-interest bearing debt		3.2
Total public debt outstanding		4,692.8
Plus: Premium on public debt securities		1.3
Less: Discount on public debt securities		78.6
Total public debt securities		4,615.5
Agency debt:		
Tennessee Valley Authority		26.1
Farm Credit System Financial Assistance Corporation		1.3
Housing and Urban Development		.1
Federal Deposit Insurance Corporation:		
FSLIC resolution fund		.2
National Archives and Records Administration		.3
Architect of the Capitol		.2
Total agency securities		28.2
Total Federal securities		4,643.7
Less: Federal securities held as investments by Government accounts		1,211.4
Total Federal debt held by the public		3,432.3

Summary of Federal Debt Outstanding: Part I

Total Debt Outstanding as of September 30, 1994

(In billions of dollars)

	Average interest rate (percent)	Total debt
Marketable		
Bills	4.735	697.3
Notes	6.388	1,867.5
Bonds	9.229	511.8
Federal Financing Bank	8.917	[1] 15.0
Total marketable	6.507	3,091.6
Nonmarketable		
Foreign government series	7.363	42.0
Government account series	7.895	1,211.7
State and local government series	7.011	137.4
U.S. savings bonds	6.597	176.4
Other	7.927	30.5
Total nonmarketable	7.667	1,598.0
Total interest-bearing debt	6.897	4,689.6
Non-interest-bearing debt [2]		3.2
Total public debt outstanding		4,692.8
Plus: Premium on public debt securities		1.3
Less: Discount on public debt securities		78.6
Total public debt (Treasury securities)		4,615.5
Agency securities		28.2
Total Federal securities		4,643.7
Less: Federal securities held as investments by Government accounts		1,211.4
Total Federal debt held by the public		3,432.3

[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 $2.1 billion and other various non-interest-bearing debt of $1.1 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, 1994

(In billions of dollars)

Intragovernmental holdings	Federal Funds [1]	Trust Funds [2]	Total
Legislative branch	.5	-	.5
Judicial branch	-	.2	.2
Executive branch:			
Funds appropriated to the President	1.9	-	1.9
Departments:			
Agriculture	-	.3	.3
Defense	-	[3] 107.6	107.6
Energy	4.5	-	4.5
Health and Human Services	-	[4] 570.6	570.6
Housing and Urban Development	9.7	-	9.7
Interior	2.7	.2	2.9
Justice	.1	-	.1
Labor	5.3	[5] 39.8	45.1
State	-	7.2	7.2
Transportation	1.0	[6] 31.6	32.6
Treasury	7.5	.3	7.8
Veterans Affairs	.6	13.5	14.1
Independent agencies:			
Environmental Protection Agency	-	6.2	6.2
Export-Import Bank	.1	-	.1
Farm Credit System Insurance Corporation	1.0	-	1.0
Federal Deposit Insurance Corporation	18.1	-	18.1
Federal Emergency Management Agency	.2	-	.2
National Credit Union Administration	3.0	-	3.0
Office of Personnel Management	-	[7] 361.4	361.4
Railroad Retirement Board	-	12.2	12.2
Tennessee Valley Authority	4.0	-	4.0
U.S. Postal Service	1.3	-	1.3
Various scholarship funds	-	.3	.3
Subtotal	61.5	1,151.4	1,212.9
Less: Discount on Federal securities held as investments by Government accounts	1.5	-	1.5
Total	60.0	1,151.4	1,211.4

[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 $105.4 billion.

[4] Includes Social Security trust funds of $419.5 billion and medicare trust funds of $150.2 billion.

[5] Unemployment Trust Fund of $39.8 billion.

[6] Includes Highway Trust Fund of $17.7 billion and Airport and Airway Trust Fund of $12.2 billion.

[7] Includes civil service retirement and disability fund of $338.9 billion and employee life insurance fund of $14.9 billion.

10. Pensions and other actuarial liabilities

The Federal Government administers more that 40 pension plans. The largest are administered by the Office of Personnel Management (OPM) for civilian employees and by 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 actuarial funding 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 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 percent of their basic pay, an amount fixed by statute. The FERS employees contribution is .8 percent in fiscal year 1995. 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 the Federal employees and retirees, who have individual accounts. For this reason, the fund is excluded from the CFS and the fund's holdings of Federal debt are considered part of the debt held by the

Pensions and other actuarial liabilities as of September 30, 1994 [1]

(In billions of dollars)	Actuarial liabilities	Plan assets	Unfunded liabilities
Civilian retirement-OPM	[2] 694.8	344.3	350.5
Military retirement-Defense	529.1	131.8	397.3
Veterans' compensation and benefits	213.8	-	213.8
Compensation programs	20.6	-	20.6
Other pension programs	27.9	14.9	13.0
Other benefits	40.0	32.0	8.0
Total	1,526.2	523.0	1,003.2

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

[2] Information needed to compute the plan's accumulated benefit obligation as of the end of the year was not available when the OPM's financial statements for fiscal 1994 were released. Under FAS 35, the presentation of the accumulated benefit obligation can be either beginning or end of year. OPM's accumulated benefit obligation is presented as of the beginning of the year.

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

FOR MORE INFORMATION SEE PAGE 11

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 percent of base pay to the plan, which is matched by the Government up to 5 percent. CSRS employees may contribute up to 5 percent of base pay with no Government match. An individual's total annual contribution could not exceed $9,240 in 1994.

The plan was started in April 1987 and as of September 30, 1994, the total invested was $25.0 billion. Investments consist primarily of U.S. Government nonmarketable certificates of $17.6 billion, which are included in "Federal debt held by public" in the Statement of Financial Position. In addition, $5.8 billion and $1.6 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. Payments of the liability as it becomes due rely on Congressional authorization of future tax revenues or other methods, such as public borrowing, for their financing.

The net decrease in the actuarial present value of the liability for C&P benefits from 1993 to 1994 is mainly caused by the change in the discount rate.

The actuarial present value of the liability of C&P benefits as determined by VA on September 30, 1994 is shown in the table below.

Veterans' compensation and benefits as of September 30, 1994

(In billions of dollars)

Compensation:	
Veterans	137.4
Survivors	45.2
Total compensation	182.6
Pension and burial benefits:	
Veterans	19.8
Survivors	8.8
Burial	2.6
Total pension and burial	31.2
Total	213.8

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.

Retiree health care costs as of September 30, 1994: Actuarial estimates (unfunded)

(In billions of dollars)

Military health programs	203.7
Federal Employees Health Benefits Program	103.5
Total unfunded retiree health care costs.................	307.2

Civilian employees retiree health benefits

Generally, employees are eligible for post-retirement health benefits if they participated in the Program for the five 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.

In 1994 the program was preparing to recognize its future cost of post-retirement health benefits in order to comply with the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 106. During preparation, it was learned that FASAB would propose a methodology for the calculation and reporting of a post-retirement obligation differing from that of SFAS 106.

The FASAB approach is contained in exposure draft (ED), "Accounting for Liabilities of the Federal Government," issued on November 4, 1994. Like SFAS No. 106, the FASAB standard will require the use of the accrual method of accounting to recognize the future cost of post-retirement health benefits over the active years of employee service. The Program will recognize an initial post-retirement obligation (PRO), which is the future cost of post-retirement benefits for future retirees relating to service rendered up to the date of adoption of the FASAB standard.

Assuming it has been issued, the Program will adopt the FASAB standard for fiscal year 1995. In computing the Program's PRO, an actuary will apply actuarial assumptions to historical health benefit cost information in order to estimate the future cost of post-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).

For insight into the Program's initial or (transition) PRO, it has been calculated in accordance with the methodology prescribed in the ED to be $103.5 billion on October 1, 1993. The Program's PRO expense in 1993 would have been $11.6 billion, rather than the $3.8 billion recognized as contributions expense (deductions from plan assets) under current accounting practice. Employing agencies would have been required by the standard to recognize a 1993 post retirement health benefit expense of $1,839 per enrolled employee.

In these calculations, an annual rate of increase in health benefit costs and a discount rate of 7 percent were assumed. Demographic assumptions are based on the actual experience of the Retirement Program, with adjustments based on recent Health Benefit Program trends and experience. For more details, 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- financed care, but there are deductible and copayment requirements.

After they reach 65 years of age, military retirees are entitled to medicare. The DOD 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 (or, for CHAMPUS, billed). The cost of the 1994 CHAMPUS program was $3.6 billion, which includes both the benefit cost and the program administration cost. The funded cost of CHAMPUS was $3.4 billion. The estimate of the actuarial liability for military health programs for fiscal 1996 is $203.7 billion.

11. Other liabilities

Other reported liabilities are summarized by agency in the table at the bottom of the page. Included in other liabilities are liabilities arising from loan guarantees, capital leases, and contingencies. It also includes checks outstanding, the liabilities incurred from bank resolution and litigation losses, other accrued liabilities and other miscellaneous liabilities.

Accumulated position as of September 30, 1994

(In billions of dollars)

Accumulated position at beginning of period	-3,876.6
Current period results	-134.9
Change in market value of gold	10.3
Accumulated position at end of period	-4,001.2

12. Accumulated position

The accumulated position as presented in the table above right represents the excess of liabilities over assets. It does not, however, reflect the range of Government resources, such as the sovereign power to tax, beyond the conventional assets.

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, 1994, 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 1995 and beyond

(In billions of dollars)	Operating leases	Capital leases
1995	2.1	.1
1996	1.8	.1
1997	1.5	.1
1998	1.1	.1
Thereafter	5.8	.8
Total	12.3	1.2

Other liabilities as of September 30, 1994

(In billions of dollars)

Funds appropriated to the President	[1] 8.7
Departments:	
Agriculture	10.9
Defense	5.3
Education	15.2
Energy	[2] 58.9
Health and Human Services	[3] 58.8
Housing and Urban Development	17.1
Labor	[4] 27.9
Treasury	[5] 22.6
Veterans Affairs	6.1
Other	20.4
Total	251.9

[1] Includes Executive Office of the President.

[2] Includes accrued liability for nuclear complex clean-up for Department of Defense and accrued liability for decommissioning and decontamination of gaseous diffusion plant.

[3] Includes accrued benefits entitlements of $31.1 billion from Social Security Administration and $25 billion of medicare services for which payments had not been drawn by the Health Insurance or Supplementary Medical Insurance trust funds.

[4] Includes unemployment benefits payable of $21.2 billion.

[5] Includes special drawing rights certificates and allocations.

FOR MORE INFORMATION 7,11 SEE PAGES

14. Social Security and Medicare

A liability of $30.2 billion for social security is recognized in "other liabilities" for any unpaid amounts due as of the reporting date. No liability is recognized for future payment not yet due. For purposes of disclosure however, the actuarial surplus or deficit is determined annually. As of September 30, 1994, the actuarial deficit was $8,390.3 billion on a "closed group" basis. This amount represents the present value of the projected excess of future benefit payments to those presently participating in the Social Security program over taxes and other contributions still to be made by them and by their employers on their behalf.

The Congress and the trustees of the funds prepare actuarial estimates based on an "open group" basis. This is a different financing method they regard as more appropriate for social insurance programs, namely, that future workers will be covered by the program as they enter the labor force.

The present values of all contributions and expenditures are computed on the basis of the economic and demographic assumptions described as "Alternative II" in the "1995 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds." Alternative II is the "intermediate" set of assumptions, and represent the Trustees' "best estimates" of future economic and demographic conditions. In determining present values, total contributions and expenditures for the trust funds are estimated for a period of 75 years into the future.

The following actuarial amounts prepared by the Social Security Administration are calculated on the basis of the preceding assumptions.

Actuarial amounts as of September 30, 1994

(In billions of dollars)

Actuarial expenditures........	21,747.3
Actuarial contributions	18,909.2
Actuarial surplus/deficit (-) ...	-2,838.1

Medicare has total actuarial expenditures of $3,758.8 billion for the Federal Hospital Insurance Trust Fund (Part A), which is the present value of outlays projected between October 1, 1994, and September 30, 2019. This amount includes the present value of claims incurred to October 1, 1994, but unpaid as of that date and any administrative expenses related to those claims incurred by unpaid outlays.

The $4.4 billion in Federal Supplementary Medical Insurance Trust Fund (Part B) liabilities represent the amount of unpaid benefits as of October 1, 1994, and the related administrative expenses.

The Secretary of the Department of Health and Human Services annually determines the amount to be paid by each Supplementary Medical Insurance enrollee and by the Department of the Treasury, under the authority of section 1839 of the Social Security Act.

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.

Except for liabilities arising from the leases and loan guarantees, the contingent liability is recognized when the amount can be reasonably estimated and the future event is probable. OMB Bulletin 94-01, "Form and Content of Agency Financial Statements" establishes guidelines for the reporting of lease liabilities and liabilities for loan guarantees. The contingent liability of $28.9 billion, capital lease liability of $.8 billion, and loan guarantee liability of $21.4 billion reported by

FOR MORE INFORMATION SEE PAGE 9

Federal agencies on their financial statements appear in the U.S. Government Statement of Financial Position under "other liabilities."

The table on the following pages shows the face value of commitments and contingencies, and includes contingencies, capital lease, and loan guarantees. 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.

In 1993, the Congress approved the Resolution Trust Corporation Completion Act, which was signed into law by the President on December 17. The Completion Act provided for the release of up to $18.3 billion of previously appropriated funds that had lapsed, bringing the total funds appropriated for the resolution of failed savings and loans to $105 billion.

It is too early to tell just how much of these funds the RTC will need to cover its losses: the ultimate amount will depend on how much is recovered from the remaining assets of RTC receiverships and the settlements of various claims. Nonetheless, we currently expect that the RTC will not need at least $10 billion of the funds released by the Completion Act.

In 1990, the estimated range for the total cost of protecting deposits in insolvent thrift institutions was $89 billion to $132 billion in 1980 present value terms. That range was translated into nominal dollar terms of $110 billion to $160 billion. In July 1992, the cost was adjusted upward toward the middle of the range, or about $130 billion. This would put the final cost below the estimated nominal dollar range provided in 1990. While current estimates are reasonable, there still are too many unknown factors to provide a single estimate of the ultimate cost.

The Department of Energy is responsible for addressing the legacy of environmental contamination caused by the development and testing of nuclear weapons during World War II and the Cold War. Due to the high priority of weapons production, the treatment and storage of radioactive and chemical waste was handled in a way that eventually led to contamination of soils, surface water, and ground water in and around the Department's facilities.

The Department has recorded an unfunded liability, as of September 30,1994, of $50 billion for environmental cleanup. This estimate is limited to liabilities incurred for waste cleanup, decontamination, and decommissioning for which payment will occur during future fiscal years and for which an agreement has been signed with a State, local municipality, or other Federal agency for purposes of conducting waste cleanup activities. The Department has completed the Baseline Environmental Management report showing life-cycle environment cost estimates ranging from $200 to $350 billion in constant 1995 dollars, with a mid-range estimate of $230 billion

The Federal Government, in 1994, 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 the Year Ended September 30, 1994

(In billions of dollars)

Commitments

Long-term leases:	
Commerce	.5
Energy	.3
General Services Administration	9.7
Tennessee Valley Authority	.6
Treasury	.4
U.S. Postal Service	1.5
Other	.6
Subtotal	13.6
Undelivered orders, public:	
Defense	52.6
Education	24.3
Health and Human Services	36.5
Housing and Urban Development	189.8
Transportation	16.4
Other	65.4
Subtotal	385.0
Total commitments	398.6

Commitments and Contingencies, continued

(In billions of dollars)

Face value of contingencies

Insurance:	
FDIC bank insurance fund	1,887.6
FDIC Savings Association Insurance Fund	691.1
Federal Emergency Management Agency	267.1
National Credit Union Administration	255.5
Pension Benefit Guaranty Corp.	950.0
Transportation	578.8
Veterans Affairs	523.2
Other	43.2
Subtotal	5,196.5
Government loan and credit guarantees:	
Agriculture	15.6
Education	77.2
Export-Import Bank	29.2
Housing and Urban Development	408.2
Small Business Administration	24.4
Veterans Affairs	63.1
Other	21.0
Subtotal	638.7
Unadjudicated claims:	
Health and Human Services	22.9
Transportation	30.0
Other	.6
Subtotal	53.5
Other contingencies:	
Defense	[1] 24.0
Energy	[2] 180.0
Housing and Urban Development	19.4
Multilateral development banks	6.5
Other	6.8
Subtotal	236.7
Total contingencies	6,125.4

[1] Environmental compliance was not reported in fiscal 1993.

[2] The amount increased because the fiscal 1994 estimate of environmental clean-up is projected further into the future.

from independent accountants...

COMMENTS OF COOPERS & LYBRAND L.L.P.

Financial Information Management Directorate,
Financial Management Service of the U.S. Department of the Treasury:

We have completed our work related to Treasury's process for preparing the 1994 Prototype Consolidated Financial Statements (CFS) of the United States (U.S.) Government. At your request, we have read the sections of the Treasury Financial Manual and related Bulletins that govern preparation of the CFS and obtained an understanding, through inquiries of personnel, observation of procedures and inspection of documents, of Treasury's: (i) process for identifying the entities to be included in the CFS, (ii) procedures for accumulating and analyzing information submitted by Federal entities, (iii) efforts to compare submitted information with other Treasury and Office of Management and Budget (OMB) data and General Accounting Office (GAO) reports, (iv) bases for adjustments to the information submitted by Federal entities, and (v) procedures to conform the CFS to current Federal accounting standards. We also read Treasury's preliminary action plan for preparing the 1997 Audited Consolidated Financial Statements of the U. S. Government required by the Government Management Reform Act (GMRA) of 1994.

This letter summarizes our comments and recommendations. Our work did not constitute an audit, review, or compilation of either Treasury's process for preparing the CFS or the CFS itself; accordingly, we are unable to, and do not, express an opinion or any other assurance on the process or the CFS.

Existing deficiencies in the preparation process, as described below, are likely to result in material misstatements in the 1994 CFS.

Accuracy and Completeness—Treasury does not maintain or control the accounting information from which the CFS is prepared. The individual Federal entities that submit the information to Treasury are responsible for the accuracy and completeness of the underlying information used to prepare the CFS. Treasury revised its process for compiling the financial information submitted by Federal entities during fiscal year 1994 which improved, to some extent, Treasury's ability to identify and make necessary adjustments to the submitted accounting information. However, for fiscal year 1994, only 67 percent of the government's gross budget authority was subjected to financial audit.[1] Furthermore, many of the audited Federal entities submitting information to Treasury received qualified opinions or disclaimers on their financial statements as a result of the audits. Accordingly, the information submitted to Treasury for preparation of the 1994 CFS may have contained additional inaccuracies which Treasury did not have a basis for adjusting.

Complete implementation of the Chief Financial Officers (CFO) Act of 1990 and the GMRA should provide the needed audit coverage of the data included in the CFS. Treasury's action plan for preparing the audited consolidated financial statements includes procedures for the auditors to confirm that all information submitted to Treasury agrees with information appearing in the Federal entities' audited financial statements. While a framework is in place to address this issue, Treasury's process for preparing the fiscal year 1994 CFS did not provide reasonable assurance that material misstatements or omissions in the information received and included in the CFS would be detected.

Accounting and Reporting—Although a comprehensive set of accounting and financial reporting standards for Federal entity financial statements are being developed, only a hierarchy of accounting principles contained in interim guidance issued by the Federal Accounting Standards Advisory Board (FASAB) was available to Federal entities and Treasury in fiscal year 1994. This necessitated Treasury consolidating information compiled by Federal entities using various accounting standards, which is not consistent with FASAB's objective of providing reliable, consolidated financial information consistent with a common set of standards.

Such standards and criteria, which FASAB has developed, or is in the process of developing, and recommended to the Director of the Office of Management and Budget, the Comptroller General of the United States, and the Secretary of Treasury, include matters such as: (i) the extent to which actual and budget data are reported and reconciled, (ii) whether long-lived assets should be capitalized and depreciated, (iii) the accounting and reporting for public domain assets, (iv) how social security, pension plans, contingencies and unfunded liabilities should be recorded, and (v) how financial statements should be presented to meet the unique needs of internal and external users of Federal financial statements. The development of a comprehensive set of accounting and reporting standards for Federal entities' financial statements, and the appropriate application thereof, is required to improve the CFS. Additionally, accounting and financial reporting criteria specific to the CFS addressing matters such as consolidation principles and disclosure requirements are required.

Consolidation and Analysis Process—Treasury revised its consolidation process for the fiscal year 1994 CFS which, to some extent, improved its ability to identify and make necessary adjustments to the information submitted by Federal entities. The revised process involves obtaining information from each entity electronically in a standardized format (i.e., each entity transmitted its information in conformity with the Federal Government's Standard General Ledger). The revised process also includes new requirements for entities to electronically submit financial statement disclosure information. These revisions improved the consistency of information submitted to Treasury and permitted additional analysis of the information by Treasury. As a result, Treasury was able to identify additional necessary adjustments to improve the completeness and accuracy of the submitted information.

Notwithstanding the revisions to the 1994 CFS process, Treasury's preliminary action plan for preparing the audited CFS should be expanded to include matters such as (i) reconciliation and elimination of intra- and inter-entity amounts, (ii) policies for incorporating in the CFS all newly adopted and expected accounting standards and reporting requirements, including a discussion of the government's performance in relation to its established goals, and (iii) identification and resolution of CFS issues, such as legal matters and contingencies requiring coordination with entity management and general counsel, the Department of Justice, or Central Agencies. The inclusion of these matters in the action plan would provide Treasury a comprehensive approach for preparing the audited CFS.

Most of these areas are not within Treasury's direct control. Consequently, resolving issues associated with the quality of information submitted by Federal entities and developing comprehensive accounting standards and a reporting framework must involve a concerted and sustained effort by the entire Federal financial management community. As reported by the Comptroller General of the United States on July 25, 1995, the Congress has set the foundation to provide much needed accountability and gain financial control of government operations through the CFO Act. Over the five years since the Act's passage, important progress has been made in obtaining audited financial statements. However, many remaining difficult issues must be addressed to successfully implement the CFO Act—particularly those related to the quality of financial information and the underlying financial systems and controls. Effective implementation of this legislation, with the continuing strong commitment on the part of the Congress and the entities' Chief Financial Officers and Inspectors General, as well as GAO, OMB and Treasury, is essential to improve the reliability and meaningfulness of the government's financial information.

We also noted certain other matters involving Treasury's system and process of preparing the CFS that we have not deemed as significant as the matters reported above. These other matters are being reported to the management of the Financial Information Management Directorate in a separate letter.

Washington, D.C.
September 28, 1995

Coopers & Lybrand L.L.P.

[1] *Financial Management: Momentum Must Be Sustained to Achieve the Reform Goals of the Chief Financial Officers Act* (GAO/T-AIMD-95-204, July 25, 1995).

supplemental tables

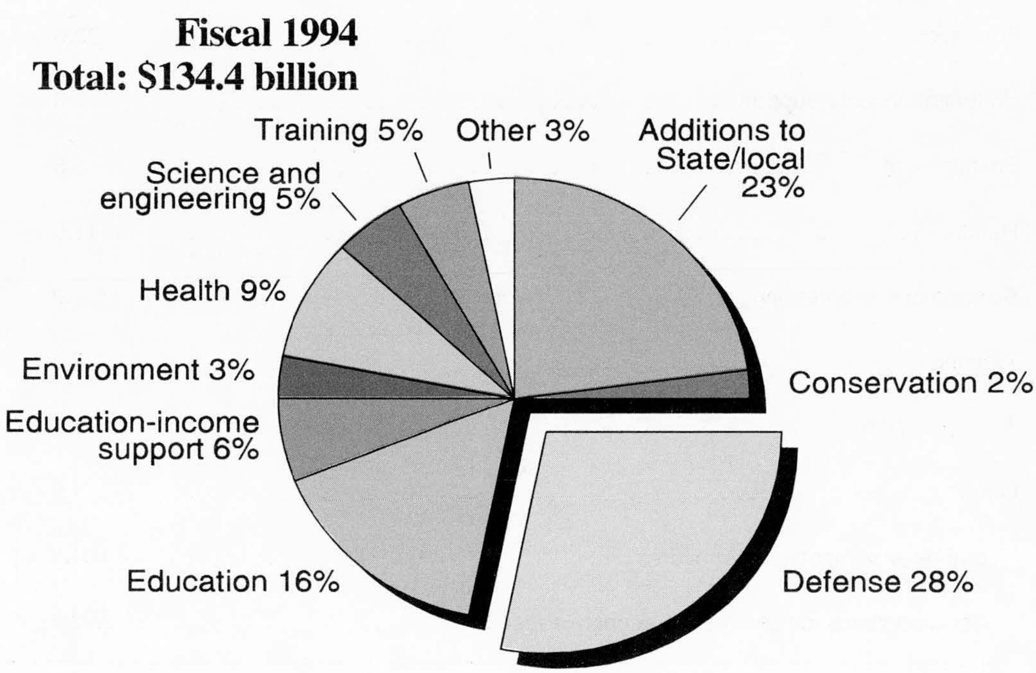
Additions to non-Federal economic resources, fiscal 1994

The Government uses its resources to add to the physical and human resources of the Nation without acquiring physical assets. The table on page 30, compiled from the "Budget of the United States Government, Fiscal Year 1996," 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 included construction grants for highways, community development, airports, and mass transit. Other developmental expenditures include outlays for education and training, and research and development.

The chart below illustrates how 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 for the Year Ended September 30, 1994

(In billions of dollars)

Additions to State and local government assets	
Community and regional development	4.5
Environment	2.4
Transportation:	
Highways and mass transit	21.0
Rail and air	1.6
Other	.9
Total additions	30.4
Other developmental expenditures	
Agriculture	1.2
Conservation	2.7
Defense	38.0
Education	22.0
Education-income support	7.8
Environment	3.6
Health	11.5
Science and engineering	7.3
Training	7.0
Transportation	1.7
Other	1.2
Total developmental expenditures	104.0
Total additions to non-Federal economic resources	134.4

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 were 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, see table 5-1, "Total Revenue Loss Estimates for Tax Expenditures in the Income Tax," in "Budget of the United States, Analytical Perspectives, Fiscal Year 1996."

Estimates for Tax Expenditures in the Income Tax for the Year Ended September 30, 1994

(In billions of dollars)

	Estimated amount of revenue loss
Income exclusions	
Disability and retirement benefits (private)	64.7
Medical care and insurance (employer premiums paid)	56.1
Interest and dividends (State and local bonds and debt, and life insurance)	29.0
Capital gains at death	26.9
Social Security benefits	23.7
Payroll benefits and allowances (group life, accident, and unemployment)	4.8
Foreign earnings and investment incentives (income earned abroad)	4.4
Education allowances (scholarships and GI benefits)	.9
Other (e.g., age 55 or over credit on home sales)	4.7
Income deferrals	
Real estate (home sales)	16.6
Interest on U.S. savings bonds	1.3
Deductions and credits	
Interest (mortgage and consumer)	48.4
State and local property tax and other taxes	39.8
Accelerated depreciation (rental housing, buildings other than rental housing, machinery, and equipment)	23.9
Contributions (charitable and political)	21.5
Earned income	4.0
Foreign earnings (corporations doing business in U.S. possessions)	2.9
Medical	3.4
Work incentives (employment credits under work programs) and dependent care	2.8
Investments (commercial capital gains, credits, other investment incentives, construction period interest, and expensing developmental costs)	2.6
Old-age, disability, and other personal exemptions	2.4
Employee stock ownership plans (funded through investment and tax credits)	2.2
Property damages and losses (casualty losses)	.7
Exemptions (credit unions)	.8

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, refer to table 15-3, "Outlays for Mandatory and Related Programs under Current Law," in the "Budget of the United States Government, Analytical Perspectives, Fiscal Year 1996," pages 211 and 212.

Outlays for Mandatory and Related Programs for the Year Ended September 30, 1994

(In billions of dollars)

Human resources programs	
Social Security	316.9
Income security	178.4
Medicare	141.8
Health	86.6
Veterans benefits and services	20.3
Education, training, and social services	9.0
Total human resources	753.0
Other	
Other mandatory programs	-2.9
Offset prior to the total mandatory programs	-37.8
Total mandatory programs	712.3
Net interest	203.0
Total	915.3

Federal obligations

"Obligations" are the basis on which the use of funds is controlled by 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 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, refer to "Object Class Analysis, Budget of the United States Government, Fiscal Year 1996."

Gross Obligations by Object Class for the Year Ended September 30, 1994

(In billions of dollars)

Personal services and benefits	
Personnel compensation	111.6
Personnel benefits	42.2
Benefits for former personnel	30.1
Contractual services and supplies	
Supplies and materials	29.9
Rent, communications, and utilities	12.8
Travel and transportation of persons	6.0
Transportation of things	5.0
Printing and reproduction	.8
Other services	172.4
Acquisition of capital assets	
Equipment	64.6
Investments and loans	10.5
Lands and structures	10.4
Grants and fixed charges	
Insurance claims and indemnities	618.9
Grants, subsidies, and contributions	380.3
Interest and dividends	322.1
Refunds	12.2
Other	
Undistributed U.S. obligations	15.7
Total direct obligations	1,845.5
Reimbursable obligations	243.5
Total gross obligations	2,089.0

The Government of the United States

The Constitution

Legislative Branch
The Congress
Senate and House

Architect of the Capitol
United States Botanical Garden
General Accounting Office
Government Printing Office
Library of Congress
Office of Technology Assessment
Congressional Budget Office
Copyright Royalty Tribunal
United States Tax Court

Executive Branch
The President
Executive Office of the President

White House Office
Office of Management and Budget
Council of Economic Advisors
National Security Council
Office of Policy Development
Office of National Drug Control Policy
National Critical Materials Council
Office of the U.S. Trade Representative
Council of Environmental Quality
Office of Science and Technology Policy
Office of Administration
National Space Council

The Vice President

Judicial Branch
The Supreme Court of the United States

U.S. Court of Appeals
U.S. Court of Appeals for the Federal Circuit
U.S. District Courts
U.S. Claims Court
U.S. Court of International Trade
Territorial Courts
U.S. Court of Military Appeals
U.S. Court of Veterans Appeals
Administrative Office of the United States Courts
Federal Judicial Center

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs

Larger Independent Establishments and Government Corporations

ACTION
African Development Foundation
Central Intelligence Agency
Commission on Civil Rights
Commodity Futures Trading Comm.
Consumer Product Safety Comm.
Environmental Protection Agency
Export-Import Bank of the United States
Farm Credit Administration
Fed. Communications Comm.
Fed. Deposit Insurance Corporation
Fed. Election Comm.
Fed. Emergency Management Agency
Fed. Housing Finance Board
Fed. Labor Relations Authority
Fed. Maritime Comm.
Fed. Mediation and Conciliation Service
Fed. Mine Safety and Health Review Comm.
Fed. Retirement Thrift Investment Board
Fed. Trade Comm.
General Services Administration
Inter-American Foundation
Interstate Commerce Comm.
Merit Systems Protection Board
Nat'l. Aeronautics and Space Admin.
Nat'l. Archives and Records Admin.
Nat'l. Credit Union Admin.
Nat'l. Found. on the Arts and Humanities
Nat'l. Labor Relations Board
Nat'l. Mediation Board
Nat'l. Science Foundation
Nat'l. Transportation Safety Board
Nuclear Regulatory Comm.
Occup. Safety and Health Review Comm.
Office of Government Ethics
Office of Personnel Management
Oversight Board, Resolution Trust Corp.
Panama Canal Comm.
Peace Corps.
Pennsylvania Avenue Development Corp.
Pension Benefit Guarantee Corp.
Postal Rate Comm.
Railroad Retirement Board
Resolution Trust Corp.
Securities and Exchange Comm.
Selective Service System
Small Business Admin.
Tennessee Valley Authority
U.S. Arms Control and Disarm. Agency
U.S. Information Agency
U.S. Int'l. Devel. Cooperation Agency
U.S. Int'l. Trade Comm.
U.S. Office of Special Counsel
U.S. Postal Service

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