United States Government Notes to the Financial Statements for the Years Ended September 30, 2015, and 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

This *Financial Report* includes the financial status and activities of the executive branch, the legislative branch, and the judicial branch of the government. The financial reporting period ends September 30 and is the same as used for the annual budget. The legislative and judicial branches are not required by law to submit financial statement information to Treasury; however, these branches provided cash and a significant amount of accrual basis financial information to include in the *Financial Report*. Appendix A of this report lists the organizations and agencies (entities) included in the U.S. Government's consolidated reporting entity for the *Financial Report,* as well as some entities not included in the reporting entity. Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*, provides criteria for determining which entities are included in the reporting entity. Such criteria are summarized in Appendix A. Also, as discussed further in Appendix A, certain entities are excluded from the *Financial Report* because they do not meet the criteria, such as the Thrift Savings Fund, or were specifically excluded from the consolidated reporting entity in accordance with SFFAC No. 2, such as the Board of Governors of the Federal Reserve System and bailout entities. Examples of bailout entities include the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae).

During fiscal year 2008, the government began a number of emergency economic measures relating to the economy that involved various financing programs. Key initiatives beginning in fiscal year 2008 involved programs concerning Fannie Mae and Freddie Mac (Government-Sponsored Enterprises [GSEs]), provision of a credit facility for GSEs and Federal Home Loan Banks, purchase of Mortgage-Backed Securities (MBSs) [see Note 1.H—Investments in Government-Sponsored Enterprises and Note 8—Investments in Government-Sponsored Enterprises].

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, the government has not consolidated into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which Treasury holds either a direct, indirect, or beneficial equity investment. Even though some of the equity investments are significant, under SFFAC No. 2, these entities meet the criteria of paragraph 50 and do not appear in the federal budget section "Federal Programs by Agency and Account." As such, these entities are not consolidated into the financial reports of the government. However, the values of the investment in such entities are presented on the balance sheet.

Material intragovernmental transactions are eliminated in consolidation, except as described in the Other Information—Unmatched Transactions and Balances (see Note 1.S).

B. Basis of Accounting and Revenue Recognition

Consolidated Financial Statements

The consolidated financial statements of the Government were prepared using GAAP, primarily based on FASAB's Statement of Federal Financial Accounting Standards (SFFAS). The consolidated financial statements include accrual-based financial statements and sustainability financial statements, which are discussed in more detail below, and the related notes to the consolidated financial statements. Collectively, the accrual-based financial statements, the sustainability financial statements, and the notes represent basic information that is deemed essential for the financial statements and notes to be presented in conformity with GAAP.

Accrual-Based Financial Statements

The accrual-based financial statements were prepared under the following principles:

- Expenses are generally recognized when incurred.
- Non-exchange revenue, including taxes, duties, fines, and penalties, are recognized when collected and adjusted for the change in net measurable and legally collectible amounts receivable. Related refunds and other offsets, including those that are measurable and legally payable, are netted against non-exchange revenue.
- Exchange (earned) revenue is recognized when the government provides goods and services to the public for a price. Exchange revenue includes user charges such as admission to federal parks and premiums for certain federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash basis (unified budget deficit) and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow U.S. GAAP. See the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

Sustainability Financial Statements

The sustainability financial statements were prepared based on the projected present value of the estimated future revenue and estimated future expenditures, primarily on a cash basis, for a 75 year period. They include the Statement of Long-Term Fiscal Projections, covering all federal government programs, and the Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts, covering social insurance programs (Social Security, Medicare, Railroad Retirement, and Black Lung programs). These estimates are based on economic as well as demographic assumptions presented in Notes 23 and 24. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are designed to illustrate the relationship between receipts and expenditures, if current policy is continued. For this purpose, the projections assume that scheduled social insurance benefit payments would continue after related trust funds are projected to be exhausted, contrary to current law, and that debt could continue to rise indefinitely without severe economic consequences.

By accounting convention, the Statement of Social Insurance does not include projected general revenues that, under current law, would be used to finance the remainder of the expenditures in excess of revenues for Medicare Parts B and D that is reported in the Statement of Social Insurance. The Statement of Long-Term Fiscal Projections includes all revenues (including general revenues) of the federal government.

New Standards Issued in Prior Years and Implemented in Current Year

Beginning in fiscal year 2015, the government implemented the requirements of new standards related to the reporting for: Deferred Maintenance and Repairs, Impairment of General Property, Plant, and Equipment Remaining in Use, and the presentation of Long-Term Projections as a basic financial statement. The new standards being implemented are:

- FASAB issued SFFAS No. 42, *Deferred Maintenance and Repairs, Amending SFFAS No. 6, 14, 29, and 32*. Among other things, SFFAS No. 42 replaces the definition, measurement, and reporting requirements for deferred maintenance and repairs established in SFFAS No. 6, *Accounting for Property, Plant, and Equipment* and rescinds the current governmentwide disclosures required for deferred maintenance established in SFFAS No. 32, *Consolidated Financial Report of the United States Government Requirements*. SFFAS No. 42 also requires the governmentwide financial statements to disclose as RSI a description of what constitutes deferred maintenance and repairs (DM&R) and how it was measured; amounts of DM&R for each major category of property, plant, and equipment; and a general reference to specific component entity reports for additional information.
- FASAB issued SFFAS No. 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use* which provides accounting and reporting requirements for partial impairments of general property, plant, and

equipment (G-PP&E) remaining in use and construction work-in-process. SFFAS No. 44 requires description of what constitutes G-PP&E impairment, disclosure of related losses, and a reference to specific component entity reports for additional information.

- FASAB issued SFFAS No. 46, *Deferral of the Transition to Basic Information for Long-Term Projections; Amending SFFAS No. 36 and 45.* SFFAS No. 46 amends the effective date of the phased implementation first established in SFFAS No. 36, *Comprehensive Long-Term Projections for the U.S. Government* and later amended by SFFAS No. 45, *Deferral of the Transition to Basic Information for Long-Term Projections.* SFFAS No. 46 requires the presentation of the long-term projections for the government and related disclosures as basic information in fiscal year 2015.

New Standard Issued and Not Yet Implemented

FASAB issued the following new standard that is applicable to the *Financial Report*, but is not yet implemented at the governmentwide level for fiscal year 2015:

- In December 2014, FASAB issued SFFAS No. 47, *Reporting Entity*. SFFAS No. 47 establishes principles to identify organizations for which elected officials are accountable. The standard also guides preparers of general purpose federal financial reports in determining what organizations to report upon, whether such organizations are considered "consolidation entities" or "disclosure entities," and what information should be presented about those organizations. Generally, an organization is considered a consolidation entity if, based on assessment of the following characteristics as a whole, the organization: is financed through taxes and other non-exchange revenues, is governed by the Congress and/or President, imposes or may impose risks and rewards to the federal government, and provides goods and services on a non-market basis. A disclosure entity has a greater degree of autonomy with the federal government than a consolidation entity. To avoid obscuring information about these more autonomous organizations while still providing accountability, such organizations are to be disclosed rather than consolidated at the governmentwide level. The standard also requires information to be provided about related party relationships of such significance that it would be misleading to exclude information. SFFAS No. 47 is effective for periods beginning after September 30, 2017 and early implementation is not permitted.

C. Accounts and Taxes Receivable

Accounts receivable represent claims to cash or other assets from entities outside the government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. Accounts receivable are reported net of an allowance for uncollectible amounts. An allowance is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the agencies in the government and is usually based on past collection experience and is re-estimated periodically as needed. Methods include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection.

Taxes receivable consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed or a court has determined the assessments are owed. Taxes receivable do not include unpaid assessments when taxpayers or a court have not agreed that the amounts are owed (compliance assessments) or the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible. The allowance for uncollectible amounts is based on projections of collectibles from a statistical sample of unpaid tax assessments.

D. Loans Receivable and Loan Guarantee Liabilities

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

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

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

E. Inventories and Related Property

Inventory is tangible personal property that is (1) held for sale, principally to federal agencies, (2) in the process of production for sale, or (3) to be consumed in the production of goods for sale or in the provision of services for a fee. SFFAS No. 3, *Accounting for Inventory and Related Property*, requires inventories held for sale and held in reserve for future sale within the government to be valued using either historical cost or latest acquisition cost (LAC). Historical cost methods include first-in-first-out, weighted average, and moving average. When LAC methods are used, the inventory is revalued periodically and an allowance account should be established for unrealized holding gains and losses.

The Department of Defense (DOD) values approximately 97 percent of resale inventory using the moving average cost method. Additionally, DOD reports the remaining 3 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses to approximate the historical cost of resale inventory items remaining in its legacy system. The latest acquisition cost method is used because legacy inventory systems were designed for material management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3. DOD is continuing to transition inventories currently accounted for under the LAC methods, to be accounted for under the moving average cost methods. When using historical cost valuation, estimated repair costs reduce the value of inventory held for repair. Excess, obsolete, and unserviceable inventories are valued at estimated net realizable value. When LAC is used to value inventory held for sale, it is adjusted for holding gains and losses in order to approximate historical cost.

Related property includes commodities, seized monetary instruments, forfeited and foreclosed property, raw materials and work in process. Operating materials and supplies are valued at historical cost, LAC, and standard price using the purchase and consumption method of accounting. Operating materials and supplies that are valued at latest acquisition cost and standard pricing are not adjusted for holding gains and losses.

F. Property, Plant, and Equipment

Property, Plant and Equipment (PP&E) consists of tangible assets including buildings, equipment, construction in progress, internal use software, assets acquired through capital leases (including leasehold improvements), and other assets used to provide goods and services.

PP&E used in government operations are carried at acquisition cost, with the exception of some DOD equipment. In some instances, DOD equipment is valued at estimated historical costs, which are calculated using internal DOD records. To establish a baseline, DOD accumulated information relating to program funding and associated equipment, equipment useful life, program acquisitions, as well as disposals. The equipment baseline is updated using expenditure information and information related to acquisitions and disposals.

All PP&E is capitalized if the acquisition costs (or estimated acquisition cost for DOD) are in excess of capitalization thresholds that vary considerably between the federal entities. Depreciation and amortization expense applies to PP&E reported on the balance sheets except for land, unlimited duration land rights, and construction in progress. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets. All PP&E are assigned useful lives depending on their category. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general PP&E and is depreciated. Construction in progress is used for the accumulation of the cost of construction or major renovation of fixed assets during the construction period. The assets are transferred out of construction in progress when the project is substantially completed. Internal use software includes purchased commercial off-the-shelf software, contractor-developed software, and software internally developed.

SFFAS No. 44*, Accounting for Impairment of General Property, Plant and Equipment Remaining in Use*, requires the establishment of accounting and financial reporting standards for impairment of general PP& E remaining in use, except for internal use software. General PP&E is considered impaired when there is a significant and permanent decline in the service utility of PP& E or expected service utility for construction in progress and management has no reasonable expectation that the lost service utility will be replaced or restored. Existing processes and internal controls are expected to reasonably assure identification and communication of potential material impairments, such as those related to deferred maintenance and repairs.

For financial reporting purposes, other than multi-use heritage assets, stewardship assets are not recorded as part of PP&E. Stewardship Assets consist of public domain land (Stewardship Land) and Heritage Assets. Examples of stewardship land include national parks, wildlife refuges, national forests, and other lands of national and historical significance. Heritage assets include national monuments, and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. Stewardship land and most heritage assets are considered priceless and irreplaceable, and as such they are measured in physical units with no financial value assigned to them. Some heritage assets have been designated as multi-use heritage assets, for example the White House, the predominant use of which is in government operations. For more details on stewardship assets, see Note 25—Stewardship Land and Heritage Assets.

G. Debt and Equity Securities

Debt and equity securities are classified as held-to-maturity, available-for-sale, and trading. Held-to-maturity debt and equity securities are reported at amortized cost, net of unamortized premiums and discounts. Available-for-sale debt and equity securities are reported at fair value. Trading debt and equity securities are reported at fair value.

H. Investments in Government-Sponsored Enterprises

The senior preferred stock and associated common stock warrants in GSEs are presented at their fair value. The annual valuation to estimate the asset's fair value incorporates various forecasts, projections, and cash flow analyses. These valuations are performed on the senior preferred stock and warrants and any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the changes in valuation of the senior preferred stock and warrants are deemed usual and recurring. Accordingly, changes in valuation are recorded as an exchange transaction which is either an expense or revenue. Since the costs of the senior preferred stock and warrants are reflected in exchange transactions, any change in valuation is also recorded as an exchange transaction.

The *Housing and Economic Recovery Act of 2008 (HERA)* established the Federal Housing Finance Agency (FHFA), which was created to enhance authority over the GSEs, and provide the Secretary of the Treasury with certain authorities to support the financial stability of the GSEs. In September 2008, Treasury entered into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. Based on U.S. GAAP, these commitments, predicated on the future occurrence of any stockholders' equity net deficits of the GSEs, at the end of any reporting quarter are potential liabilities of Treasury. The potential liabilities to the GSEs, if any, are assessed annually and recorded at the gross estimated amount. For more detailed information on investments in GSEs, refer to Note 8—Investments in Government-Sponsored Enterprises.

I. Federal Debt

Accrued interest on Treasury securities held by the public is recorded as an expense when incurred, instead of when paid. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities and the straight line method for short-term securities.

Treasury also issues Treasury Inflation-Protected Securities (TIPS). The principal for TIPS is adjusted daily over the life of the security based on the Consumer Price Index for all Urban Consumers (CPI-U).

J. Federal Employee and Veteran Benefits Payable

Generally, federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation and burial benefits, post-retirement health benefits, and post-retirement life insurance benefits, are recorded at estimated present value of future benefits, less any estimated present value of future normal cost contributions. Normal cost is the portion of the actuarial present value of projected benefits allocated as an expense for employee services rendered in the current year. Actuarial gains and losses (as well as prior service cost, if any) are recognized immediately in the year they occur without amortization.

The Department of Veterans Affairs (VA) also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The actuarial present value of the future liability for these VA pension benefits is a non-exchange transaction and is not required to be recorded on the Balance Sheet. These benefits are expenses when benefits are paid rather than when employee services are rendered.

The liabilities for Federal Employees' Compensation Act (workers compensation) benefits are recorded at estimated present value of future benefits for injuries and deaths that have already been incurred.

Gains and losses from changes in long-term assumptions used to estimate federal employee pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (OPEB) liabilities are reflected separately on the Statement of Net Cost and the components of the expense related to federal employee pension, ORB, and OPEB liabilities are disclosed in Note 12—Federal Employee and Veteran Benefits Payable as prescribed by SFFAS No. 33. In addition, SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities.

K. Environmental and Disposal Liabilities

Environmental and disposal liabilities are recorded at the estimated current cost of removing, containing, treating, and/or disposing of radioactive waste, hazardous waste, chemical and nuclear weapons, as well as other environmental contaminations (including asbestos), assuming the use of current technology. Hazardous waste is a solid, liquid, or gaseous waste that, because of its quantity or concentration, presents a potential hazard to human health or the environment. Remediation consists of removal, decontamination, decommissioning, site restoration, site monitoring, closure as well as post-closure cost, treatment, and/or safe containment. Where technology does not exist to clean up radioactive or hazardous waste, only the estimable portion of the liability (typically monitoring and safe containment) is recorded.

L. Insurance and Guarantee Program Liabilities

Insurance and guarantee programs (such as Deposit Insurance Fund Program, Federal Crop Insurance Program and Benefit Pension Plans Program) provide protection to individuals or entities against specified risks except for those specifically covered by federal employee and veteran benefits, social insurance, and loan guarantee programs. Insurance and guarantee program funds are commonly held in revolving funds in the government and losses sustained by participants are paid from these funds. Many of these programs receive appropriations to pay excess claims and/or have authority to borrow from the Treasury. The values of insurance and guarantee program liabilities are particularly sensitive to changes in underlying estimates and assumptions. Insurance and guarantee programs with recognized liabilities in future periods (i.e., liabilities that extend beyond one year) are reported at their actuarial present value.

M. Deferred Maintenance and Repairs

Deferred maintenance and repairs are maintenance and repairs that were not performed when they should have been or scheduled maintenance and repairs that were delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so they continue to provide acceptable service and achieve their expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended. Deferred maintenance and repairs expenses are not accrued in the Statements of Net Cost or recognized as liabilities on the Balance Sheet. However, deferred maintenance and repairs information is disclosed in the unaudited RSI section of this report. Please see unaudited RSI, Deferred Maintenance & Repairs for additional information including measurement methods.

N. Contingencies

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

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

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

Contingent liabilities that do not meet the above criteria for recognition, but for which there is at least a reasonable possibility that a loss may be incurred, are disclosed in Note 19—Contingencies.

O. Commitments

In the normal course of business, the government has a number of unfulfilled commitments that may require the use of its financial resources. Note 20—Commitments describes the components of the government's actual commitments that are disclosed due to their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments.

P. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due as of the reporting date. No liability is recognized for future benefit payments not yet due. For further information, see the unaudited RSI—Social Insurance section, and Note 23—Social Insurance.

Q. Funds from Dedicated Collections

Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources that remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. The three required criteria for a fund from dedicated collections are:

- A statute committing the government to use specifically identified revenues and/or other financing sources that are originally provided to the government by a non-federal source only for designated activities, benefits, or purposes;

- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the government's general revenues.

For more details on funds from dedicated collections, see Note 21—Funds from Dedicated Collections.

R. Related Party Transactions

Federal Reserve System

The Federal Reserve System (FR System) was created by Congress under the *Federal Reserve Act of 1913*. The FR System consists of the Federal Reserve Board of Governors (Board), the Federal Open Market Committee (FOMC), and the Federal Reserve Banks (FRBs). Collectively, the FR System serves as the nation's central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payments systems (including large-dollar transfers of funds, Automated Clearing House (ACH) operations, and check collection), providing certain financial services to federal agencies and fiscal principals, and serving as the U.S. government's bank. Monetary policy includes actions undertaken by the FR System that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities. The FR System is not included in the federal budget. It is considered an independent central bank, and its decisions are not ratified by the executive branch of the federal government.

The government interacts with the FRBs in a variety of ways, including the following:

- The FRBs serve as the government's fiscal agent and depositary, executing banking and other financial transactions on the government's behalf. The government reimburses the FRBs for these services, the cost of which is included on the Statements of Net Cost;
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy (Note 11—Federal Debt Securities Held by the Public and Accrued Interest);
- The FRBs hold gold certificates issued by the government in which the certificates are collateralized by gold (Note 2—Cash and Other Monetary Assets);
- The FRBs hold Special Drawing Rights (SDR) certificates issued by the government which are collateralized by SDRs (see Note 2—Cash and Other Monetary Assets); and,
- The FRBs are required by Board policy to transfer their excess earnings to the government, which are included in Other Taxes and Receipts on the Statements of Operations and Changes in Net Position.

The government also consults with the FR System on matters affecting the economy and certain financial stability activities (Note 4—Loans Receivable and Loan Guarantee Liabilities, Net). The above financial activities involving the government are accounted for and disclosed in the government consolidated financial statements. In accordance with SFFAC No. 2, *Entity and Display*, the FR System's assets, liabilities, and operations are not consolidated into the government's financial statements, and are, therefore, not a part of the reporting entity.

Federal Reserve System Structure

The Board is an independent organization governed by seven members who are appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution.

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents, and is charged with formulating and conducting monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions. The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Supervision and control of each FRB is exercised by a board of directors, of which three are appointed by the Board of Governors of the FR System, and six are elected by their member banks.

The FRBs participate in formulating and conducting monetary policy, distribute currency and coin, and serve as fiscal agents for the government, other federal agencies, and fiscal principals. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and exigent circumstances when approved by the Board and the Treasury Secretary.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. Treasury securities held by the FRBs totaled $1,845.3 billion and $1,919.4 billion at September 30, 2015 and 2014, respectively (Note 11—Federal Debt Securities Held by the Public and Accrued Interest). These assets are generally subject to the same market (principally interest-rate) and credit risks as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

The FRBs have deposit liabilities with Treasury and depository institutions. The FRBs issue Federal Reserve Notes, the circulating currency of the United States, which are collateralized by the Treasury securities and other assets held by the FRBs. Financial and other information concerning the FR System, including financial statements for the Board and the FRBs, may be obtained at http://www.federalreserve.gov.

FRB Residual Earnings Transferred to the Government

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions, as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations (via the earnings on securities held in the SOMA account), their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to the government its residual (or excess) earnings, after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with paid-in capital. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. In the event of losses, or a substantial increase in capital, a FRB will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. The FRB residual earnings of $96.5 billion and $99.2 billion for fiscal years ended September 30, 2015 and 2014, respectively, are reported as other taxes and receipts on the Statements of Operations and Changes in Net Position. Accounts and taxes receivables, net, includes a receivable for FRB's residual earnings which represents the earnings due to the General Fund as of September 30, but not collected by the General Fund until after the end of the month. As of September 30, 2015 and 2014, interest receivable on FRB's residual earnings are $0.3 billion and $1.7 billion, respectively (Note 3—Accounts and Taxes Receivables, Net).

Other Related Parties

The federal government, through the Federal Housing Finance Agency (FHFA) is the conservator for Fannie Mae and Freddie Mac. See Note 8—Investments in Government-Sponsored Enterprises.

The Secretary of Transportation has possession of two long term notes with the National Railroad Passenger Service Corporation (more commonly referred to as Amtrak). The first note is for $4 billion and matures in 2975 and the second note is for $1.1 billion and matures in 2082 with renewable 99 year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The Department of Transportation (DOT) does not record the notes in its financial statements since the notes, with maturity dates of 2975 and 2082, are considered fully uncollectible due to the lengthy terms and Amtrak's history of operating losses.

In addition, DOT has possession of all the preferred stock shares (109.4 million) of Amtrak. Congress, through DOT, has continued to fund Amtrak since approximately 1972; originally through grants, then, beginning in 1981, through the purchase of preferred stock, and then through grants again after 1997. The *Amtrak Reform and Accountability Act of 1997* changed the structure of the preferred stock by rescinding the voting rights with respect to the election of the Board of Directors and by eliminating the preferred stock's liquidation preference over the common stock. The Act also eliminated further issuance to DOT of preferred stock. DOT does not record the Amtrak preferred stock in its financial statements because, under the Corporation's current financial structure, the preferred shares do not have a liquidation preference over the common shares, the preferred shares do not have any voting rights, and dividends are neither declared nor in arrears.

In general, Amtrak is not a department, agency, or instrumentality of the government or DOT. However, the United States Supreme Court has held that, for the purposes of assessing certain constitutional issues, Amtrak is a governmental entity. The nine members of Amtrak's Board of Directors are appointed by the President and are subject to confirmation by the United States Senate. Once appointed, board members, as a whole, act independently without the consent of the government or any of its officers to set Amtrak policy, determine its budget, and decide operational issues. The Secretary of Transportation is statutorily appointed to the nine member board. Traditionally, the Secretary of Transportation has designated the FRA Administrator to represent the Secretary at Board meetings.

The Export-Import Bank of the United States (Ex-Im Bank) has contractual agreements with the Private Export Funding Corporation (PEFCO). PEFCO, which is owned by a consortium of private-sector banks, industrial companies, and financial services institutions, makes medium-term and long-term fixed-rate and variable-rate loans to foreign borrowers to purchase U.S.-made equipment when such loans are not available from traditional private sector lenders on competitive terms. Ex-Im Bank's credit and guarantee agreement with PEFCO extends through December 31, 2020. Through its contractual agreements with PEFCO, Ex-Im Bank exercises a broad measure of supervision over PEFCO's major financial management decisions, including approval of both the terms of individual loan commitments and the terms of PEFCO's long-term debt issues, and is entitled to representation at all meetings of PEFCO's board of directors, advisory board, and its exporters' council.

The contractual agreements provide that Ex-Im Bank will (1) guarantee the due and punctual payment of principal, as well as interest on export loans made by PEFCO and (2) guarantee the due and punctual payment of interest on PEFCO's long-term secured debt obligations when requested by PEFCO. Related to the amounts for Ex-Im Bank as shown in Note 4 - Loans Receivable and Loan Guarantee Liabilities, Net, these guarantees to PEFCO, aggregating $12.6 billion and $10.0 billion at September 30, 2015, and 2014, respectively, are included within the principal amounts guaranteed by the United States. The allowance related to these transactions is included within the guaranteed loan liability. Ex-Im Bank received fees for the agreements totaling $0.03 billion and $0.04 billion for fiscal years 2015 and 2014, respectively, which are included as earned revenue on the Statements of Net Cost.

S. Unmatched Transactions and Balances

The reconciliation of the change in net position requires that the difference between ending and beginning net position equals the difference between revenue and cost, plus or minus prior-period adjustments.

The unmatched transactions and balances are needed to bring the change in net position into balance. The primary factors affecting this out of balance situation are:

- Unmatched intragovernmental transactions and balances between federal agencies; and
- Errors and restatements in federal agencies' reporting.

Refer to the Other Information (unaudited) —Unmatched Transactions and Balances for detailed information.

T. Reclassifications

The fiscal year 2014 amounts related to the Troubled Asset Relief Program (TARP) direct loans and equity investments are no longer presented as a separate line on the Balance Sheet or separate note disclosure. For fiscal year 2015, TARP is included in the loans receivable line on the balance sheet and the all other programs line in the Note 4. Loans Receivable and Loan Guarantee Liabilities.

Certain amounts were reclassified in fiscal year 2015 and affect the fiscal year 2014 Statement of Net Cost. For fiscal year 2015, as stated in Appendix A of this report, the Foreign Military Financing Program and Foreign Military Sales Program were consolidated to create the Defense Security Cooperation Agency (DSCA). These two entities were previously identified as additional entities in Appendix A, but as a consolidated entity, DSCA is now being reported as a significant entity. As a result, DSCA is now separately identified on the Statement of Net Cost and its consolidated fiscal year 2014 net cost amounts were reclassified out of "All other entities."

U. Restatements

There were no material restatements to fiscal year 2014 reported amounts.

V. Fiduciary Activities

Fiduciary activities are the collection or receipt, as well as the management, protection, accounting, investment and disposition by the government of cash or other assets in which non-federal individuals or entities have an ownership interest that the government must uphold. Fiduciary cash and other fiduciary assets are not assets of the government and are not recognized on the Balance Sheet. See Note 22—Fiduciary Activities, for further information.

W. Use of Estimates

The government has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. There are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, actual results will differ from these estimates and such differences may be material.

Significant transactions subject to estimates include loans and credit program receivables, federal employee and veteran benefits payable, credit reform subsidy costs, investments in GSEs, and other non-federal securities and related impairment, tax receivables, loan guarantees, depreciation, imputed costs, other actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities.

The government recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual re-estimates to reflect the most accurate cost of the credit programs to the U.S. Government. *Federal Credit Reform Act of 1990* (FCRA) loan receivables and loan guarantees are disclosed in Note 4—Loans Receivable and Loan Guarantee Liabilities, Net.

The forecasted future cash flows used to determine credit reform amounts are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the government has an equity interest, estimates of expected default, and prepayment rates. Therefore, forecasts of future financial results have inherent uncertainty.

The GSE senior preferred stock purchase agreements (SPSPAs) provide that the government will fund the GSEs, if needed at the end of any quarter. The FHFA, acting as the conservator, determines whether the liabilities of either GSE, individually, exceed its respective assets. The annual valuation performed as of September 30 on the preferred stock and warrants comprising the Investments in GSEs line item on the Balance Sheets incorporates various forecasts, projections, and cash flow analyses to develop an estimate of the asset's fair value. A key input into the investment valuation for the senior preferred stock is the present value of the projected quarterly dividend payments, and a key input for the warrants is the market value of the shares of common stock of the GSEs which are traded on the over-the-counter (OTC) Bulletin Board. Treasury performs annual calculations, as of September 30, to assess the need for recording an estimated liability in accordance with SFFAS No. 5, *Accounting for Liabilities of The Federal Government,* related to the government's funding commitment to the GSEs under the SPSPAs. As part of the fiscal year 2015 assessment process, Treasury used 25-year financial forecasts prepared through year 2040 and 2039 in assessing if a contingent liability was required as of September 30, 2015 and 2014, respectively, to determine the implied amount of total liability. For more detailed information on investments in GSEs and the amended SPSPAs, see Note 8—Investments in Government-Sponsored Enterprises.

The government offers its employees' pension and other post-employment retirement benefits, as well as life and health insurance. The Office of Personnel Management administers the largest civilian plan and the Department of Defense and Department of Veterans Affairs administer the military plans. Generally the benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation and burial benefits, post-retirement health benefits, life insurance benefits, and *Federal Employees' Compensation Act* benefits are recorded at estimated present value of future benefits, less any estimated present value of future normal cost contributions. See Note—12 Federal Employee and Veteran Benefits Payable for additional information.

X. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The government takes on credit risk when it makes direct loans or guarantees to non-federal entities, provides credits to foreign entities, or becomes exposed to institutions which engage in financial transactions with foreign countries.

The government also takes on credit risk related to committed, but undisbursed direct loans, funding commitments to GSEs, guarantee of money market funds, and other activities. These activities generally focus on the underlying problems in the credit markets. These programs were developed to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose the Government to potential costs and losses. The extent of the risk assumed is described in more detail in the notes to the financial statements, and where applicable, is factored into credit reform models and reflected in fair value measurements.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Unrestricted cash:		
Cash held by Treasury for governmentwide operations	193.3	153.2
Other	6.6	7.2
Restricted	26.1	21.5
Total cash	226.0	181.9
International monetary assets	58.5	66.0
Gold and silver	11.1	11.1
Foreign currency	9.5	5.9
Total cash and other monetary assets	305.1	264.9

Unrestricted cash includes cash held by Treasury for governmentwide operations (Operating Cash) and all other unrestricted cash held by the federal agencies. Operating Cash represents balances from tax collections, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments. Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by agencies, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, and imprest funds. Operating Cash held by the Treasury increased by $40.1 billion (an increase of approximately 26 percent) in fiscal year 2015 due to Treasury's investment and borrowing decisions to manage the balance and timing of the Government's cash position.

Restrictions on cash are due to the imposition on cash deposits by law, regulation, or agreement. Restricted cash is primarily composed of cash held by the DSCA. The Foreign Military Sales Program - DSCA included $23.9 billion and $20.5 billion as of September 30, 2015, and 2014, respectively.

International monetary assets include the U.S. reserve position in the International Monetary Fund (IMF) and U.S. holdings of Special Drawing Rights (SDRs). The U.S. reserve position in the IMF is an interest-bearing claim on the IMF that includes the reserve asset portion of the financial subscription that the United States has paid in as part of its participation in the IMF as well as any amounts drawn by the IMF from a letter of credit made available by the United States as part of its financial subscription to the IMF. The IMF promotes international monetary cooperation and a stable payments system to facilitate growth in the world economy. Its primary activities are surveillance of members' economies, financial assistance, as appropriate, and technical assistance.

Only a portion of the U.S. financial subscription to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit from the United States to the IMF. The balance available under the letter of credit totaled $49.6 billion and $47.6 billion as of September 30, 2015, and 2014 respectively. The U.S. reserve position in the IMF has a U.S. dollar equivalent of $9.4 billion and $14.7 billion as of September 30, 2015, and 2014, respectively.

The SDR is an international reserve asset created by the IMF to supplement the existing reserve assets of its members. These interest-bearing assets can be obtained by IMF allocations, transactions with IMF member countries, or in the form of interest earnings on SDR holdings and reserve positions in the IMF. U.S. SDR holdings are an interest-bearing asset of Treasury's Exchange Stabilization Fund (ESF). The total amount of SDR holdings of the United States was the equivalent of $50.3 billion and $53.2 billion as of September 30, 2015, and 2014, respectively.

The IMF allocates SDRs to its members in proportion to each member's quota in the IMF. *The SDR Act*, enacted in 1968, authorized the Secretary of the Treasury to issue SDR Certificates (SDRCs) to the Federal Reserve in exchange for dollars. The amount of SDRCs outstanding cannot exceed the dollar value of SDR holdings. The Secretary of the Treasury determines when Treasury will issue or redeem SDRCs. SDRCs outstanding totaled $5.2 billion as of September 30, 2015, and 2014, and are included in Note 16—Other Liabilities.

As of September 30, 2015, and 2014, other liabilities included $49.6 billion and $52.4 billion of interest-bearing liability to the IMF for SDR allocations. The SDR allocation item represents the cumulative total of SDRs distributed by the IMF to the United States in allocations. The United States has received no SDR allocations since 2009.

Gold is valued at the statutory price of $42.2222 per fine troy ounce. The number of fine troy ounces of gold was 261,498,927 as of September 30, 2015, and 2014. The market value of gold on the London Fixing was $1,114 and $1,217 per fine troy ounce as of September 30, 2015, and 2014, respectively. In addition, silver is valued at the statutory price of $1.2929 per fine troy ounce. The number of fine troy ounces of silver was 16,000,000 as of September 30, 2015, and 2014. The market value of silver on the London Fixing was $14.65 and $17.11 per fine troy ounce as of September 30, 2015, and 2014, respectively. Gold totaling $11.0 billion as of September 30, 2015, and 2014, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Gold certificates were valued at $11.0 billion as of September 30, 2015, and 2014, which are included in Note 16—Other Liabilities. Treasury may redeem the gold certificates at any time. Foreign currency is translated into U.S. dollars at the exchange rate at fiscal year-end. The foreign currency is maintained by the ESF and various U.S. federal agencies as well as foreign banks.

Note 3. Accounts and Taxes Receivable, Net

Accounts and Taxes Receivable as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Accounts receivable:		
Gross accounts receivable	100.9	87.0
Allowance for uncollectible amounts	(27.4)	(26.0)
Accounts receivable, net	73.5	61.0
Taxes receivable:		
Gross taxes receivable	177.4	161.7
Allowance for uncollectible amounts	(133.1)	(118.7)
Taxes receivable, net	44.3	43.0
Total accounts and taxes receivable, net	117.8	104.0

Gross accounts receivable include related interest receivable of $3.7 billion and $5.0 billion as of September 30, 2015, and 2014, respectively.

Treasury comprises approximately 35.7 percent of the Government's reported accounts and taxes receivable, net, as of September 30, 2015. Refer to the financial statements of the Department of the Treasury, the Department of Health and Human Services, the Social Security Administration, the Department of Defense, the Department of Homeland Security, the Pension Benefit Guaranty Corporation, the Federal Communications Commission, the Department of Energy, the Federal Deposit Insurance Corporation, the Department of Veterans Affairs, and the Department of Labor for details on gross accounts and taxes receivable and the related allowance for uncollectible amounts. These agencies comprise 91.0 percent of the Government's accounts and taxes receivable, net, of $117.8 billion as of September 30, 2015.

Note 4. Loans Receivable and Loan Guarantee Liabilities, Net

Direct Loan and Defaulted Guaranteed Loan Programs as of September 30, 2015, and 2014

(In billions of dollars)	Face Value of Loans Outstanding		Long-term Cost of (Income from) Direct Loans and Defaulted Guaranteed Loans Outstanding		Loans Receivable, Net		Subsidy Expense (Income) for the Fiscal Year	
	2015	2014	2015	2014	2015	2014	2015	2014
Federal Direct Student Loans - Education	845.1	731.2	(35.5)	(47.4)	880.6	778.6	(0.9)	8.1
Federal Family Education Loans - Education	132.2	139.8	(2.5)	(3.1)	134.7	142.9	0.4	(2.0)
Electric Loans - USDA	47.9	51.2	2.0	2.2	45.9	49.0	(0.4)	(0.1)
Rural Housing Services - USDA	32.2	31.9	3.5	3.6	28.7	28.3	0.1	0.2
Export-Import Bank Loans	24.1	22.9	2.6	3.4	21.5	19.5	(0.3)	(0.5)
Housing and Urban Development Loans	23.1	18.1	6.9	5.5	16.2	12.6	(3.1)	(0.6)
Water and Environmental Loans - USDA	12.6	12.6	0.2	0.3	12.4	12.3	(0.1)	0.1
International Monetary Fund Program - Treasury	11.7	16.2	1.0	0.7	10.7	15.5	0.3	0.2
All other programs	81.7	84.7	16.4	17.7	65.3	67.0	1.5	(0.8)
Total direct loans and defaulted guaranteed loans	1,210.6	1,108.6	(5.4)	(17.1)	1,216.0	1,125.7	(2.5)	4.6

Loan Guarantees as of September 30, 2015, and 2014

(In billions of dollars)	Principal Amount of Loans Under Guarantee		Principal Amount Guaranteed by the United States		Loan Guarantee Liabilities		Subsidy Expense (Income) for the Fiscal Year	
	2015	2014	2015	2014	2015	2014	2015	2014
Federal Housing Administration Loans - HUD	1,292.1	1,290.6	1,178.1	1,185.7	16.1	33.5	(13.6)	(10.5)
Veterans Housing Benefit Programs - VA	453.9	389.3	117.4	101.5	9.9	8.9	0.5	0.4
Rural Housing Services - USDA	113.2	102.9	101.9	92.6	4.8	4.5	1.0	0.7
Small Business Loans - SBA	105.7	99.0	88.3	83.5	1.7	2.0	(1.3)	(1.3)
Export-Import Bank Guarantees	72.2	78.1	72.2	78.1	1.4	1.6	(0.2)	(0.3)
Israel Loan Guarantee Program - AID	10.5	10.5	10.5	10.5	1.0	1.0	-	-
Federal Family Education Loans - Education	219.7	241.6	215.1	236.5	-	-	(4.3)	(4.6)
All other guaranteed loan programs	45.5	42.8	40.4	38.3	1.4	1.3	0.3	0.7
Total loan guarantees	2,312.8	2,254.8	1,823.9	1,826.7	36.3	52.8	(17.6)	(14.9)

The Government has two types of loan programs: direct loans and loan guarantees. One major type of loan is direct loans such as the Department of Education's (Education) Federal Direct Student Loans. The second type is loan guarantee programs, such as the Department of Housing and Urban Development's (HUD's) Federal Housing Administration Loans program.

Direct loans and loan guarantee programs are used to promote the Nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for uncollectible amounts (or present value allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of September 30. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, re-estimates, amortizations, and write-offs.

Net loans receivable includes related interest and foreclosed property. Foreclosed property is property that is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the Government sustained under post-1991 loan guarantees. Please refer to the financial statements of the United States Department of Agriculture (USDA), VA, and HUD for significant detailed information regarding foreclosed property. The total subsidy expense/(income) is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense/(income) incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for upward or downward re-estimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense/(income) is included in the Statements of Net Cost.

Loan Programs

The majority of the loan programs are provided by Education, HUD, USDA, Treasury, Small Business Administration (SBA), VA, Export-Import Bank and United States Agency for International Development (USAID). For significant detailed information regarding the direct and guaranteed loan programs listed in the tables above, please refer to the financial statements of the agencies.

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965 (HEA)*. The first program is the William D. Ford Federal Direct Student Loan Program, (referred to as the Direct Loan Program) that was established in fiscal year 1994. The Direct Loan Program offers four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the Government makes loans directly to students and parents through participating institutions of higher education. Direct loans are originated and serviced through contracts with private vendors. Education disbursed approximately $142.2 billion in Direct Loans to eligible borrowers in fiscal year 2015 and approximately $134.0 billion in fiscal year 2014. The second program is the Federal Family Education Loan (FFEL) Program. This program was established in fiscal year 1965, and is a guaranteed loan program. Like the Direct Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. The *Student Aid and Fiscal Responsibility Act (SAFRA)*, which was enacted as part of the *Health Care Education and Reconciliation Act of 2010* (Public Law 111-152), eliminated the authority to guarantee new FFEL after June 30, 2010. During fiscal year 2015, Education net loans receivable increased by $102.0 billion, largely the result of increased Direct Loan Program disbursements for new loan originations and FFEL consolidations, net of borrower principal and interest collections.

HUD's Federal Housing Administration (FHA) provides mortgage insurance to encourage lenders to make credit available to expand home ownership. FHA serves many borrowers that the conventional market does not serve adequately. This includes first-time homebuyers, minorities, low-income, and other underserved households to realize the benefits of home ownership. Borrowers obtain an FHA insured mortgage and pay an upfront premium as well as an annual premium to FHA. The proceeds from those premiums are used to fund FHA program costs, including claims on defaulted mortgages and holding costs, property management fees, property sales, and other associated costs.

In 2009, Congress passed the *Supplemental Appropriations Act of 2009* which authorized an increase in the U.S. quota in the IMF, as well as an increase in U.S. participation in the New Arrangements to Borrow, one of the IMF's supplemental borrowing arrangements. The legislation applied FCRA to both program increases and, thus, the program increases are treated as direct loans to the IMF.

USDA offers direct and guaranteed loans through credit programs in the Farm and Foreign Agricultural Services (FFAS) mission area through the Farm Service Agency (FSA), and the Commodity Credit Corporation (CCC), and in the Rural Development (RD) mission area. The FFAS delivers commodity, credit, conservation, disaster, and emergency assistance programs that help strengthen and stabilize the agricultural economy. The FSA offers direct and guaranteed loans to farmers who are temporarily unable to obtain private, commercial credit. Through this supervised credit offered by FSA, the goal is to graduate its borrowers to commercial credit. The CCC offers both credit guarantee and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance. The RD provides affordable housing and essential community facilities to rural communities through its rural housing loan and grant programs. The Rural Utilities Program helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects.

The Export-Import Bank aids in financing and promoting U.S. exports. Loans and guarantees extended under the medium-term loan program typically have repayment terms of one to seven years, while loans and guarantees extended under the long-term loan program usually have repayment terms in excess of seven years. Generally, both the medium-term and long-term loan and guarantee programs cover up to 85 percent of the U.S. contract value of shipped goods.

The SBA provides guarantees that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses to recover from disasters.

VA operates the following direct loan and loan guaranty programs: Vocational Rehabilitation and Employment, Home Loans, and Insurance. The VA Home Loans program is the largest of the VA loan programs. The Home Loans program provides loan guarantees and direct loans to veterans, service members, qualifying dependents, and limited non-veterans to purchase homes and retain homeownership with favorable market terms. During fiscal year 2015, the VA principal amount of loans under guarantee increased by $64.6 billion. This increase was primarily due to new loans under guarantee with a principal totaling $134.3 billion, partially offset by guaranteed loan terminations with a principal amount of $69.7 billion.

USAID's Israel Loan Guarantee Program guarantees the repayment of loans made from commercial sources that cover the costs for immigrants resettling to Israel from the former Soviet Union, Ethiopia, and other countries. As of fiscal year 2015, $6.8 billion in loan guarantees remains outstanding. The program also guarantees the repayment of loans that support

Israel's comprehensive economic plan to overcome economic difficulties and create conditions for higher and sustainable growth, of which $3.7 billion in loan guarantees remains outstanding as of September 30, 2015.

Note 5. Inventories and Related Property, Net

Inventories and Related Property, Net as of September 30, 2015, and 2014

(In billions of dollars)	Defense 2015	All Others 2015	Total 2015	Defense 2014	All Others 2014	Total 2014
Inventory purchased for resale	61.3	0.4	61.7	63.2	0.4	63.6
Inventory and operating material and supplies held for repair	79.6	1.5	81.1	60.8	1.4	62.2
Inventory—excess, obsolete, and unserviceable	1.4	-	1.4	0.5	-	0.5
Operating materials and supplies held for use	121.9	3.5	125.4	138.5	3.5	142.0
Operating materials and supplies held in reserve for future use	-	0.2	0.2	-	0.2	0.2
Operating materials and supplies-excess, obsolete, and unserviceable	2.0	-	2.0	2.4	-	2.4
Stockpile materials	0.4	52.8	53.2	0.3	50.8	51.1
Stockpile materials held for sale	-	-	-	0.2	0.1	0.3
Other related property	1.5	1.1	2.6	1.5	1.1	2.6
Allowance for loss	(6.4)	(0.6)	(7.0)	(5.9)	(0.6)	(6.5)
Total inventories and related property, net	261.7	58.9	320.6	261.5	56.9	318.4

Inventory purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. As of September 30, 2015, DOD values approximately 97 percent of its resale inventory using the moving average cost (MAC) method. DOD reports the remaining 3 percent of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. The LAC method is used because DOD's legacy inventory systems do not maintain historical cost data. DOD improved its capability to distinguish between held for use and held for repair for operating materials and supplies which resulted in a major increase for inventory and operating material and supplies held for repair, and a decrease for operating materials and supplies held for use for fiscal year 2015. Please refer to the individual financial statements of DOD for significant detailed information regarding its inventories.

Inventory and operating materials and supplies held for repair are damaged inventory that require repair to make them suitable for sale (inventory) or is more economical to repair than to dispose of (operating materials and supplies). Excess, obsolete, and unserviceable inventory is reported at net realizable value. Inventory—excess, obsolete, and unserviceable consists of:

- Excess inventory that exceeds the demand expected in the normal course of operations and which does not meet management's criteria to be held in reserve for future sale.
- Obsolete inventory that is no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable inventory that is damaged beyond economic repair.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations. Operating materials and supplies held in reserve for future use are materials retained because they are not readily available in the market or because they will not be used in the normal course of operations, but there is more than a remote chance they will eventually be needed. DOD, which accounts for most of the reported operating materials and supplies held for use, uses LAC, MAC, and Standard Price and expenses a significant amount when purchased instead of when consumed.

Operating materials and supplies—excess, obsolete, and unserviceable consists of:

- Excess operating materials and supplies are materials that exceed the demand expected in the normal course of operations, and do not meet management's criteria to be held in reserve for future use.
- Obsolete operating materials and supplies are materials no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable operating materials and supplies are materials damaged beyond economic repair.

DOD, which accounts for most of the reported excess, obsolete, and unserviceable operating materials and supplies, revalues it to a net realizable value of zero through the allowance account. Please refer to the individual financial statements of DOD for significant detailed information regarding operating materials and supplies. Stockpile materials include strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies due to statutory requirements; for example, nuclear materials and oil, as well as stockpile materials that are authorized to be sold. The majority of the amount reported by DOD is stockpile materials held for sale. The amount reported by others is stockpile materials held in reserve, with the majority of it being reported by the Department of Energy (DOE). Please refer to their financial statements for more information on stockpile materials.

Other related property consists of the following:

- Commodities include items of commerce or trade that have an exchange value used to stabilize or support market prices. Please refer to the financial statements of the USDA for detailed information regarding commodities.
- Seized monetary instruments are comprised only of monetary instruments that are awaiting judgment to determine ownership. The related liability is included in other liabilities. Other property seized by the Government, such as real property and tangible personal property, is not considered a Government asset. It is accounted for in agency property-management records until the property is forfeited, returned, or otherwise liquidated. Please refer to the financial statements of the Department of Justice (DOJ), Treasury, and the Department of Homeland Security (DHS) for detailed information regarding seized property.
- Forfeited property is comprised of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the Government to satisfy a tax liability; and/or unclaimed/abandoned merchandise. Please refer to the financial statements of DOJ, Treasury, and DHS for detailed information regarding forfeited property.
- Foreclosed property is comprised of assets received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). All properties included in foreclosed property are assumed to be held for sale. Please refer to the financial statements of USDA and HUD for detailed information regarding foreclosed property.

Note 6. Property, Plant, and Equipment, Net

Property, Plant, and Equipment as of September 30, 2015

(In billions of dollars)	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	283.2	268.1	137.0	144.0	146.2	124.1
Furniture, fixtures, and equipment	1,010.6	169.6	584.0	110.0	426.6	59.6
Construction in progress	41.8	43.3	N/A	N/A	41.8	43.3
Land	10.9	12.8	N/A	N/A	10.9	12.8
Internal use software	12.0	32.6	8.4	19.5	3.6	13.1
Assets under capital lease	0.4	3.4	0.2	1.7	0.2	1.7
Leasehold improvements	0.5	9.9	0.2	5.7	0.3	4.2
Other property, plant, and equipment	0.4	10.3	-	5.2	0.4	5.1
Subtotal	1,359.8	550.0	729.8	286.1	630.0	263.9
Total property, plant, and equipment, net		1,909.8		1,015.9		893.9

Property, Plant, and Equipment as of September 30, 2014

(In billions of dollars)	Cost		Accumulated Depreciation/ Amortization		Net	
	Defense	All Others	Defense	All Others	Defense	All Others
Buildings, structures, and facilities	271.7	259.2	130.7	137.3	141.0	121.9
Furniture, fixtures, and equipment	992.0	166.2	571.6	105.4	420.4	60.8
Construction in progress	42.1	41.3	N/A	N/A	42.1	41.3
Land	10.8	12.6	N/A	N/A	10.8	12.6
Internal use software	11.8	28.5	8.4	16.4	3.4	12.1
Assets under capital lease	0.6	3.3	0.5	1.7	0.1	1.6
Leasehold improvements	0.5	9.4	0.2	5.0	0.3	4.4
Other property, plant, and equipment	0.8	9.5	-	4.8	0.8	4.7
Subtotal	1,330.3	530.0	711.4	270.6	618.9	259.4
Total property, plant, and equipment, net		1,860.3		982.0		878.3

See Note 25—Stewardship Land and Heritage Assets for additional information on multi-use heritage assets.

DOD comprises approximately 70.6 percent of the Government's reported property, plant, and equipment, net, as of September 30, 2015. Refer to the financial statements of DOD, DOE, the Tennessee Valley Authority (TVA), GSA, VA, the Department of the Interior (DOI), DHS, and the Department of State (DOS), for detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 90.8 percent of the Government's reported property, plant, and equipment net of $893.9 billion as of September 30, 2015.

Note 7. Debt and Equity Securities

Debt and Equity Securities as of September 30, 2015

	By Category									
	Held-To-Maturity			Available-for-Sale			Trading Securities			
(In billions of dollars)	Cost Basis	Unamortized Premium/ Discount	Net Investment	Cost Basis	Unrealized Gain (Loss)	Fair Value	Cost Basis	Unrealized Gain (Loss)	Fair Value	Total
Debt Securities:										
Non-U.S. Government	0.1	-	0.1	12.4	(0.7)	11.7	10.9	(0.8)	10.1	21.9
Corporate and other bonds	-	-	-	-	-	-	11.3	-	11.3	11.3
Mortgage/asset backed	0.2	-	0.2	-	-	-	3.6	-	3.6	3.8
Commercial	-	-	-	-	-	-	0.2	-	0.2	0.2
All other debt securities	-	-	-	-	-	-	3.5	-	3.5	3.5
Equity Securities:										
Unit trust	-	-	-	-	-	-	17.4	3.8	21.2	21.2
Common stocks	-	-	-	-	-	-	1.3	0.3	1.6	1.6
All other equity securities	0.1	-	0.1	-	-	-	2.5	(0.4)	2.1	2.2
Other	3.7	-	3.7	-	-	-	11.1	0.4	11.5	15.2
Total debt and securities categorized as held-to-maturity, available-for-sale or trading	4.1	-	4.1	12.4	(0.7)	11.7	61.8	3.3	65.1	80.9
Total RRB debt and equity securities										23.5
Total debt and equity securities										104.4

Debt and Equity Securities as of September 30, 2014

	By Category									
	Held-To-Maturity			Available-for-Sale			Trading Securities			
(In billions of dollars)	Cost Basis	Unamortized Premium/ Discount	Net Investment	Cost Basis	Unrealized Gain (Loss)	Fair Value	Cost Basis	Unrealized Gain (Loss)	Fair Value	Total
Debt securities:										
Non-U.S. Government	0.2	-	0.2	19.0	(1.1)	17.9	11.4	(0.1)	11.3	29.4
Corporate and other bonds	-	-	-	-	-	-	10.6	0.6	11.2	11.2
Mortgage/asset backed	0.3	-	0.3	-	-	-	3.0	-	3.0	3.3
All other debt securities	-	-	-	-	-	-	2.6	(0.1)	2.5	2.5
Equity securities:										
Unit trust	-	-	-	-	-	-	15.3	5.7	21.0	21.0
Common stocks	-	-	-	-	-	-	2.0	0.6	2.6	2.6
All other equity securities	0.1	-	0.1	-	-	-	2.3	(0.2)	2.1	2.2
Other	3.6	-	3.6	-	-	-	14.2	0.2	14.4	18.0
Total debt and equity securities categorized as held-to-maturity, available-for-sale or trading	4.2	-	4.2	19.0	(1.1)	17.9	61.4	6.7	68.1	90.2
Total RRB debt and equity securities										25.2
Total debt and equity securities										115.4

Debt and Equity Securities as of September 30, 2015, and 2014

(In billions of dollars)	By Agency 2015	2014
Pension Benefit Guaranty Corporation	55.7	58.0
Railroad Retirement Board	23.5	25.2
Department of the Treasury	11.7	17.9
Tennessee Valley Authority	9.2	10.0
All other	4.3	4.3
Total securities and investments	104.4	115.4

These debt and equity securities do not include nonmarketable Treasury securities, which have been eliminated in consolidation. Held-to-maturity debt and equity securities are reported at amortized cost, net of unamortized discounts and premiums. Available-for-sale debt and equity securities are reported at fair value. Trading debt and equity securities are reported at fair value. The Pension Benefit Guaranty Corporation (PBGC) and the TVA invest primarily in fixed maturity and equity securities, classified as trading. PBGC reported gains related to trading securities still held as of September 30, 2015 and September 30, 2014 of $3.5 billion and $1.2 billion, respectively. TVA reported losses related to trading securities still held as of September 30, 2015 and September 2014 of $0.2 billion and $0.3 billion, respectively. Treasury invests primarily in fixed maturity and equity securities, classified as available-for-sale securities. Treasury's Exchange Stabilization Fund invests primarily in foreign fixed maturity debt, with a fair value of $11.7 billion and $17.9 billion as of September 30, 2015, and 2014, respectively. The National Railroad Retirement Investment Trust (NRRIT), on behalf of the RRB, manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program. As an investment company, NRRIT is subject to different accounting standards that do not require the classifications presented above. NRRIT's total debt and equity securities are presented as a separate line item. Please refer to NRRIT's financial statements for more detailed information concerning this specific investment. The TVA balance includes $6.9 billion and $7.6 billion as of September 30, 2015, and 2014, respectively, for the Tennessee Valley Authority Retirement System. PBGC, NRRIT, Treasury and TVA base market values on the last sale of a listed security, on the mean of the "bid-and-ask" for nonlisted securities, or on a valuation model in the case of fixed income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Please refer to the individual financial statements of PBGC, NRRIT, Treasury, and TVA for more detailed information related to debt and equity securities. These agencies comprise 95.9 percent of the total reported debt and equity securities of $104.4 billion as of September 30, 2015.

Note 8. Investments in Government-Sponsored Enterprises

Congress established Fannie Mae and Freddie Mac as GSEs to support mortgage lending. A key function of the GSEs is to purchase mortgages and package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

Leading up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby threatening to undermine the entire housing market. This led Congress to pass the HERA. This Act created the FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSEs, if necessary. In September 2008, FHFA placed the GSEs under conservatorship and Treasury entered into a SPSPA with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability.

The actions taken by Treasury, as authorized by section 1117 of HERA, thus far are temporary and are intended to provide financial stability. The purpose of Treasury's actions is to maintain the solvency of the GSEs so they can continue to fulfill their vital roles in the home mortgage market while the Administration and Congress determine what structural changes should be made to the housing finance system. Draws under the SPSPAs are designed to enable the GSEs to maintain a positive net worth. The SPSPAs were structured to ensure any draws result in an increased investment in the GSEs as further discussed below. Per SFFAC No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities. Accordingly, the government has not consolidated them into the financial statements, but included disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities in the consolidated financial statements.

Senior Preferred Stock Purchase Agreements

Under the SPSPAs, Treasury initially received from each GSE: 1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and 2) a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the August 2012 amendments to the SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend to an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount was initially set at $3.0 billion for calendar year 2013, declined to $2.4 billion on January 1, 2014, and $1.8 billion on January 1, 2015, and will continue to decline by $600 million at the beginning of each calendar year until it reaches zero by calendar year 2018. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold.

Cash dividends of $20.4 billion and $72.5 billion were received during fiscal years ended September 30, 2015, and 2014, respectively. Dividends received in fiscal year 2014 were primarily attributable to a federal income tax benefit that was recognized in the earnings of one GSE in fiscal year 2014.

The SPSPAs, which have no expiration date, provide that Treasury will disburse funds to the GSEs if at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. The maximum amount available to each GSE under this agreement was previously based on a formulaic cap which ended December 31, 2012, at which time, the maximum amount became fixed. Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw. There were no payments to the GSEs for the fiscal years ended September 30, 2015 and 2014.

Senior Preferred Stock and Warrants for Common Stock

In determining the fair value of the senior preferred stock and warrants for common stock, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Bulletin Board, discussions with each of the GSEs and FHFA, and other information pertinent to the fair valuations. Because of the nature of the senior preferred stock and warrants, which are not publicly traded and for which there is no comparable trading information available, the fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

The fair value of the senior preferred stock considers the amount of forecasted dividend payments. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock increased at September 30, 2015 when compared to 2014 primarily reflecting higher forecasted

GSE earnings derived from guarantee fees, lower volatility and risk in the mortgage lending industry, and lower forecasted mortgage loan losses due to reduced credit risk assumed by the GSEs.

The fair value of the warrants is impacted by the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants increased at the end of fiscal year 2015 when compared to 2014 primarily due to increases in the market price of the underlying common stock of each GSE.

Contingent Liability to GSEs

As part of the annual process undertaken by Treasury, a series of long-term financial forecasts are prepared to assess as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. Treasury used 25-year financial forecasts prepared through 2040 and 2039 in assessing if a contingent liability was required as of September 30, 2015 and 2014, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast time horizon, Treasury will estimate and accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that could be received, as the dividends, if any, would be owed directly to the General Fund. Such recorded accruals will be adjusted in subsequent years as new information develops or circumstances change.

Based on the annual assessment, Treasury estimated no probable future funding draws as of September 30, 2015 and 2014, and thereby accrued no contingent liability. As of September 30, 2015 and 2014, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $258.1 billion. Refer to Note 20-Commitments for a full description of other commitments and risks.

Estimation Factors

Treasury's forecasts concerning the GSEs may differ from actual experience. Estimated senior preferred values and future draw amounts will depend on numerous factors that are difficult to predict including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

Regulatory Environment

To date, Congress has not approved a plan to address the future of the GSEs, and thus the GSEs continue to operate under the direction of their conservator, the FHFA, whose stated strategic goals for the GSEs are to: (1) maintain foreclosure prevention activities and credit availability to foster liquid, efficient, competitive, and resilient national housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market, and (3) build a new single-family securitization infrastructure.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (TPTCCA) was funded by an increase of 10-basis points in the GSEs' guarantee fees which began in April 2012, and is effective through October 1, 2021. The increased fees are to be remitted to Treasury and not retained by the GSEs.

Accordingly, the increased fees do not affect the profitability of the GSEs. For fiscal years 2015 and 2014, the GSEs remitted to the Treasury the increased fees totaling $2.4 billion and $1.9 billion, respectively.

As of September 30, 2015, and 2014, GSEs investments consisted of the following:

Investments in GSEs as of September 30, 2015

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	117.0	(61.7)	55.3
Freddie Mac senior preferred stock	72.1	(35.5)	36.6
Fannie Mae warrants common stock	3.1	6.2	9.3
Freddie Mac warrants common stock	2.3	2.8	5.1
Total investments in GSEs	194.5	(88.2)	106.3

Investments in GSEs as of September 30, 2014

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	117.0	(64.3)	52.7
Freddie Mac senior preferred stock	72.1	(40.7)	31.4
Fannie Mae warrants common stock	3.1	4.6	7.7
Freddie Mac warrants common stock	2.3	1.7	4.0
Total investments in GSEs	194.5	(98.7)	95.8

Note 9. Other Assets

Other Assets as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Advances and prepayments	108.1	106.6
Regulatory assets	22.4	21.1
FDIC receivable from resolution activity	13.9	15.2
Other	21.3	19.9
Total other assets	165.7	162.8

Advances and prepayments are assets that represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. These include advances to contractors and grantees, travel advances, and prepayments for items such as rents, taxes, insurance, royalties, commissions, and supplies.

The Federal Deposit Insurance Corporation (FDIC) has the responsibility for resolving failed institutions in an orderly and efficient manner. The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through the closing process. FDIC records receivables for resolutions that include payments by the Deposit Insurance Fund to cover obligations to insured depositors, advances to receiverships and conservatorships for working capital, and administrative expenses paid on behalf of receiverships and conservatorships.

With regard to regulatory assets, the DOE's Power Marketing Authorities (PMAs) and the TVA record certain amounts as assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 980, *Regulated Operations*. The provisions of FASB ASC Topic 980 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under FASB ASC Topic 980, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If the PMAs' or TVA's rates should become market-based, FASB ASC Topic 980 would no longer be applicable, and all of the deferred costs under that standard would be expensed. Other items included in "other" are purchased power generating capacity, deferred nuclear generating units, nonmarketable equity investments in international financial institutions, derivative assets, and the balance of assets held by the experience rated carriers participating in the Health Benefits and Life Insurance Program (pending disposition on behalf of OPM).

Note 10. Accounts Payable

Accounts Payable as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Department of Defense	18.9	17.9
Department of Veterans Affairs	10.9	11.7
Department of Justice	6.3	5.9
Department of the Treasury	3.9	6.4
Department of Education	3.7	4.0
Department of Energy	3.7	1.5
Department of State	2.5	2.7
Department of Homeland Security	2.1	2.3
General Services Administration	2.0	2.1
Department of Agriculture	1.8	2.3
U.S. Postal Service	1.8	1.9
U.S. Agency for International Development	1.8	1.7
Tennessee Valley Authority	1.5	1.4
National Aeronautics and Space Administration	1.4	1.5
Department of the Interior	1.0	0.9
All other	5.0	4.8
Total accounts payable	68.3	69.0

Accounts payable includes amounts due for goods and property ordered and received, services rendered by other than federal employees, accounts payable for cancelled appropriations, and non-debt related interest payable.

Note 11. Federal Debt Securities Held by the Public and Accrued Interest

Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	Balance September 30, 2014	Net Change During Fiscal Year 2015	Balance September 30, 2015	Average Interest Rate 2015	Average Interest Rate 2014
Treasury securities (public):					
Marketable securities:					
Treasury bills	1,409.6	(54.4)	1,355.2	0.1%	0.1%
Treasury notes	8,160.2	205.8	8,366.0	1.8%	1.8%
Treasury bonds	1,534.1	154.1	1,688.2	4.7%	4.9%
Treasury inflation-protected securities (TIPS)	1,044.7	90.7	1,135.4	0.8%	0.9%
Treasury floating rate notes (FRN)	123.0	164.1	287.1	0.1%	0.1%
Total marketable Treasury securities	12,271.6	560.3	12,831.9		
Nonmarketable securities	513.4	(221.4)	292.0	2.5%	2.3%
Net unamortized premiums/(discounts)	(29.4)	(2.0)	(31.4)		
Total Treasury securities, net (public)	12,755.6	336.9	13,092.5		
Agency securities:					
Tennessee Valley Authority	23.6	0.1	23.7		
All other agencies	0.2	-	0.2		
Total agency securities, net of unamortized premiums and discounts	23.8	0.1	23.9		
Accrued interest payable	54.2	1.9	56.1		
Total federal debt securities held by the public and accrued interest	12,833.6	338.9	13,172.5		

Types of marketable securities:
Bills–Short-term obligations issued with a term of 1 year or less.
Notes–Medium-term obligations issued with a term of 2-10 years.
Bonds–Long-term obligations of more than 10 years.
TIPS–Term of more than 5 years.
FRN–Term of 2 years.

Federal debt securities held by the public outside the Government are held by individuals, corporations, state or local governments, FRBs, foreign governments, and other entities outside the federal government. The above table details Government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized premiums and discounts including accrued interest.

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

- Interest-bearing marketable securities (bills, notes, bonds, inflation-protected, and floating rate notes).
- Interest-bearing nonmarketable securities (government account series held by deposit and fiduciary funds, foreign series, state and local government series, domestic series, and savings bonds).
- Non-interest-bearing marketable and nonmarketable securities (matured and other).

Section 3111 of Title 31, United States Code (U.S.C.) authorizes the Secretary of the Treasury to use money received from the sale of an obligation and other money in the General Fund to buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the Government.

Gross federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President first enacted a statutory dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (Public Law 77-7), Congress and the President set an overall limit of $65 billion on Treasury debt obligations that could be outstanding at any one time; since then, Congress and the President have enacted a number of debt limit increases.

During fiscal years 2015 and 2014, Treasury faced multiple delays in raising the statutory debt limit that required it to depart from its normal debt management operations and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary measures taken by Treasury have resulted in federal debt securities not being issued to certain federal accounts. One such recent period occurred from May 20, 2013 through October 16, 2013. On October 17, 2013, the *Continuing Appropriations Act*, 2014 (Public Law No. 113-46) was enacted which temporarily suspended the statutory debt limit through February 7, 2014. On February 8, 2014, the debt limit was raised to $17,211.6 billion. A second occurred from February 10, 2014, through February 14, 2014. On February 15, 2014 Congress enacted the *Temporary Debt Limit Extension Act* (Public Law No. 113-83) which temporarily suspended the debt limit through March 15, 2015. On March 16, 2015, in accordance with Public Law No. 113-83, the statutory debt limit was raised to $18,113.0 billion. A third delay in raising the statutory debt limit occurred from March 16, 2015 through November 1, 2015. On November 2, 2015 Congress enacted the *Bipartisan Budget Act of 2015* (Public Law No. 114-74) which temporarily suspended the debt limit through March 15, 2017.

As of September 30, 2015, and 2014, debt subject to the statutory debt limit was $18,113.0 billion and $17,781.1 billion, respectively. The debt subject to the limit includes Treasury securities held by the public and Government guaranteed debt of federal agencies (shown in the table above) and intragovernmental debt holdings (shown in the following table). As noted above, a delay in raising the statutory debt limit existed as of September 30, 2015. Extraordinary measures taken by Treasury during the period of March 16, 2015 through September 30, 2015 resulted in federal debt securities not being issued to certain federal government accounts. See Note 16—Other Liabilities, Note 22—Fiduciary Activities and Note 26—Subsequent Events for additional information.

Intragovernmental Debt Holdings: Federal Debt Securities Held as Investments by Government Accounts as of September 30, 2015, and 2014

(In billions of dollars)	Balance 2014	Net Change During Fiscal Year 2015	Balance 2015
Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund	2,712.8	53.8	2,766.6
Office of Personnel Management, Civil Service Retirement and Disability Fund	857.2	(125.9)	731.3
Department of Defense, Military Retirement Fund	483.1	47.9	531.0
Department of Defense, Medicare-Eligible Retiree Health Care Fund	200.4	5.4	205.8
Department of Health and Human Services, Federal Hospital Insurance Fund	202.2	(6.7)	195.5
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund	68.4	(2.3)	66.1
Federal Deposit Insurance Corporation, The Deposit Insurance Fund	48.8	11.3	60.1
Department of Energy, Nuclear Waste Disposal Fund	51.5	0.3	51.8
Office of Personnel Management, Postal Service Retiree Health Benefits Fund	48.5	(3.3)	45.2
Department of Labor, Unemployment Trust Fund	35.9	8.5	44.4
Office of Personnel Management, Employees Life Insurance Fund	43.2	0.8	44.0
Social Security Administration, Federal Disability Insurance Trust Fund	70.1	(28.5)	41.6
Office of Personnel Management, Employees Health Benefits Fund	23.6	(0.6)	23.0
Department of the Treasury, Exchange Stabilization Fund	22.6	(1.8)	20.8
Pension Benefit Guaranty Corporation Fund	17.4	1.1	18.5
Department of State, Foreign Service Retirement and Disability Fund	17.8	0.3	18.1
Department of Housing and Urban Development, FHA, Mutual Mortgage Insurance Capital Reserve Account	6.4	8.3	14.7
Department of Housing and Urban Development, Guarantees of Mortgage-Backed Securities Capital Reserve Account	-	12.8	12.8
Department of Transportation, Airport and Airway Trust Fund	12.8	(0.1)	12.7
National Credit Union Share Insurance Fund	11.0	0.6	11.6
All other programs and funds	105.4	5.8	111.2
Subtotal	5,039.1	(12.3)	5,026.8
Total net unamortized premiums/(discounts) for intragovernmental	67.8	7.5	75.3
Total intragovernmental debt holdings, net	5,106.9	(4.8)	5,102.1

Intragovernmental debt holdings represent the portion of the gross federal debt held as investments by government entities such as trust funds, revolving funds, and special funds. As noted above, the delay in raising the debt limit still existed as of September 30, 2015. As such, suspension of certain investments of the Civil Service Retirement and Disability Fund contributed to the decrease in the intragovernmental debt holdings balance for the fund.

Government entities that held investments in Treasury securities include trust funds that have funds from dedicated collections. For more information on funds from dedicated collections, see Note 21—Funds from Dedicated Collections. These intragovernmental debt holdings are eliminated in the consolidation of these financial statements.

Note 12. Federal Employee and Veteran Benefits Payable

Federal Employee and Veteran Benefits Payable as of September 30, 2015, and 2014

(In billions of dollars)	Civilian 2015	Civilian 2014	Military 2015	Military 2014	Total 2015	Total 2014
Pension and accrued benefits	1,945.0	1,905.2	1,563.2	1,565.1	3,508.2	3,470.3
Veterans compensation and burial benefits	N/A	N/A	2,018.6	2,007.1	2,018.6	2,007.1
Post-retirement health and accrued benefits	364.0	336.8	731.2	760.5	1,095.2	1,097.3
Life insurance and accrued benefits	49.6	48.3	8.4	9.1	58.0	57.4
FECA benefits	28.1	28.3	8.3	8.8	36.4	37.1
Liability for other benefits	0.9	0.9	2.0	2.5	2.9	3.4
Total federal employee and veteran benefits payable	2,387.6	2,319.5	4,331.7	4,353.1	6,719.3	6,672.6

Change in Pension and Accrued Benefits

(In billions of dollars)	Civilian 2015	Civilian 2014	Military 2015	Military 2014	Total 2015	Total 2014
Actuarial accrued pension liability, beginning of fiscal year	1,905.2	1,867.9	1,565.1	1,524.2	3,470.3	3,392.1
Pension expense:						
Normal costs	37.9	38.4	31.3	32.6	69.2	71.0
Interest on liability	75.9	77.2	66.6	64.9	142.5	142.1
Actuarial (gains)/losses (from experience)	(0.8)	(12.9)	(33.8)	(22.6)	(34.6)	(35.5)
Actuarial (gains)/losses (from assumption changes)	12.0	17.6	(9.4)	21.6	2.6	39.2
Other	0.3	-	-	-	0.3	-
Total pension expense	125.3	120.3	54.7	96.5	180.0	216.8
Less benefits paid	(85.5)	(83.0)	(56.6)	(55.6)	(142.1)	(138.6)
Actuarial accrued pension liability, end of fiscal year	1,945.0	1,905.2	1,563.2	1,565.1	3,508.2	3,470.3

Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian 2015	Civilian 2014	Military 2015	Military 2014	Total 2015	Total 2014
Actuarial accrued post-retirement health benefits liability, beginning of fiscal year	336.8	326.7	760.5	747.6	1,097.3	1,074.3
Post-Retirement health benefits expense:						
Prior (and past) service costs from plan amendments or new plans	-	-	(21.2)	-	(21.2)	-
Normal costs	11.5	11.7	19.6	21.8	31.1	33.5
Interest on liability	14.3	14.2	33.0	33.3	47.3	47.5
Actuarial (gains)/losses (from experience)	7.6	(3.1)	(22.5)	(8.0)	(14.9)	(11.1)
Actuarial (gains)/losses (from assumption changes)	8.8	1.3	(18.1)	(14.7)	(9.3)	(13.4)
Total post-retirement health benefits expense	42.2	24.1	(9.2)	32.4	33.0	56.5
Less claims paid	(15.0)	(14.0)	(20.1)	(19.5)	(35.1)	(33.5)
Actuarial accrued post-retirement health benefits liability, end of fiscal year	364.0	336.8	731.2	760.5	1,095.2	1,097.3

The Government offers its employees retirement and other benefits, as well as health and life insurance. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to current and former civilian and military employees. Large fluctuations in actuarial amounts can result from changes in estimates to future outflows for benefits based on complex assumptions and cost models.

OPM administers the largest civilian plan. DOD and VA administers the largest military plans. Other significant pension plans with more than $10 billion in accrued benefits payable include those of the Coast Guard (DHS), Foreign Service (Department of State), TVA, and HHS's Public Health Service Commissioned Corps Retirement System. Please refer to the financial statements of the agencies listed for further details regarding their pension plans and other benefits.

Change in Civilian Life Insurance and Accrued Benefits

(In billions of dollars)	2015	2014
Actuarial accrued life insurance benefits liability, beginning of fiscal year	48.3	47.6
Life insurance benefits expense:		
New entrant expense	0.3	0.2
Interest on liability	2.0	2.0
Actuarial (gains)/losses (from experience)	(0.9)	(0.7)
Actuarial (gains)/losses (from assumption changes)	0.4	(0.2)
Total life insurance benefits expense	1.8	1.3
Less costs paid	(0.5)	(0.6)
Actuarial accrued life insurance benefits liability, end of fiscal year	49.6	48.3

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense

	Civilian				Military	
	2015		2014		2015	2014
	FERS	CSRS	FERS	CSRS		
Rate of interest	4.10%	3.70%	4.30%	3.90%	4.10%	4.30%
Rate of inflation	2.30%	2.30%	2.50%	2.50%	2.10%	2.40%
Projected salary increases	1.70%	1.70%	1.90%	1.90%	2.30%	2.50%
Cost of living adjustment	1.80%	2.30%	1.90%	2.50%	-	-

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

	Civilian		Military	
	2015	2014	2015	2014
Rate of interest	4.10%	4.30%	4.10%	4.30%
Single equivalent medical trend rate	5.30%	5.30%	4.56%	4.92%
Ultimate medical trend rate	3.90%	4.20%	4.85%	5.15%

Significant Long-Term Economic Assumptions Used in Determining Life Insurance Benefits and the Related Expense

	Civilian	
	2015	2014
Rate of interest	4.00%	4.20%
Rate of increase in salary	1.70%	1.90%

In accordance with SFFAS No. 33, *Pension, Other Retirement Benefits, and Other Postemployment Benefits*: *Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, agencies are required to separately present gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, ORB, and OPEB on the Statement of Net Cost. SFFAS No. 33 also provides a standard for selecting the discount rate assumption for present value estimates of federal employee pension, ORB, and OPEB liabilities. Additionally, SFFAS No. 33 provides a standard for selecting the valuation date for estimates of federal employee pension, ORB, and OPEB liabilities that establishes a consistent method for such measurements. The SFFAS No. 33 standard for selecting discount rate assumption requires it be based on a historical average of interest rates on marketable Treasury securities consistent with the cash flows being discounted.

In fiscal year 2014, Treasury developed a new model and methodology for developing these rates to provide a sustainable, justifiable data resource for the affected agencies. As of July 2014, Treasury began releasing interest rate yield curve data using this new U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (TNC yield curve), which is derived from Treasury notes and bonds. The TNC yield curve provides information on Treasury nominal coupon issues and the methodology extrapolates yields beyond 30 years through 100 years maturity. The TNC yield curve is used to produce a Treasury spot yield curve (a zero coupon curve), which provides the basis for discounting future cash flows.

The new method is based on methodology used to produce the High Quality Market (HQM) Yield Curve pursuant to the Pension Protection Act of 2006.[1] Generally, for FY 2014, the data from the new yield curve was implemented in full in one single year (i.e., replace the historical rate series used under the legacy method with those produced under the new TNC method).

Civilian Employees

Pensions

OPM administers the largest civilian pension plan, which covers substantially all full-time, permanent civilian federal employees. This plan includes two components of defined benefits, the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). The basic benefit components of the CSRS and the FERS are financed and operated through the Civil Service Retirement and Disability Fund (CSRDF), a trust fund.

CSRDF monies are generated primarily from employees' contributions, agency contributions, payments from the General Fund, and interest on investments in Treasury securities.

The Federal Retirement Thrift Investment Board administers the TSP Fund. The TSP Fund investment options include two fixed income funds (the G and F Funds), three stock funds (the C, S, and I Funds) and five lifecycle funds (L 2050, L 2040, L 2030, L 2020, and L Income). The L Funds diversify participant accounts among the G, F, C, S, and I Funds, using professionally determined investment mixes (allocations) that are tailored to different time horizons. Treasury securities held in the G Fund are included in federal debt securities held by the public and accrued interest on the Balance Sheet. The G Fund held $0.0 billion and $183.7 billion in nonmarketable Treasury securities as of September 30, 2015, and 2014, respectively. The decrease in nonmarketable Treasury securities held in the G Fund relates to the delay in raising the debt limit. The Secretary of the Treasury has authority to take extraordinary measures to stay within the statutory debt limit imposed by Congress. One such measure involves the suspension of the issuance of securities to the G Fund if the issuance cannot be made without causing the debt limit to be exceeded. Please see Note 16 — Other Liabilities for additional information.

Post-Retirement Health Benefits

The post-retirement civilian health benefit liability is an estimate of the Government's future cost of providing post-retirement health benefits to current employees and retirees. Although active and retired employees pay insurance premiums under the Federal Employees Health Benefits Program (FEHB), these premiums cover only a portion of the costs. The OPM actuary applies economic assumptions to historical cost information to estimate the liability. The *Postal Accountability and Enhancement Act of 2006* (Postal Act of 2006) (Public Law No 109-435, Title VIII), made significant changes in the funding of future retiree health benefits for employees of the USPS, including the requirement for the USPS to make scheduled payments to the third Health Benefits Program (HBP) fund, the Postal Service Retiree Health Benefits (PSRHB) Fund. Public Law No. 109-435 requires the USPS to make scheduled payment contributions to the PSRHB Fund ranging from $5.4 billion to $5.8 billion per year from fiscal year 2007 through fiscal year 2016. (The fiscal year 2009 payment was subsequently reduced to $1.4 billion.) Thereafter, the USPS will make annual payments in the amount of the normal cost payment plus or minus an amount to amortize the unfunded liability or surplus. The Postal Service currently owes the PSRHB Fund: $11.1 billion for FY 2012 and $5.6 billion that was due for FY 2013. In addition, there was a $5.7 billion payment due for both FY 2014 and for FY 2015. As of September 30, 2015, the Postal Service has not indicated its intention regarding payment of the total $28.1 billion due. At this time, Congress has not taken further action on these payments due to the PSRHB from USPS. The cost for these annual payments, including any defaulted payments, along with all its other benefit program costs, are included in USPS' net cost in the consolidated Statements of Net Cost.

Life Insurance Benefits

One of the largest other employee benefits is the Federal Employee Group Life Insurance (FEGLI) Program. Employee and annuitant contributions and interest on investments fund a portion of this liability. The actuarial life insurance liability is the expected present value of future benefits to pay to, or on behalf of, existing FEGLI participants, less the expected present

[1] Treasury's HQM resource is available at: http://www.treasury.gov/resource-center/economic-policy/corp-bond-yield/Pages/Corp-Yield-Bond-Curve-Papers.aspx.

value of future contributions to be collected from those participants. The OPM actuary uses salary increase and interest rate yield curve assumptions that are generally consistent with the pension liability.

Workers' Compensation Benefits

The DOL determines both civilian and military agencies' liabilities for future workers' compensation benefits for civilian federal employees, as mandated by the Federal Employees' Compensation Act (FECA), for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred, but not reported, claims. The FECA liability is determined annually using historical benefit payment patterns related to injury years to predict the future payments.

The actuarial methodology provides for the effects of inflation and adjusts historical payments to current year constant dollars by applying wage inflation factors (cost-of-living adjustments or COLA) and medical inflation factors (consumer price index-medical or CPIM) to the calculation of projected benefits.

In FY 2015, DOL refined the approach for selecting the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years. The five-year averaging period used in FY 2015 reflects average historical rates without giving undue weight to recent past experience. In FY 2014, DOL selected the COLA and CPIM factors based on a one-year average.

The COLAs and CPIMs used in the projections for FY 2015 are listed below in the table. For the COLAs and CPIMs used in the projections for FY 2014, refer to the *Fiscal Year 2014 Financial Report of the U.S. Government*.

Fiscal Year	COLA	CPIM
2016	1.64%	2.94%
2017	1.47%	2.98%
2018	1.33%	3.09%
2019	1.43%	3.39%
2020+	1.65%	3.69%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on the TNC Yield Curve to reflect the average duration of income payments and medical payments. For FY 2015, based on averaging the TNC Yield Curves for the current and prior four years, the average durations and interest rate assumptions were 14.9 years and 3.13% for income payments and 9.8 years and 2.50% for medical payments. For FY 2014, based on the TNC Yield Curve for one year, the average durations and interest rate assumptions were 15.1 years and 3.46% for income payments and 9.9 years and 2.86% for medical payments.

Military Employees (Including Veterans)

Pensions

The DOD Military Retirement Fund was established by Public Law (P.L.) 98-94 (currently Chapter 74 of Title 10, U.S.C.) and accumulates funds to finance, on an accrual basis, the liabilities of DOD military retirement and survivor benefit programs. The $1.9 billion decrease in the Military Retirement Pension liability is attributable to experience gains and assumption changes that offset the liability growth generated by benefit accruals (normal cost) and interest on the outstanding liability. Liabilities in the future will depend on expected changes due to interest and benefit accruals, future benefit changes, assumption changes, and actuarial experience.

This Fund receives income from three sources: monthly normal cost payments from the Services and Treasury to pay for the current years' service cost; annual payments from the Treasury to amortize the unfunded liability and pay for the increase in the normal cost attributable to Concurrent Receipt per Public Law 108-136; and investment income.

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of Army, Navy, Air Force, and the Marine Corps). This system includes non-disability retired pay, disability retired pay; survivor annuity programs, and Combat-Related Special Compensation. The Service Secretaries may approve immediate non-disability retired pay at any age with credit of at least 20 years of active duty service. Reserve retirees must be at least 60 years old and have at least 20 qualifying years of service before retired pay commences; however, in some cases, the age can be less than 60 if the reservist performs certain types of active service. P.L. 110-181 provides for a 90-day reduction in the reserve retirement age from age 60 for every 3 months of certain active duty service served within a fiscal year for service after January 28, 2008 (not below age 50). There is no vesting of benefits before non-disabled retirement. There are distinct non-disability benefit formulas related to four populations within the Military Retirement System: Final Pay, High-3, Career Status Bonus/Redux, and Bipartisan Budget Act of 2013 (Ryan/Murray) with subsequent amendments (BBA 2013). The date an individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system. For more information on these benefits, see DOD's website http://www.dfas.mil/retiredmilitary/plan/estimate.html.

Post-Retirement Health Benefits

Military retirees and their dependents are entitled to health care in military medical facilities if a facility can provide the needed care. The Military Retiree Health Benefits are post-retirement benefits DOD provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and DOD's medical treatment facilities. Prior to becoming Medicare eligible, military retirees and other eligible beneficiaries are entitled to participate in TRICARE (now managed by the Defense Health Agency)[2], which reimburses (net of beneficiary copay and deductible requirements) for the cost of health care from civilian providers. TRICARE options are available in indemnity, preferred provider organization, and health maintenance organization (HMO) designs.

Since fiscal year 2002, TRICARE, as second payer to Medicare, covers military retirees and other eligible beneficiaries after they become Medicare eligible. This TRICARE coverage for Medicare eligible beneficiaries requires that the beneficiary enroll in Medicare Part B (unless the beneficiary that is Medicare eligible is the spouse of an Active Duty Service Member) and is referred to as TRICARE for Life (TFL). Health care under TFL can be obtained from military medical facilities on an "as available" basis or from civilian providers. Military retiree health care actuarial liabilities are calculated annually using assumptions and actual experience. Trend assumptions include inpatient and outpatient care and prescriptions for both direct care and purchased services. Military retiree health care liability figures include costs incurred in military medical facilities, as well as claims paid to civilian providers and certain administrative costs. Costs paid to civilian providers are net of Medicare's portion of the cost.

10 U.S.C., Chapter 56 created the DOD Medicare-Eligible Retiree Health Care Fund (MERHCF), which became operative on October 1, 2002. The purpose of this fund is to account for the health benefits of Medicare-eligible military retirees, their dependents, and survivors who are Medicare eligible. The Fund receives revenues from three sources: interest earnings on MERHCF assets, Uniformed Services normal cost contributions, and Treasury contributions. The DOD Medicare-Eligible Retiree Health Care Board of Actuaries (the Board) approves the methods and assumptions used to calculate the per capita normal cost rates and the U.S. Treasury contribution, and the Secretary of Defense directs the Secretary of Treasury to make the payments. The MERHCF pays costs incurred in military medical facilities as well as claims for care provided by civilian providers under TFL administration costs associated with processing the TFL claims and capitated payments for coverage provided by U.S. Family Health Plans. The actuaries calculate the actuarial liabilities annually using assumptions and actual experience (e.g., mortality and retirement rates, direct care costs, purchased care).

Military post-retirement health and accrued benefits payable decreased $29.3 billion. The $29.3 billion decrease in military post-retirement health and accrued benefits was due primarily to the combined effect of plan changes -- including those associated with the 2015 National Defense Authorization Act, lower than expected historical costs, and a reduction in future assumed rates of healthcare cost increases.

In addition to the health care benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of such future benefits cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2011 through 2015, the average medical care cost per year was $44.0 billion.

Veterans Compensation and Burial Benefits

[2] On October 1, 2013, the Department of Defense established the Defense Health Agency (DHA) to manage the activities of the Military Health System. These activities include those previously managed by TRICARE Management Activity (TMA), which was disestablished on the same date.

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

Eligible veterans who die or are disabled from military service-related causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a burial flag, headstone/marker and a plot allowance for burial in a private cemetery. These benefits are provided under 38 U.S.C., Part 2, Chapter 23 in recognition of a veteran's military service and are recorded as a liability in the period the requirements are met.

The liability for veterans' compensation and burial benefits payable is based on an actuarial estimate of future compensation and burial payments and increased by $11.5 billion in fiscal year 2015. The $11.5 billion increase in the Federal Employee and Veterans Benefits Liabilities is primarily attributable to interest on the outstanding liability, offset by benefits paid and the net effect of assumption changes. A smaller change in the estimate of backlogged claims contributed to the lower level of actuarial losses in FY 2015, relative to FY 2014.

Several significant actuarial assumptions were used in the valuation of compensation and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: 1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; 2) current veterans who will in the future become beneficiaries of the compensation program; and 3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefit payments to survivors of those veterans in classes 1, 2, and 3 above are also incorporated into the projection. The projected liability does not include any administrative costs.

The veterans compensation and burial benefits liability is developed on an actuarial basis. It is impacted by interest on the liability balance, changes in experience, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance.

Change in Veterans Compensation and Burial Benefits

(In billions of dollars)	Compensation 2015	Compensation 2014	Burial 2015	Burial 2014	Total 2015	Total 2014
Actuarial accrued liability beginning of fiscal year	2,002.6	1,970.2	4.5	4.6	2,007.1	1,974.8
Current year expenses:						
Interest on the liability balance	85.9	82.7	0.2	0.2	86.1	82.9
Prior (and past) service costs from program amendments or new programs during the period	-	-	-	-	-	-
Actuarial (gain)/losses (from experience)	9.5	36.8	0.1	-	9.6	36.8
Actuarial (gain)/losses (from assumption changes)	(13.0)	(22.0)	-	(0.1)	(13.0)	(22.1)
Total current year expense	82.4	97.5	0.3	0.1	82.7	97.6
Less benefits paid	(71.0)	(65.1)	(0.2)	(0.2)	(71.2)	(65.3)
Actuarial accrued liability, end of fiscal year	2,014.0	2,002.6	4.6	4.5	2,018.6	2,007.1

Significant Economic Assumptions Used in Determining Veterans Compensation and Burial Benefits as of September 30, 2015, and 2014

	2015	2014
Rate of interest	4.08%	4.29%
Rate of inflation	2.44%	2.61%

Life Insurance Benefits

The largest veterans' life insurance programs consist of the following:

- National Service Life Insurance (NSLI) covers policyholders who served during World War II.
- Veterans' Special Life Insurance (VSLI) was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict and through the period ending January 1, 1957.
- Service-Disabled Veterans Insurance (S-DVI) program was established in 1951 to meet the insurance needs of veterans who received a service-connected disability rating.

The components of veteran life insurance liability for future policy benefits are presented below:

Veterans Life Insurance Liability as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Insurance death benefits:		
NSLI	3.8	4.4
VSLI	1.3	1.4
S-DVI	0.6	0.6
Other	0.5	0.3
Total death benefits	6.2	6.7
Death benefit annuities	0.1	0.1
Disability income & waiver	0.8	0.8
Insurance dividends payable	1.3	1.4
Unearned premiums	-	0.1
Total veterans life insurance liability	8.4	9.1

Insurance dividends payable consists of dividends left on a deposit with VA, related interest payable, and dividends payable to policyholders.

The VA supervises Service members Group Life Insurance (SGLI) and Veterans Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans as well as their families. All SGLI insureds are automatically covered under the Traumatic Injury Protection (TSGLI) program, which provides for insurance payments to Veterans who suffer a serious traumatic injury in service. VA has entered into a group policy with the Prudential Insurance Company of America to administer these programs.

Pension Benefits

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. VA pension benefits are recognized as a non-exchange transaction due to the nature of the VA pension plan. Therefore, the actuarial present value of these future benefits is not required to be recorded on the Balance Sheet. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2015, and 2014, was $94.1 billion and $102.8 billion, respectively.

Note 13. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Department of Energy:		
Environmental and disposal liabilities	339.8	299.8
Department of Defense:		
Environmental restoration	27.2	27.0
Disposal of weapon systems program	22.2	21.2
Environmental corrective other	6.7	6.2
Base realignment and closure	3.9	4.2
Total Department of Defense	60.0	58.6
All other agencies	11.8	10.7
Total environmental and disposal liabilities	411.6	369.1

During World War II and the Cold War, DOE (or predecessor agencies) developed a massive industrial complex to research, produce, and test nuclear weapons. This included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than 1,000 nuclear tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

Estimated cleanup costs at sites for which there are no current feasible remediation approaches, such as the Nevada nuclear test site, are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. DOE has not been required through regulation to establish remediation activities for these sites.

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. The sites and facilities could be restored to a condition suitable for any desirable use, or could be restored to a point where they pose no near-term health risks. Achieving the former conditions would have a higher cost but may (or may not) warrant the costs, or be legally required. The environmental and disposal liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

DOE's environmental and disposal liabilities estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs. DOE's environmental and disposal liabilities increased by $40 billion, which is primarily attributable to an increase of $35 billion in life-cycle adjustments in DOE's estimated cleanup cost liability across the Department, with the remaining $5 billion pertaining mainly to inflation. Updates to the environmental liability cost estimates due to life-cycle adjustments added numerous years to the life-cycle cleanup schedule.

DOE's environmental and disposal liabilities also include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites. The Department is responsible for the post-closure activities at many of the closure sites as well as other sites. The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2090 in fiscal year 2015 and through 2089 in fiscal year 2014. While some post-cleanup monitoring and other long-term stewardship activities post-2090 are included in the liability, there are others the Department expects to continue beyond 2090 for which the costs cannot reasonably be estimated.

A portion of DOE's environmental and disposal liabilities at various field sites includes anticipated costs for facilities managed by DOE's ongoing program operations which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model. Site specific estimates are used in lieu of the cost-estimating model, when available. Cost estimates for ongoing program facilities are updated each year. For facilities newly contaminated since fiscal year 1997, cleanup costs allocated to future periods and not included in environmental and disposal liabilities amounted to $0.7 billion for both fiscal years 2015 and 2014.

Please refer to the financial statements of the DOE for significant detailed information regarding DOE's environmental and disposal liabilities, including cleanup costs.

DOD follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Amendments and Reauthorization Act, Resource Conservation and Recovery Act (RCRA) and other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the DOD to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates puts the DOD at risk of incurring fines and penalties.

DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as Defense sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear powered aircraft carriers and submarines).

DOD uses engineering estimates and independently validated models to estimate environmental costs. The engineering estimates are used after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

For general PP&E placed into service after September 30, 1997, DOD expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for stewardship property, plant, and equipment at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general property, plant, and equipment placed into service before October 1, 1997, except for costs intended to be recovered through user charges; for those costs, DOD has expensed cleanup costs associated with that portion of the asset life that has passed since it was placed into service. DOD systematically recognizes the remaining cost over the remaining life of the asset. The unrecognized portion of the cleanup cost associated with general property, plant, and equipment is $3.1 billion for both fiscal years 2015 and 2014. Not all components of DOD are able to compile the necessary information for this disclosure, thus the amount reported may not accurately reflect DOD's total unrecognized costs associated with general property, plant, and equipment. DOD is implementing procedures to address these deficiencies.

DOD is unable to estimate and report a liability for environmental restoration and corrective action for buried chemical munitions and agents, because the extent of the buried chemical munitions and agents is unknown at this time. DOD is also unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program. DOD has ongoing studies and will update its estimate as additional liabilities are identified. DOD has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. However, DOD is unable to provide a reasonable estimate at this time because the extent of required restoration is unknown.

Please refer to the financial statements of the DOD for further detailed information regarding DOD's environmental and disposal liabilities, including cleanup costs.

In addition, in accordance with Technical Bulletin 2006-1, agencies recorded an environmental and disposal liability for asbestos-related cleanup costs totaling $4.3 billion and $3.6 billion as of September 30, 2015, and 2014, respectively.

Note 14. Benefits Due and Payable

Benefits Due and Payable as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Federal Old-Age and Survivors Insurance	66.1	62.9
Federal Supplementary Medical Insurance (Medicare Parts B and D)	37.9	31.9
Grants to States for Medicaid	36.8	32.3
Federal Hospital Insurance (Medicare Part A)	28.3	25.7
Federal Disability Insurance	27.1	25.8
Supplemental Security Income	5.3	5.2
Unemployment Insurance	1.1	1.0
All other benefits programs	11.3	6.8
Total benefits due and payable	213.9	191.6

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. HHS and the SSA administer the majority of the medical service programs and the DOL administers the Unemployment Insurance program. For a description of the programs, see Note 23—Social Insurance and the Unaudited Required Supplementary Information—Social Insurance section.

Note 15. Insurance and Guarantee Program Liabilities

Insurance and Guarantee Program Liabilities as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Insurance and Guarantee Program Liabilities:		
Pension Benefit Guaranty Corporation - Benefit Pension Plans	161.1	146.9
Department of Agriculture - Federal Crop Insurance	8.3	7.3
Federal Deposit Insurance Corporation Funds	7.3	13.2
All other insurance and guarantee programs	0.8	0.8
Total insurance and guarantee program liabilities	177.5	168.2

PBGC insures pension benefits for participants in covered defined benefit pension plans. As a wholly-owned corporation of the government, PBGC's financial activity and balances are included in the consolidated financial statements of the government. However, under current law, PBGC's liabilities may be paid only from PBGC's assets and not from the General Fund or assets of the government in general. As of September 30, 2015, and 2014, PBGC had total liabilities of $164.0 billion and $151.6 billion, and its total liabilities exceeded its total assets by $76.3 billion and $61.8 billion, respectively. In addition, as discussed in Note 19—Contingencies, PBGC reported reasonably possible contingent losses of about $237.7 billion and $184.4 billion as of September 30, 2015, and 2014, respectively.

As of September 30, 2015, and 2014, $8.3 billion and $7.3 billion, respectively, pertain to the USDA's Federal Crop Insurance Program. The Federal Crop Insurance Program is administered by the Federal Crop Insurance Corporation, whose mission is to provide an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters.

Of the total FDIC amount as of September 30, 2015, and 2014, $0.5 billion and $1.9 billion, respectively, represents the recorded contingent liability and loss provision for institutions insured by the Deposit Insurance Fund that are likely to fail. In addition, $6.7 billion and $11.3 billion pertain to liabilities due to resolutions of failed or failing institutions and to pending depositor claims as of September 30, 2015, and 2014, respectively.

16. Other Liabilities

Other Liabilities as of September 30, 2015, and 2014
(In billions of dollars)

	2015	2014
Unearned revenue and assets held for others:		
Unearned fees for nuclear waste disposal (DOE) and other unearned revenue	67.2	50.6
Assets held on behalf of others	99.4	81.9
Subtotal	166.6	132.5
Employee-related liabilities:		
Accrued federal employees' wages and benefits	38.1	38.3
Selected DOE contractors' and D.C. employees' pension benefits	50.0	48.6
Subtotal	88.1	86.9
International monetary liabilities and gold certificates:		
Exchange Stabilization Fund	54.8	57.6
Gold certificates (see Note 2)	11.0	11.0
Subtotal	65.8	68.6
Subsidies and grants:		
Farm and other subsidies	5.5	9.8
Grant payments due to state and local governments and others	17.8	16.9
Subtotal	23.3	26.7
Miscellaneous liabilities:		
Legal and other contingencies	47.1	46.1
Non-federal power projects and capital lease liabilities, and disposal liabilities	11.1	13.1
Liability for restoration of federal debt principal and interest	204.6	-
Other miscellaneous	45.7	35.2
Subtotal	308.5	94.4
Total	652.3	409.1

Other liabilities represent liabilities that are not separately identified on the Balance Sheet and are presented on a comparative basis by major category.

Unearned Revenue and Assets Held for Others

The government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. The government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste is about $37.4 billion and $36.0 billion as of September 30, 2015, and 2014, respectively. Other unearned revenue includes USPS income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance, and undelivered Defense articles. DSCA holds $78.1 billion and $68.0 billion as of September 30, 2015, and 2014, respectively for articles and services for future delivery to foreign governments.

Employee-Related Liabilities

This category includes amounts owed to employees at year-end and actuarial liabilities for certain non-federal employees. Actuarial liabilities for federal employees and veteran benefits are included in Note 12–Federal Employee and Veteran Benefits Payable and are reported on another line on the Balance Sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors for contractor employee pension and postretirement benefits, which is about $26.3 billion and $23.4 billion as of September 30, 2015 and 2014, respectively. Also, the government owed about $8.8 billion and $9.2 billion as of September 30, 2015, and 2014, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

International Monetary Liabilities and Gold Certificates

Consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates, the Secretary of the Treasury, with the approval of the President, may use the Exchange Stabilization Fund to deal in gold, foreign exchange, and other instruments of credit and securities.

Gold certificates are issued in nondefinitive or book-entry form to the Federal Reserve Bank of New York (FRBNY). The government's liability incurred by issuing the gold certificates, as reported on the Balance Sheet, is limited to the gold being held by the Department of the Treasury at the standard value established by law. Upon issuance of gold certificates to the FRBNY, the proceeds from the certificates are deposited into the operating cash of the U.S. Government. All of the Department of the Treasury's certificates issued are payable to the FRBNY.

Subsidies and Grants

The government supports the public good through a wide variety of subsidy and grant programs in such areas as agriculture, medical and scientific research, education, and transportation. USDA programs such as Conservation Reserve; grants, subsidies, and contributions; and payments to states account for the majority of the subsidies due, about $4.6 billion and $5.0 billion as of September 30, 2015 and 2014, respectively.

The government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration, and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to state governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2015, and 2014, DOT, Education, and HHS collectively owed their grantees about $12.6 billion and $12.3 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

Miscellaneous Liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see Note 19—Contingencies), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, (3) payables due to the purchases of securities, and (4) other liabilities reported by Treasury as a result of the occurrence of a delay in raising the statutory debt limit as of September 30, 2015. When delays in raising the statutory debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary measures to meet the Government's obligations as they come due without exceeding the debt limit. Many extraordinary measures taken by Treasury during the period of March 16, 2015, through September 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. As a result of Treasury securities not being issued to the Government Securities Investment Fund (G Fund) of the Thrift Savings Plan (TSP), Treasury reported miscellaneous liabilities, as of September 30, 2015, in the amount of $204.6 billion that represent uninvested principal of and related interest for the TSP's G Fund that would have been reported in Note 11 – Federal Debt Securities Held by the Public and Accrued Interest had there not been a delay in raising the statutory debt limit as of September 30, 2015, and had the securities been issued. For further information related to the impact on TSP, see Note 22 – Fiduciary Activities and Note 26 – Subsequent Events.

In addition, many federal agencies reported relatively small amounts of miscellaneous liabilities that are not otherwise classified.

Note 17. Collections and Refunds of Federal Revenue

Collections of Federal Tax Revenue for the Year Ended September 30, 2015

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2015	2014	2013	Prior Years
Individual income tax and tax withholdings	2,799.1	1,790.8	954.6	28.3	25.4
Corporation income taxes	389.9	260.2	114.9	3.9	10.9
Excise taxes	102.8	79.9	22.8	0.1	-
Unemployment taxes	49.3	33.4	15.7	-	0.2
Customs duties	36.4	36.4	-	-	-
Estate and gift taxes	20.0	-	6.8	0.6	12.6
Railroad retirement taxes	6.4	5.0	1.4	-	-
Fines, penalties, interest, and other revenue	7.4	7.3	0.1	-	-
Subtotal	3,411.3	2,213.0	1,116.3	32.9	49.1
Less: amounts collected for non-federal entities	(0.4)				
Total	3,410.9				

Treasury is the Government's principal revenue-collecting agency. Collections of individual income and tax withholdings include FICA/SECA and individual income taxes. These taxes are characterized as non-exchange revenue.

Excise taxes, also characterized as non-exchange revenue, consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2015

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2015	2014	2013	Prior Years
Individual income tax and tax withholdings	351.4	30.7	290.0	23.6	7.1
Corporation income taxes	50.1	6.2	20.8	5.5	17.6
Excise taxes	1.1	0.4	0.6	0.1	-
Unemployment taxes	0.2	-	0.1	-	0.1
Customs duties	2.8	1.5	0.8	0.2	0.3
Estate and gift taxes	0.9	-	0.2	0.3	0.4
Total	406.5	38.8	312.5	29.7	25.5

Reconciliation of Revenue to Tax Collections for the Year Ended September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Consolidated revenue per the Statement of Operations and Changes in Net Position	3,334.0	3,066.1
Tax refunds	406.5	375.2
Earned income tax and child tax credit imputed revenue	(80.7)	(81.6)
Other tax credits and accrual adjustments	(36.9)	(21.9)
Federal Insurance Contributions Act - Tax	20.1	19.8
Federal Reserve earnings	(96.5)	(99.2)
Nontax-related fines and penalties reported by agencies	(93.0)	(65.1)
Nontax-related earned revenue	(42.6)	(19.0)
Collections of federal tax revenue	3,410.9	3,174.3

Consolidated revenue in the SOCNP is presented on a modified cash basis, net of tax refunds, and includes other non-tax related revenue. Earned Income Tax Credit, Child Tax Credit, and other tax credits amounts (unaudited) are included in gross cost in the Statements of Net Cost. The Federal Insurance Contributions Act – Tax is included in the Individual income and tax withholdings line in the Collections of Federal tax revenue; however, it is not reported on the SOCNP as these collections are intragovernmental revenue and eliminated in consolidation. The table above reconciles total revenue to federal tax collections.

Collections of Federal Revenue for the Year Ended September 30, 2014

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate			
		2014	2013	2012	Prior Years
Individual income tax and tax withholdings	2,605.0	1,691.1	864.3	24.3	25.3
Corporation income taxes	353.1	252.9	87.9	1.2	11.1
Excise taxes	96.7	74.4	22.1	0.1	0.1
Unemployment taxes	52.7	27.1	15.3	10.2	0.1
Customs duties	34.2	34.2	-	-	-
Estate and gift taxes	20.2	-	7.0	0.9	12.3
Railroad retirement taxes	6.0	4.6	1.4	-	-
Fines, penalties, interest and other revenue	6.7	6.5	0.1	0.1	-
Subtotal	3,174.6	2,090.8	998.1	36.8	48.9
Less: amounts collected for non-federal entities	(0.3)				
Total	3,174.3				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2014

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate			
		2014	2013	2012	Prior Years
Individual income tax and tax withholdings	335.8	13.7	290.8	24.0	7.3
Corporation income taxes	35.3	4.4	10.9	6.7	13.3
Excise taxes	1.8	0.5	0.9	0.2	0.2
Unemployment taxes	0.1	-	0.1	-	-
Customs duties	1.3	0.7	0.3	0.1	0.2
Estate and gift taxes	0.9	-	0.2	0.5	0.2
Total	375.2	19.3	303.2	31.5	21.2

Note 18. Prior-Period Adjustments

Prior-Period Adjustments for the Year Ended September 30, 2015, and 2014

(In billions of dollars)	Changes to Net Position 2015	2014
Environmental Protection Agency	(1.3)	-
Department of Justice	(0.1)	(0.1)
Other prior-period adjustments	(0.1)	-
Total prior-period adjustments	(1.5)	(0.1)

During fiscal year 2015, several entities reported the prior-period adjustments line item. Environmental Protection Agency (EPA) changed its accounting treatment to record special accounts funds settlement proceeds as unearned revenue after determining that collections previously recorded as past costs were being used for future site cleanup. The effect is a $1.3 billion decrease in EPA's beginning net position.

For fiscal years 2015 and 2014, Department of Justice (DOJ) applied a change in accounting principle to certain components based on the implementation of their Financial Management Policy Memorandum (FMPM) 13-12, Capitalization of General Property, Plant, and Equipment and Internal Use Software. The primary impact of the policy change was an increase in the thresholds for capitalizing and reporting real property, including leasehold improvements, personal property, and internal use software. The change in accounting principle caused a $0.1 billion reduction in the overall PP&E balance for both fiscal years 2015 and 2014.

As discussed in Note 21 – Funds from Dedicated Collections, the Commodity Future Trading Commission erroneously did not report as a fund from dedicated collections for fiscal year 2014. This error was corrected in fiscal year 2015 and resulted in a prior-period adjustment amount of $0.3 billion.

Note 19. Contingencies

Financial Treatment of Loss Contingencies

Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note. Loss contingencies involve situations where there is an uncertainty of a possible loss. The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes. All other material loss contingencies are disclosed in this note. The following table provides criteria for how federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.[3]

Likelihood of future outflow or other sacrifice of resources	Loss amount can be reasonably measured	Loss range can be reasonably measured	Loss amount or range cannot be reasonably measured
Probable Future confirming event(s) are more likely to occur than not.[4]	Accrue the liability. Report on Balance Sheet and Statement of Net Cost.	Accrue liability of the best estimate or (if there is no best estimate) minimum amount in loss range, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Reasonably possible Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated loss amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Remote Possibility of future event(s) occurring is slight.	No disclosure.	No disclosure.	No disclosure.

[3] In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

[4] For loss contingencies related to litigation, probable is defined as the future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For the pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur.

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

Insurance Contingencies

At the time an insurance policy is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. The Government has insurance contingencies that are reasonably possible in the amount of $239.1 billion as of September 30, 2015, and $186.4 billion as of September 30, 2014. The major programs are identified below:

- PBGC reported $237.7 billion and $184.4 billion as of September 30, 2015, and 2014, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined benefit pension plans that are classified as a reasonably possible exposure to loss. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria for the single-employer program and the decrease in the interest rate used for valuing liabilities.
- FDIC reported $1.2 billion and $1.7 billion as of September 30, 2015, and 2014, respectively, for identified additional risk in the financial services industry that could result in additional loss to the DIF should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

Deposit Insurance

Deposit insurance covers all types of deposit accounts such as checking, Negotiable Order of Withdrawal and savings accounts, money market deposit accounts, and certificates of deposit received at an insured bank, savings association, or credit union. The insurance covers the balance of each depositor's account and shares, dollar-for-dollar, up to the insurance limit, including principal and any accrued interest through the date of the insured financial institution's closing. As a result, the Government has the following exposure from federally-insured financial institutions:

- FDIC has estimated insured deposits of $6,420.0 billion as of September 30, 2015, and $6,131.9 billion as of September 30, 2014, for the DIF.
- National Credit Union Administration (NCUA) has estimated insured shares of $939.9 billion as of September 30, 2015, and $895.7 billion as of September 30, 2014, for the National Credit Union Share Insurance Fund.

Legal Contingencies

Legal contingencies as of September 30, 2015, and 2014, are summarized in the table below:

(In billions of dollars)	2015			2014		
		Estimated Range of Loss for Certain Cases [2]			Estimated Range of Loss for Certain Cases [2]	
	Accrued Liabilities [1]	Lower End	Upper End	Accrued Liabilities [1]	Lower End	Upper End
Legal contingencies:						
Probable	6.0	6.0	7.4	7.1	7.1	8.5
Reasonably possible	-	8.7	13.7	-	9.9	13.5

[1] Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.

[2] Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is party to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against the Government.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for "probable" cases against the government are $6.0 billion and $7.1 billion as of September 30, 2015, and 2014, respectively, and are included in "Other Liabilities" on the Balance Sheet. For example, the U.S. Supreme Court decision in *Salazar v. Ramah Navajo Chapter*, dated June 18, 2012, is likely to result in additional claims against the Indian Health Service (IHS), which is a component within HHS. As a result of this decision, many tribes have filed claims. Some claims have been settled and others have been asserted but not yet settled.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of potential loss or a range of potential loss. The estimated potential losses for such claims and actions range from $8.7 billion to $13.7 billion as of September 30, 2015, and from $9.9 billion to $13.5 billion as of September 30, 2014. For example, the Department of the Treasury's *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Related Cases* are a number of cases that were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. The Department has determined there is a reasonably possible likelihood of unfavorable outcomes in some of the cases. The total alleged damages for these cases approximate $273 million.

Numerous litigation cases are pending where the outcome is uncertain or it is reasonably possible that a loss has been incurred and where estimates cannot be made. There are other litigation cases where the plaintiffs have not made claims for specific dollar amounts, but the settlement may be significant. The ultimate resolution of these legal actions for which the potential loss could not be determined may materially affect the U.S. government's financial position or operating results. An example of a specific case is summarized below:

- In the case, *Starr International Co., Inc. v. United States*, the plaintiff, an American International Group, Inc. (AIG) shareholder that brought on behalf of two classes of shareholders, alleges that the U.S. government violated the Fifth Amendment to the United States Constitution by illegally exacting or taking property without just compensation. One class, the Credit Agreement Class, claimed that the Fifth Amendment was violated when a majority share of AIG's equity and voting rights was conveyed in connection with an $85 billion loan to AIG during the 2008 financial crisis. Starr also asserted a Fifth Amendment violation on behalf of the second class, the Reverse Stock Split Shareholder Class, alleging that a June 2009 reverse split of AIG's common stock constituted a taking of the common stockholders' asserted right to a shareholder vote on whether to approve a reverse split of AIG's common stock. The U.S. Court of Federal Claims held that the Credit Agreement Shareholder Class prevails on liability, but recovers no damages, and that the Reverse Stock Split Shareholder class does not prevail on liability or damages.

Both the Plaintiff and the United States have appealed. The Government is unable to determine the likelihood of an unfavorable outcome or make an estimate of potential loss at this time.

Environmental and Disposal Contingencies

Environmental and disposal contingencies as of September 30, 2015, and 2014, are summarized in the table below:

	2015			2014		
		Estimated Range of Loss for Certain Cases [2]			Estimated Range of Loss for Certain Cases [2]	
(In billions of dollars)	Accrued Liabilities [1]	Lower End	Upper End	Accrued Liabilities [1]	Lower End	Upper End
Environmental and disposal contingencies:						
Probable	25.9	25.9	26.0	23.1	22.9	23.1
Reasonably possible	-	0.7	1.0	-	0.7	0.7

[1] Accrued liabilities are recorded and presented in the related line items of the Balance Sheet.

[2] Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

The Government is subject to loss contingencies for a variety of environmental cleanup costs for the storage and disposal of hazardous material as well as the operations and closures of facilities at which environmental contamination may be present.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the Government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $25.9 billion and $23.1 billion as of September 30, 2015, and 2014, respectively, and are included in "Other Liabilities" on the Balance Sheet. In accordance with the *Nuclear Waste Policy Act of 1982* (NWPA), DOE entered into contracts with more than 45 utilities in return for payment of fees established by the NWPA into the Nuclear Waste Fund. DOE agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because DOE has no facility available to receive SNF under the NWPA, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Therefore, DOE is subject to SNF litigation for damages suffered by all utilities as a result of the delay in beginning disposal of SNF and also damages for alleged exposure to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of $23.7 billion and $22.6 billion as of September 30, 2015, and 2014, respectively.

Other Contingencies

DOT and HHS reported the following other contingencies:

- The Federal Highway Administration (FHWA) preauthorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA has authority to approve projects using advance construction under 23 U.S.C. 115(a). FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. FHWA has pre-authorized $50.4 billion and $46.0 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2015, and 2014, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the DOT consolidated financial statements.
- Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the states and for reimbursement of state plan amendments. The Medicaid amounts are $7.5 billion and $8.4 billion for fiscal years ending September 30, 2015, and 2014, respectively. In all cases, the funds have been returned to HHS. If the appeals are decided in favor of the states, HHS will be required to pay these

amounts. In addition, certain amounts for payment have been deferred under the Medicaid program when there is reasonable doubt as to the legitimacy of expenditures claimed by a state. There are also outstanding reviews of the state expenditures in which a final determination has not been made.

Treaties

The U.S. Government is a party to major treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and arms that may involve financial obligations or give rise to possible exposure to losses. A comprehensive analysis to determine any such financial obligations or possible exposure to loss and their related effect on the consolidated financial statements of the U.S. Government has not yet been performed.

Note 20. Commitments

Long-Term Operating Leases as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
General Services Administration	23.9	24.4
U.S. Postal Service	7.1	6.8
Department of State	1.5	1.4
Department of Defense	1.1	0.7
Department of Health and Human Services	1.1	0.9
Department of the Treasury	0.6	0.6
Department of Transportation	0.5	0.6
Department of Agriculture	0.5	0.8
Other operating leases	3.1	2.2
Total long-term operating leases	39.4	38.4

The government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations and undelivered orders. Undelivered orders represent the value of goods and services ordered that have not yet been received.

The government has other commitments that may require future use of financial resources. For example, the government has callable subscriptions in certain Multilateral Development Banks (MDBs), which are international financial institutions that finance economic and social development projects in middle-income developing countries. Callable capital in the MDBs serve as a supplemental pool of resources that may be redeemed and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain favorable financing terms when borrowing from international capital markets. To date, there has never been a call on this capital at any MDBs and none are anticipated.

Undelivered Orders and Other Commitments as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
Undelivered Orders:		
Department of Defense	236.2	136.2
Department of the Treasury	169.6	164.4
Defense Security Cooperation Agency	136.4	160.9
Department of Education	124.9	130.2
Department of Transportation	108.7	107.8
Department of Health and Human Services	98.9	110.6
Department of Agriculture	40.3	43.6
Department of Housing and Urban Development	38.1	40.7
Department of Homeland Security	33.2	30.4
Department of Energy	22.5	25.5
Department of State	21.0	19.5
U.S. Agency for International Development	18.2	18.6
Department of Veterans Affairs	11.9	13.9
Federal Communications Commission	11.9	4.5
National Science Foundation	11.5	11.1
Department of Labor	9.2	9.8
All other agencies	32.3	35.7
Total undelivered orders	1,124.8	1,063.4
Other Commitments:		
GSE Senior Preferred Stock Purchase Agreement	258.1	258.1
Callable Capital Subscriptions for Multilateral Development Banks	112.3	102.3
Conservation Reserve Program	12.0	1.7
Agriculture Direct Loans and Guarantees	5.0	5.8
Fuel Purchase Obligations	4.9	5.3
Power Purchase Obligations	4.3	4.5
Other Purchase Obligations	2.8	2.8
Long-term Satellite and Systems	2.3	1.5
All other commitments	3.1	3.2
Total other commitments	404.8	385.2

Other Commitments and Risks

Undelivered Orders

DOD reported undelivered orders of $236.2 billion and $136.2 billion as of September 30, 2015, and 2014, respectively. The increase of $100 billion in FY 2015 was primarily caused by increased estimates in non-federal undelivered orders.

Commitments to GSEs

At September 30, 2015, the maximum remaining potential commitment to the GSEs for the remaining life of the SPSPAs was $258.1 billion, which was established on December 31, 2012. Refer to Note 8-Investments in Government-Sponsored Enterprises for a full description of the SPSPA agreements, related commitments, and contingent liability, if any, as well as additional information.

Terrorism Risk Insurance Program

The Terrorism Risk Insurance Act (TRIA), signed into law in November 2002, was originally enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the Terrorism Risk Insurance Program Reauthorization Act of 2015 extended the Terrorism Risk Insurance Program (TRIA Program) until December 31, 2020. TRIA helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIA Program is activated upon the certification of an “act of terrorism” by the Secretary of the Treasury in consultation with the Secretary of the U.S. Department of Homeland Security and the U.S. Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. government for insured losses in connection with certified acts of terrorism resulting in more than $100 million in insured losses once a particular insurer has also satisfied its designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. government. TRIA includes both mandatory and discretionary authority for the Department of the Treasury to recoup federal payments made under the TRIA Program through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2015 or 2014.

Conservation Reserve Program

The Conservation Reserve Program (CRP) was signed into law by Ronald Reagan in 1985. CRP is the largest private-lands conservation program in the United States. The program has improved water quality, reduced soil erosion, and increased habitat for endangered and threatened species. Through CRP, eligible participant’s sign 10 to 15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive cost-share assistance for establishing conservation practices on the reserve acreage and additional incentive payments for adopting high-priority conservation measures. The Commodity Credit Corporation estimates that the maximum amount of future outlays for all existing CRP rental contracts over the contract terms, subject to funds availability and contract compliance, is approximately $12 billion.

Note 21. Funds from Dedicated Collections

Funds from Dedicated Collections as of September 30, 2015[1]

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)
Assets:						
Cash and other monetary assets	-	-	-	-	59.2	59.2
Fund balance with Treasury	(0.1)	1.4	-	43.4	123.6	168.3
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	2,766.6	195.5	41.6	66.1	207.0	3,276.8
Other federal assets	22.3	35.5	0.5	51.8	19.2	129.3
Non-federal assets	2.3	1.3	4.4	5.9	106.9	120.8
Total assets	2,791.1	233.7	46.5	167.2	515.9	3,754.4
Liabilities and net position:						
Due and payable to beneficiaries	66.2	28.3	27.5	37.9	6.7	166.6
Other federal liabilities	4.5	34.3	1.0	52.4	67.6	159.8
Other non-federal liabilities	-	0.6	-	0.6	179.1	180.3
Total liabilities	70.7	63.2	28.5	90.9	253.4	506.7
Total net position	2,720.4	170.5	18.0	76.3	262.5	3,247.7
Total liabilities and net position	2,791.1	233.7	46.5	167.2	515.9	3,754.4
Change in net position:						
Beginning net position	2,670.6	179.8	47.7	57.2	242.3	3,197.6
Prior-period adjustment	-	-	-	-	0.3	0.3
Beginning net position, adjusted	2,670.6	179.8	47.7	57.2	242.6	3,197.9
Investment revenue	92.2	8.4	2.4	2.4	3.0	108.4
Individual income taxes	672.2	237.7	114.2	-	-	1,024.1
Unemployment and excise taxes	-	-	-	-	106.6	106.6
Other taxes and receipts	-	0.6	-	3.0	33.7	37.3
Miscellaneous earned revenue	-	-	-	-	3.8	3.8
Other changes in fund balance (e.g., appropriations, transfers)	22.7	18.7	(2.0)	286.2	9.6	335.2
Total financing sources	787.1	265.4	114.6	291.6	156.7	1,615.4
Program gross costs and non-program expenses	737.3	278.4	144.3	344.5	198.7	1,703.2
Less: program revenue	-	(3.7)	-	(72.0)	(61.9)	(137.6)
Net cost	737.3	274.7	144.3	272.5	136.8	1,565.6
Ending net position	2,720.4	170.5	18.0	76.3	262.5	3,247.7

[1] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Funds from Dedicated Collections as of September 30, 2014[1]

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund	Federal Hospital Insurance Trust Fund (Medicare Part A)	Federal Disability Insurance Trust Fund	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)	All Other Funds from Dedicated Collections	Total Funds from Dedicated Collections (Combined)
Assets:						
Cash and other monetary assets	-	-	-	-	58.0	58.0
Fund balance with Treasury	(0.1)	0.7	(0.2)	18.4	119.5	138.3
Investments in U.S. Treasury securities, net of unamortized premiums/discounts	2,712.8	202.2	70.1	68.4	182.4	3,235.9
Other federal assets	23.3	32.9	0.8	35.6	16.6	109.2
Non-federal assets	2.2	1.2	4.2	5.4	112.8	125.8
Total assets	2,738.2	237.0	74.9	127.8	489.3	3,667.2
Liabilities and net position:						
Due and payable to beneficiaries	63.0	25.7	26.0	31.9	2.5	149.1
Other federal liabilities	4.6	31.0	1.2	36.4	79.8	153.0
Other non-federal liabilities	-	0.5	-	2.3	164.7	167.5
Total liabilities	67.6	57.2	27.2	70.6	247.0	469.6
Total net position	2,670.6	179.8	47.7	57.2	242.3	3,197.6
Total liabilities and net position	2,738.2	237.0	74.9	127.8	489.3	3,667.2
Change in net position:						
Beginning net position	2,616.3	190.0	79.5	52.7	205.2	3,143.7
Prior period adjustment	-	-	-	-	0.3	0.3
Beginning net position, adjusted	2,616.3	190.0	79.5	52.7	205.5	3,144.0
Investment revenue	95.6	8.8	3.7	2.4	3.3	113.8
Individual income taxes	642.3	227.6	109.1	-	-	979.0
Unemployment and excise taxes	-	-	-	-	108.9	108.9
Other taxes and receipts	-	9.7	0.1	5.5	35.5	50.8
Miscellaneous earned revenue	-	-	-	-	5.0	5.0
Other changes in fund balance (e.g., appropriations, transfers)	18.0	10.5	(1.9)	247.9	25.4	299.9
Total financing sources	755.9	256.6	111.0	255.8	178.1	1,557.4
Program gross cost and non-program expenses	701.6	270.4	142.8	320.2	177.9	1,612.9
Less: program revenue	-	(3.6)	-	(68.9)	(36.6)	(109.1)
Net cost	701.6	266.8	142.8	251.3	141.3	1,503.8
Ending net position	2,670.6	179.8	47.7	57.2	242.3	3,197.6

[1] By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Generally, funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, provided to the government by non-federal sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government's general revenues. Funds from dedicated collections generally include trust funds, public enterprise revolving funds (not including credit reform financing funds), and special funds. Funds from dedicated collections specifically exclude any fund established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military). In the federal budget, the term “trust fund” means only that the law requires a particular fund be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund’s resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity. The activity of funds from dedicated collections differs from fiduciary activities primarily in that assets within funds from dedicated collections are government-owned. For further information related to fiduciary activities, see Note 22—Fiduciary Activities.

Public enterprise revolving funds include expenditure accounts authorized by law to be credited with offsetting collections, mostly from the public, that are generated by and dedicated to finance a continuing cycle of business-type operations. Some of the financing for these funds may be from appropriations.

Special funds are federal funds dedicated by law for a specific purpose. Special funds include the special fund receipt account and the special fund expenditure account.

The tables above depict major funds from dedicated collections chosen based on their significant financial activity and importance to taxpayers. All other government funds from dedicated collections not shown separately are aggregated as “all other.”

Total assets represent the unexpended balance from all sources of receipts and amounts due to the funds from dedicated collections, regardless of source, including related governmental transactions. These are transactions between two different entities within the government (for example, monies received by one entity of the government from another entity of the government).

The intragovernmental assets are comprised of fund balances with Treasury, investments in Treasury securities—including unamortized amounts, and other assets that include the related accrued interest receivable on federal investments. These amounts were eliminated in preparing the principal financial statements. The non-federal assets represent only the activity with individuals and organizations outside of the government.

Most of the assets within funds from dedicated collections are invested in intragovernmental debt holdings. The government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the General Fund, which uses the cash for general government purposes. Treasury securities are issued to federal agencies as evidence of its receipts. Treasury securities are an asset to the federal agencies and a liability to the U.S. Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report*. These securities require redemption if a fund’s disbursements exceeds its receipts. Redeeming these securities will increase the government’s financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 11—Federal Debt Securities Held by the Public and Accrued Interest for further information related to the investments in federal debt securities.

Depicted below is a description of the major funds from dedicated collections shown in the above tables, which also identifies the government agencies that administer each particular fund. For detailed information regarding these funds from dedicated collections, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain funds from dedicated collections, see Note 14—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

The Federal Old-Age and Survivors Insurance Trust Fund, administered by the SSA, provides retirement and survivors benefits to qualified workers and their families.

Payroll and self-employment taxes primarily fund the Federal Old-Age and Survivors Insurance Trust Fund. Interest earnings on Treasury securities, federal agencies’ payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits provide the fund with additional income. The law establishing the Federal Old-Age and Survivors Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Hospital Insurance Trust Fund (Medicare Part A)

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

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by federal agencies. It also receives income from interest earnings on Treasury securities, a portion of income taxes collected on Social Security benefits, and receipts from fraud and abuse control activities. Section 1817 of the *Social Security Act* established the Medicare Hospital Trust Fund.

Federal Disability Insurance Trust Fund

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

Like the Federal Old-Age and Survivors Insurance Trust Fund, payroll taxes primarily fund the Federal Disability Insurance Trust Fund. The fund also receives income from interest earnings on Treasury securities, federal agencies' payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits. The law establishing the Federal Disability Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D)

The Federal Supplementary Medical Insurance Trust Fund, administered by HHS, finances the Supplementary Medical Insurance Program (Medicare Part B) and the Medicare Prescription Drug Benefit Program (Medicare Part D). These programs provide supplementary medical insurance for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. Medicare Part B financing is not based on payroll taxes; it is primarily based on monthly premiums, income from the General Fund, and interest earnings on Treasury securities. Medicare Supplementary Medical Insurance Trust Fund was established by Section 1841 of the *Social Security Act*.

Medicare Part D was created by the *Medicare Prescription Drug, Improvement, and Modernization Act of 2003* (Public Law No. 108-173). Medicare Part D financing is similar to Part B; it is primarily based on monthly premiums and income from the General Fund, not on payroll taxes. The fund also receives transfers from States. The law creating the Medicare prescription drug account within the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 1395w-116.

All Other Funds from Dedicated Collections

The government is responsible for the management of numerous funds from dedicated collections that serve a wide variety of purposes. The funds from dedicated collections presented on an individual basis in the above tables represent the majority of the government's net position attributable to funds from dedicated collections. All other activity attributable to funds from dedicated collections is aggregated in accordance with SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections,* as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. For the years ending September 30, 2015, and 2014, there were approximately 624 and 641 funds from dedicated collections, respectively. The funds from dedicated collections within the "all other" aggregate, along with the agencies that administer them, include the following:

- Land and Water Conservation Fund, Reclamation Fund, and Water and Related Resources Fund—administered by DOI.

- Exchange Stabilization Fund—administered by Treasury.
- Unemployment Trust Fund (UTF) and Black Lung Disability Trust Fund (BLDTF)—administered by DOL.
- Railroad Retirement Trust Fund—administered by RRB.
- National Flood Insurance Program—administered by DHS.
- Decommissioning and Decontamination Fund—administered by DOE.
- Government National Mortgage Association—administered by HUD.
- Highway Trust Fund and Airport and Airway Trust Fund—administered by DOT.
- Crime Victims Fund—administered by DOJ.
- Harbor Maintenance Trust Fund—administered by DOD.

In accordance with SFFAS No. 43, any funds established to account for pension, other retirement, or other post-employment benefits to civilian or military personnel are excluded from the reporting requirements related to funds from dedicated collections.

The Commodity Future Trading Commission erroneously did not report as a fund from dedicated collections for fiscal year 2014. This error was corrected in fiscal year 2015 and resulted in a prior-period adjustment of $0.3 billion.

Unemployment and Excise Taxes

Unemployment Taxes

The Unemployment Trust Fund (UTF), within the "all other" aggregate, represents all the unemployment tax revenues attributable to funds from dedicated collections shown on the consolidated Statement of Operations and Changes in Net Position.

UTF provides temporary assistance to workers who lose their jobs. The program is administered through a unique system of federal and state partnerships, established in federal law, but executed through conforming state laws by state officials. DOL administers the federal operations of the program.

Employer taxes provide the primary funding source for the UTF and constitute the largest portion of unemployment tax revenues attributable to funds from dedicated collections as shown on the consolidated Statement of Operations and Changes in Net Position. However, interest earnings on Treasury securities also provide income to the fund. For the years ending September 30, 2015, and 2014, UTF unemployment tax revenues were $49.1 billion and $52.6 billion, respectively. Appropriations have supplemented the fund's income during periods of high and extended unemployment. UTF was established under the authority of Section 904 of the *Social Security Act of 1935*.

Excise Taxes

There are 10 funds from dedicated collections within the "all other" aggregate that represent all of the dedicated excise tax revenue attributable to funds from dedicated collections shown on the consolidated Statement of Operations and Changes in Net Position. The Highway Trust Fund and the Airport and Airway Trust Fund, combined, represent more than 95 percent of all dedicated excise tax revenues. Both of these funds are administered by the DOT. For more information, please refer to DOT's financial statements.

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides federal grants to states for highway construction, certain transit programs, and related transportation purposes. The Highway Trust Fund was created by the *Highway Revenue Act of 1956*. Funding sources include designated excise taxes on gasoline and other fuels, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For the years ending September 30, 2015, and 2014, Highway Trust Fund excise tax revenues were $40.8 billion and $39.0 billion, respectively. As funds are needed for payments, the Highway Trust Fund corpus investments are liquidated and funds are transferred to the Federal Highway Administration, the Federal Transit Administration, or other DOT entities, for payment of obligations.

The Airport and Airway Trust Fund provides for airport improvement and airport facilities maintenance. It also funds airport equipment, research, and a portion of the Federal Aviation Administration's administrative operational support. The Airport and Airway Trust Fund was authorized by the *Airport and Airway Revenue Act of 1970*. Funding sources include:

- Taxes received from transportation of persons and property in the air, as well as fuel used in commercial and general aviation.
- International departure taxes.
- Interest earnings on Treasury securities.

For the years ending September 30, 2015, and 2014, Airport and Airway Trust Fund excise tax revenues were $14.3 billion and $13.5 billion, respectively.

Miscellaneous Earned Revenues

Miscellaneous earned revenues due to activity attributable to funds from dedicated collections primarily relate to royalties retained by various funds within DOI.

Note 22. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Government of cash or other assets in which non-federal individuals or entities have an ownership interest that the Government must uphold. Fiduciary cash and other assets are not assets of the Government and are not recognized on the consolidated Balance Sheet. Examples of the Government's fiduciary activities include the Thrift Savings Plan (the Plan), which is administered by the Federal Retirement Thrift Investment Board, and the Indian Tribal and individual Indian Trust Funds, which are administered by the DOI.

Schedule of Fiduciary Net Assets as of September 30, 2015, and 2014

(In billions of dollars)	2015	2014
FRTIB-Thrift Savings Plan	427.3	416.1
Department of the Interior	5.1	5.1
All other	2.8	5.9
Total fiduciary net assets	435.2	427.1

In accordance with the requirements of SFFAS No. 31, *Accounting for Fiduciary Activities,* fiduciary investments in Treasury securities and fund balance with Treasury held by fiduciary funds are to be recognized on the Balance Sheet as debt held by the public and a liability for fiduciary fund balance with Treasury, respectively.

As of September 30, 2015, total fiduciary investments in Treasury securities and in non-Treasury securities are $209.5 billion and $243.1 billion, respectively. As of September 30, 2014, total fiduciary investments in Treasury securities and in non-Treasury securities were $187.1 billion and $241.9 billion, respectively. Refer to Note 11 – Federal Debt Securities Held by the Public and Accrued Interest for more information on the Treasury securities.

As of September 30, 2015, and 2014, the total fiduciary fund balance with Treasury is $1.2 billion and $1.0 billion, respectively. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in Note 16 - Other Liabilities.

As of September 30, 2015, and 2014, collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all Government entities represent $6.0 billion and $3.4 billion, respectively, of unrestricted cash included within cash held by Treasury for Governmentwide Operations shown in Note 2 - Cash and Other Monetary Assets.

Federal Retirement Thrift Investment Board (FRTIB)-Thrift Savings Plan

The TSP is administered by an independent Government agency, the FRTIB, which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries. Assets of the TSP are maintained in the Thrift Savings Fund.

The TSP is a retirement savings and investment plan for federal employees and members of the uniformed services. It was authorized by the United States Congress in the *Federal Employees' Retirement System Act of 1986*. The Plan provides federal employees and members of the uniformed services with a savings and tax benefit similar to what many private sector employers offer their employees under 401(k) plans. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by FERS.

Federal employees, who are participants of FERS, the CSRS, or equivalent retirement systems, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2014, and 2013, there were approximately 4.8 million and 4.6 million participants in the TSP, respectively, with approximately 2.9 million contributing their own money. For further information about FRTIB and the TSP, please refer to the FRTIB website at http://www.frtib.gov.

As of September 30, 2015, and 2014, the TSP held $427.3 billion and $416.1 billion, respectively, in net assets, which included $0.0 billion and $183.7 billion, respectively, of U.S. Government Securities (amounts are unaudited). A delay in raising the statutory debt limit existed as of September 30, 2015. When delays in raising the statutory debt limit occur, the Department of the Treasury often must deviate from its normal debt management operations and take a number of extraordinary measures to meet the government's obligations as they come due without exceeding the debt limit. Extraordinary measures taken by Treasury during the period of March 16, 2015 through September 30, 2015 resulted in federal debt securities not being issued to certain federal government accounts. As reported in Note 16, as a result of Treasury securities not being issued to the TSP's G Fund, Treasury reported miscellaneous liabilities in the amount of $204.6 billion that represent uninvested principal and related interest for TSP's G Fund that would have been reported as federal debt securities had there not been a delay in raising the statutory debt limit as of September 30, 2015 and had the securities been issued. The most recent audited financial statements for the TSP are as of December 31, 2014, and 2013. As of December 31, 2014, and 2013, the TSP held $428.1 billion and $394.5 billion, respectively, in net assets, which included $191.3 billion and $172.7 billion, respectively, of U.S. Government Securities. These unaudited amounts above are included to enhance comparability of the TSP net assets with the remainder of the Government's fiduciary net assets as of September 30, 2015, and 2014.

DOI–Indian Trust Funds

As stated above, DOI has responsibility for the assets held in trust on behalf of American Indian Tribes and individuals, and these account for all of DOI's fiduciary net assets. DOI maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund and Individual Indian Money Trust Funds) in accordance with the *American Indian Trust Fund Management Reform Act of 1994*. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained for the benefit of individual Native Americans as well as for designated Indian tribes. DOI maintains separate financial statements for these trust funds which were prepared using the cash or modified cash basis of accounting, a comprehensive basis of accounting other than GAAP. The independent auditors' reports were qualified as it was not practical to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances. For further information related to these assets, please refer to the DOI website at http://www.doi.gov.

All Other Entities with Fiduciary Activities

The Government is responsible for the management of other fiduciary net assets on behalf of various non-federal entities. The component entities presented individually in the table on the previous page represent the vast majority of the Government's fiduciary net assets. All other component entities with fiduciary net assets are aggregated in accordance with SFFAS No. 31. As of September 30, 2015, and 2014, including FRTIB and DOI, there are a total of 17 and 15 federal entities, respectively, with fiduciary activities at a grand total of 65 and 50 fiduciary funds, respectively. SBA and LOC are the significant agencies relating to the fiduciary activities of the remaining component entities within the "all other" aggregate balance. As of September 30, 2015, "all other" fiduciary net assets were $2.8 billion, compared to $5.9 billion as of September 30, 2014.

Note 23. Social Insurance

The Statement of Social Insurance presents the projected actuarial present value of the estimated future revenue and estimated future expenditures of the Social Security, Medicare, Railroad Retirement, and Black Lung social insurance programs which are administered by the SSA, HHS, RRB, and DOL, respectively. These estimates are based on the economic as well as demographic assumptions presented later in this note as set forth in the relevant Social Security and Medicare trustees' reports and in the agency financial reports of HHS, SSA, and DOL as well as in the relevant agency performance and accountability report for RRB. The basis for the projections has changed since last year due to the enactment of the Medicare Access and Children's Health Insurance Program (CHIP) Reauthorization Act (MACRA) of 2015. This law repealed the sustainable growth rate (SGR) formula that set physician fee schedule payments, and replaced it with specified payment updates for physicians. In last year's report, the income, expenditures, and assets for Medicare Part B reflected the *projected baseline* scenario, which assumed an override of the SGR payment provisions and an increase in the physician fee schedule equal to the average of the most recent 10 years of SGR overrides (through March 2015) or 0.6 percent. Since the new legislation has replaced the SGR system with specified payment updates for physicians, the projections in this year's report are based on the continuation of program provisions contained in current law, with one exception in regard to payment reductions that would result from the projected depletion of the Social Security and Medicare Hospital Insurance (Part A) Trust Funds; under current law, payments would be reduced to levels that could be covered by incoming tax and premium revenues when the Social Security and Medicare Hospital Insurance (Part A) Trust Funds are depleted. The estimates in the consolidated SOSI of the open group measures are for persons who are participants or eventually will participate in the programs as contributors (workers) or beneficiaries (retired workers, survivors, and disabled) during the 75-year projection period. The Black Lung projection period ends September 30, 2040, because the primary purpose of the BLDTF is to compensate the victims of coal mine dust exposures which occurred prior to 1970. By the end of fiscal year 2040, not only the disabled miners and their widows in that class, but also virtually all of their eligible dependent disabled adult children will be deceased.

Contributions and dedicated taxes consist of: payroll taxes from employers, employees, and self-employed persons; revenue from federal income taxation of Old-Age Survivors and Disability Insurance (OASDI) and railroad retirement benefits; excise tax on the domestic sale of coal (Black Lung); premiums from, and state transfers on behalf of, participants in Medicare; and reimbursements from the General Fund to the OASDI Trust Funds to make up for reductions in payroll tax revenue due to temporary payroll tax rate reductions. Income for all programs is presented from a consolidated perspective. Future interest payments and other future intragovernmental transfers have been excluded upon consolidation. Expenditures include scheduled benefit payments and administrative expenses. Scheduled benefits are projected based on the benefit formulas under current law, with an exception in regard to payment reductions that would result from the projected depletion of the Social Security and Medicare Hospital Insurance (Part A) Trust Funds. Current Social Security and Medicare law also provides for full benefit payments only to the extent that there are sufficient balances in the trust funds. Expenditures reflect full benefit payments even after the point at which assets are projected to be depleted. As mentioned above, this methodology has changed since last year when, instead of current law, the Part B projections reflected the *projected baseline* scenario, which assumed an override of the SGR payment provisions used to set physician fee schedule payments.

Actuarial present values of estimated future income (excluding interest) and estimated future expenditures for the Social Security, Medicare, and Railroad Retirement social insurance programs are presented for three different groups of participants: (1) current participants who have not yet attained eligibility age; (2) current participants who have attained eligibility age; and (3) new entrants, who are expected to become participants in the future. Current participants in the Social Security and Medicare programs are the "closed group" of taxpayers and/or beneficiaries who are at least age 15 years at the start of the projection period. Since the projection period for the Social Security, Medicare, and Railroad Retirement social insurance programs consists of 75 years, the period covers virtually all of the current participants' working and retirement years, a period that could be greater than 75 years in a relatively small number of instances. Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of January 1 of the valuation year.

The present values of estimated future expenditures in excess of estimated future revenue are calculated by subtracting the actuarial present values of future scheduled contributions as well as dedicated tax income by and on behalf of current and future participants from the actuarial present value of the future scheduled benefit payments to them or on their behalf. To determine a program's funding shortfall over any given period of time, the starting trust fund balance is subtracted from the present value of expenditures in excess of revenues over the period.

The trust fund balances as of the valuation date for the respective programs, including interest earned, are shown in the table below. Substantially all of the Social Security (OASDI), Medicare Hospital Insurance (HI), and Supplementary Medical Insurance (SMI) Trust Fund balances consist of investments in special nonmarketable U.S. Treasury securities that are backed by the full faith and credit of the U.S. Government.

Social Insurance Programs Trust Fund Balances [1]

(In billions of dollars)	2015	2014	2013	2012	2011
Social Security	2,789	2,764	2,732	2,678	2,609
Medicare:					
HI	197	205	220	244	272
SMI Part B	68	74	66	80	71
SMI Part D	1	1	1	1	1
Railroad Retirement	28	28	26	24	26
Black Lung	(6)	(6)	(6)	(6)	(6)

[1] As of the valuation date of the respective programs.

Social Security

The Federal Old-Age and Survivors Insurance (OASI) program, created in 1935, and the Federal Disability Insurance (DI) program, created in 1956, collectively referred to as OASDI or "Social Security," provides cash benefits for eligible U.S. citizens and residents. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers' lifetime earnings histories.

The primary financing of the OASDI Trust Funds are taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the OASDI Program. Refer to the Unaudited Required Supplementary Information—Social Insurance section for additional information on Social Security program financing.

That portion of each trust fund not required to pay benefits and administrative costs is invested, on a daily basis, in interest-bearing obligations of the U.S. Government. The Social Security Act authorizes the issuance by the Treasury of special nonmarketable, intragovernmental debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuation in principal value due to changes in market yield rates. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the General Fund. These Treasury securities and related interest are eliminated in consolidation at the governmentwide level.

Medicare

The Medicare Program, created in 1965, has two separate trust funds: the HI (Medicare Part A) and SMI (Medicare Parts B and D) Trust Funds. HI pays for inpatient acute hospital services and major alternatives to hospitals (skilled nursing services, for example), and SMI pays for hospital outpatient services, physician services, and assorted other services and products through the Part B account and pays for prescription drugs through the Part D account. Though the events that trigger benefit payments are similar, HI and SMI have different dedicated financing structures. Similar to OASDI, HI is financed primarily by payroll contributions. Other income to the HI Trust Fund includes a small amount of premium income from voluntary enrollees, a portion of the federal income taxes that beneficiaries pay on Social Security benefits and interest credited on Treasury securities held in the HI Trust Fund. These Treasury securities and related interest are eliminated in the consolidation at the governmentwide level.

For SMI, transfers from the General Fund represent the largest source of income for both Parts B and D. Generally, beneficiaries finance the remainder of Parts B and D costs via monthly premiums to these programs. With the introduction of Part D drug coverage, Medicaid is no longer the primary payer for beneficiaries dually eligible for Medicare and Medicaid. For those beneficiaries, states must pay a portion of their estimated foregone drug costs into the Part D account (referred to as state transfers). As with HI, interest received on Treasury securities held in the SMI Trust Fund is credited to the fund and these Treasury securities as well as related interest are eliminated in consolidation at the governmentwide level. By accounting convention, the transfers of general revenues are eliminated in the consolidation of the SOSI at the governmentwide level and as such, the general revenues that are used to finance Medicare Parts B and D are not included in these calculations even though the expenditures on these programs are included. For the fiscal year 2015 and 2014 SOSI, the amounts eliminated totaled $24.8 trillion and $24.7 trillion, respectively. Refer to Unaudited Required Supplementary Information—Social Insurance section for additional information on Medicare program financing.

The *Medicare Prescription Drug, Improvement, and Modernization Act* (MMA), enacted on December 8, 2003, created the Part D account in the SMI Trust Fund to account for the prescription drug benefit that began in 2006. The MMA established within SMI two Part D accounts related to prescription drug benefits: the Medicare Prescription Drug Account and the Transitional Assistance Account. The Medicare Prescription Drug Account was used in conjunction with the broad, voluntary prescription drug benefits that commenced in 2006. The Transitional Assistance Account was used to provide transitional assistance benefits, beginning in 2004 and extending through 2005, for certain low-income beneficiaries prior to the start of the new prescription drug benefit.

Affordable Care Act (ACA)

In fiscal year 2010, President Barack Obama signed health insurance reform legislation giving Americans more control over their health care. The *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act* collectively referred to as the *Affordable Care Act* ensures that all Americans have access to quality, affordable health care, while helping to reduce health care costs.

The *Affordable Care Act* contains the most significant changes to health care coverage since the passing of the *Social Security Act*. The *Affordable Care Act* provided funding for the establishment by CMS of a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models to reduce program expenditures while preserving or enhancing the quality of care furnished to individuals. It also allowed for the establishment of a Center for Consumer Information and Insurance Oversight (CCIIO). The programs under CCIIO include the Marketplace and other programs listed below. A brief description of these programs and their impact on the financial statement is presented below.

Grants have been provided to the states to establish Affordable Insurance Marketplaces. The initial grants were made by the HHS to the states “not later than one year after the date of enactment.” Thus, HHS made the initial grants by March 23, 2011. Subsequent grants were issued by CMS. All Marketplaces were launched on October 1, 2013.

To help make health insurance more affordable to consumers, HHS makes advance payments of the premium tax credits (APTC) and cost-sharing reductions (CSR) to health insurance issuers on behalf of consumers who are eligible for financial assistance. APTC and CSR payments (which are included in the IRS financial statements) are a critical component of the Marketplace, and $30.0 billion has been allocated for these payments. In addition to these payments on behalf of consumers, HHS collects Marketplace user fees from issuers participating in the Federally-Facilitated Marketplace (FFM).

The Basic Health Program (BHP) gives states the ability to provide more affordable coverage for low-income residents and improve continuity of care for people whose income fluctuates above and below Medicaid and CHIP levels. Through the BHP, states can provide coverage to individuals who do not qualify for Medicaid, CHIP, or other minimum essential coverage and have income between 133 percent and 200 percent of the federal poverty level (FPL). A state that operates a BHP will receive federal funding equal to 95 percent of the amount of the premium tax credits and the cost sharing reductions that would have otherwise been provided to (or on behalf of) eligible individuals if these individuals enrolled in Qualified Health Plans through the Marketplace. Similar to APTC and CSR payments, BHP payment amounts are included in the IRS financial statements.

The Consumer Operated and Oriented Plan (CO-OP) Program fosters qualified non-profit health insurance issuers created to offer qualified health plans to the individual and small group markets. Under this program, HHS provides assistance to organizations applying to become qualified non-profit health insurance issuers through loans to assist in meeting start-up costs and to assist the applicant meet state solvency requirements. In accordance with regulations as well as legislative requirements, start-up loans shall be repaid within five years and the solvency loans within 15 years after disbursement, considering state reserve requirements and solvency regulations.

The Transitional Reinsurance program was established in each state to help stabilize premiums for coverage in the individual market from 2014 through 2016. All health insurance issuers and third party administrators, on behalf of some self-insured group health plans, must make contributions to support reinsurance payments that cover high-cost individuals in non-grandfathered plans in the individual market, inside and outside the Marketplace. The Transitional Reinsurance program is a critical element in helping to ensure a stabilized individual market in the first years of the Exchange operation of the Marketplace.

The Risk Adjustment program is a permanent program. It applies to non-grandfathered individual market and small group market plans inside and outside the Marketplaces. It provides payments to health insurance issuers that disproportionately attract higher-risk populations (such as individuals with chronic conditions) and transfers funds from plans with relatively lower risk enrollees to plans with relatively higher risk enrollees to protect against risk selection and adverse selection. States may operate risk adjustment programs and CMS will operate a risk adjustment program for each state that does not operate its own. In 2014 and 2015, Massachusetts is the only state that operated its own risk adjustment program.

The temporary Risk Corridors program will operate during the years 2014 through 2016. This program applies to qualified health plans in the individual and small group markets, inside and outside the Marketplaces and protects against inaccurate rate-setting by sharing risk (gains and losses) on allowable costs between CMS and qualified health plans to help ensure stable health insurance premiums.

The financial projections for the Medicare program reflect substantial, but very uncertain, cost savings deriving from provisions of the ACA and the specified physician updates put in place by the MACRA. However, it is important to note that the improved results for HI and SMI Part B since 2010 depend in part on the long-range feasibility of the various cost-saving measures in the ACA–most importantly, the reductions in the annual payment rate updates for most categories of Medicare providers by the growth in economy-wide productivity. Under the ACA, the rate of increase of Medicare payment rates is equal to the prior law rate of increase (equal to the rate of increase in the prices of inputs used to produce Medicare services) less the rate of increase of total economy multifactor productivity. Without fundamental change in the current delivery system, these productivity-related adjustments to Medicare payment rates would probably not be viable indefinitely. However, this outcome is achievable if health care providers are able to realize productivity improvements at a faster rate than experienced historically. On the other hand, if the health sector cannot transition to more efficient models of care delivery and achieve productivity increases commensurate with economy-wide productivity, and if the provider reimbursement rates paid by commercial insurers continue to follow the same negotiated process used to date, then the availability and quality of health care received by Medicare beneficiaries would, under current law, fall over time relative to that received by those with private health insurance.

A transformation of health care in the United States, affecting both the means of delivery and the method of paying for care, is also a possibility. The ACA takes important steps in this direction by initiating programs of research into innovative payment and service delivery models, such as accountable care organizations, patient-centered medical homes, improvement in care coordination for individuals with multiple chronic health conditions, improvement in coordination of post-acute care, payment bundling, pay for performance, and assistance for individuals in making informed health choices. Such changes have the potential to reduce health care costs as well as cost growth rates and could, as a result, help lower Medicare cost growth rates to levels compatible with the lower price updates payable under current law.

The ability of new delivery and payment methods to significantly lower cost growth rates is uncertain at this time, since specific changes have not yet been designed, tested, or evaluated. Preliminary indications are that some of these delivery reforms have had modest levels of success in lowering costs, but at this time it is too early to tell if these reductions in spending will continue, or if they will grow to the magnitude needed to align with the statutory Medicare price updates. The ability of health care providers to sustain the price reductions for those providers impacted by the productivity adjustments and the specified updates to physician payments will be challenging, as the best available evidence indicates that most providers cannot improve their productivity to this degree for a prolonged period given the labor-intensive nature of these services and that physician costs will grow at a faster rate than the specified updates. As a result, actual Medicare expenditures are highly uncertain for reasons apart from the inherent difficulty in projecting health care cost growth over time.

The reduction in provider payment updates, if implemented for all future years as required under current law, could have secondary impacts on provider participation, beneficiary access to care; quality of services; and other factors. These possible impacts are very speculative and at present there is no consensus among experts as to their potential scope. Further research and analysis will help to better inform this issue and may enable the development of specific projections of secondary effects under current law in the future.

The SOSI projections are based on current law, with one exception in regard to payment reductions that would result from the projected depletion of the Medicare Hospital Insurance (Part A) Trust Fund; under current law, payments would be reduced to levels that could be covered by incoming tax and premium revenues when the Medicare Hospital Insurance (Part A) Trust Funds are depleted.

The extent to which actual future Part A and Part B costs exceed the projected amounts due to changes to the productivity adjustments and specified physician updates depends on what specific changes might be legislated and whether Congress would pass further provisions to help offset such costs. However, absent an unprecedented change in health care delivery systems and payment mechanisms, the prices paid by Medicare for health services will fall increasingly short of the cost of providing such services. If this issue is not addressed by subsequent legislation, it is likely that access to, and quality of, physicians' services would deteriorate over time for beneficiaries. By the end of the long-range projection period, Medicare prices for many services would be less than half of their level without consideration of the productivity price reductions and physician payments would be 30 percent lower than they would have been under the SGR. Before such an outcome would occur, lawmakers would likely intervene to prevent the withdrawal of providers from the Medicare market and the severe problems with beneficiary access to care that would result. Overriding the productivity adjustments and specified physician updates, as lawmakers have done repeatedly in the case of physician payment rates, would lead to substantially higher costs for Medicare in the long range than those projected in this report.

To help illustrate and quantify the potential magnitude of the cost understatement, the Trustees asked the Office of the Actuary at CMS to prepare an illustrative Medicare Trust Fund projection under a hypothetical alternative that assumes that, starting in 2020, the economy-wide productivity adjustments gradually phase down to 0.4 percent, and starting in 2024, physician payments transition from a payment update of 0.0 percent to an increase of 2.3 percent. In addition, the illustrative alternative also assumes that requirements for the Independent Payment Advisory Board would not be implemented.[5] This alternative was developed for illustrative purposes only; the calculations have not been audited; no endorsement of the policies underlying the illustrative alternative by the Trustees, CMS, or the Office of the Actuary should be inferred; and the examples do not attempt to portray likely or recommended future outcomes. Thus, the illustrations are useful only as general indicators of the substantial impacts that could result from future legislation affecting the productivity adjustments and physician updates under Medicare and of the broad range of uncertainty associated with such impacts. The table below contains a comparison of the Medicare 75-year present values of estimated future income and estimated future expenditures under current law with those under the illustrative alternative scenario.

[5] The illustrative alternative projections included changes to the productivity adjustments starting with the 2010 annual report, following enactment of the *Affordable Care Act*. The assumption regarding physician payments is being used because the SGR was replaced earlier this year.

Medicare Present Values (in billions) (Unaudited)

	2015 Consolidated SOSI Current Law	Illustrative Alternative Scenario [1, 2]
Income:		
Part A	$17,902	$17,929
Part B [3]	$6,529	$8,065
Part D [4]	$2,869	$2,895
Total income	$27,300	$28,889
Expenditures:		
Part A	$21,089	$25,824
Part B	$23,995	$29,605
Part D	$10,156	$10,246
Total expenditures	$55,240	$65,675
Part A	$3,187	$7,895
Part B	$17,466	$21,540
Part D	$7,287	$7,352
Excess of expenditures over income	$27,940	$36,787

[1] These amounts are not presented in the 2015 Trustees' Report.

[2] At the request of the Trustees, the Office of the Actuary at CMS has prepared an illustrative set of Medicare Trust Fund projections that differ from current law. No endorsement of the illustrative alternative to current law by the Trustees, CMS, or the Office of the Actuary should be inferred.

[3] Excludes $17,466 billion and $21,540 billion of General Revenue Contributions from the 2015 Consolidated SOSI Current Law projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part B income on a consolidated governmentwide basis.

[4] Excludes $7,287 billion and $7,352 billion of General Revenue Contributions from the 2015 Consolidated SOSI Current Law projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part D income on a consolidated governmentwide basis.

Note: Amounts may not add up due to rounding.

The difference between the current law and illustrative alternative projections is substantial for Parts A and B. All Part A fee-for-service providers and roughly half of Part B fee-for-service providers are affected by the productivity adjustments, so the current-law projections reflect an estimated 1.1 percent reduction in annual cost growth each year for these providers. If the productivity adjustments were gradually phased out and physician updates transitioned to the Medicare Economic Index update of 2.3 percent, as illustrated under the alternative scenario, the estimated present value of Part A and Part B expenditures would be higher than the current law projections by roughly 22 percent and 23 percent, respectively. As indicated above, the present value of Part A income is basically unaffected under the alternative scenario.

The Part D values are similar under each projection because the services are not affected by the productivity adjustments or the physician updates. The very minor impact is the result of a slight change in the discount rates that are used to calculate the present values.

The extent to which actual future Part A and Part B costs exceed the projected amounts due to changes to the productivity adjustments and physician updates depends on what specific changes might be legislated and whether Congress would pass further provisions to help offset such costs. As noted, these examples reflect only hypothetical changes to provider payment rates.

Social Security and Medicare–Demographic and Economic Assumptions

The Boards of Trustees[6] of the OASDI and Medicare Trust Funds provide in their annual reports to Congress short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund. Because of the inherent uncertainty in estimates for 75 years into the future, the Boards use three alternative sets of economic and demographic assumptions to show a range of possibilities. Assumptions are made about many economic and demographic factors, including Gross Domestic Product (GDP)[7], disability incidence and terminations, earnings, the Consumer Price Index (CPI), the unemployment rate, the fertility rate, immigration, mortality, and for the Medicare projections health care cost growth. The assumptions used for the most recent set of projections shown in Table 1A (Social Security) and Table 1B (Medicare) are generally referred to as the "intermediate assumptions," and reflect the trustees' reasonable estimate of expected future experience. For further information on Social Security and Medicare demographic and economic assumptions, refer to SSA's and HHS' Agency Financial Reports.

[6] There are six trustees: the Secretaries of the Treasury (managing trustee), Health and Human Services, and Labor, the Commissioner of the Social Security Administration, and two public trustees who are generally appointed by the President and confirmed by the Senate for a 4-year term. By law, the public trustees are members of two different political parties.

[7] In July 2013, the Bureau of Economic Analysis (BEA) revised upward the historical values for GDP beginning with estimates for 1929.

Table 1A
Social Security – Demographic and Economic Assumptions

Demographic Assumptions

Year	Total Fertility Rate[1]	Age-Sex Adjusted Death Rate (per 100,000)[2]	Net Annual Immigration (persons per year)[3]	Period Life Expectancy at Birth[4]	
				Male	Female
2015	1.91	771.3	1,465,000	76.9	81.5
2020	2.04	730.1	1,395,000	77.7	82.1
2030	2.00	667.6	1,190,000	78.9	83.1
2040	2.00	615.0	1,135,000	80.0	84.0
2050	2.00	568.9	1,110,000	81.0	84.8
2060	2.00	528.2	1,095,000	81.9	85.5
2070	2.00	492.2	1,085,000	82.8	86.2
2080	2.00	460.1	1,085,000	83.6	86.9

Economic Assumptions

Year	Real Wage Differential (percent)[5]	Average Annual Wage In Covered Employment (percent change)[6]	CPI (percent change)[7]	Real GDP (percent change)[8]	Total Employment (percent change)[9]	Average Annual Interest Rate (percent)[10]
2015	3.18	3.38	0.20	3.3	1.3	2.2
2020	1.73	4.43	2.70	2.7	1.0	5.3
2030	1.23	3.93	2.70	2.1	0.5	5.6
2040	1.20	3.90	2.70	2.2	0.6	5.6
2050	1.21	3.91	2.70	2.1	0.5	5.6
2060	1.16	3.86	2.70	2.0	0.4	5.6
2070	1.11	3.81	2.70	2.1	0.4	5.6
2080	1.13	3.83	2.70	2.1	0.4	5.6

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

[2] The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[3] Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[4] The period life expectancy at a given age for a given year is the average remaining number of years expected prior to death for a person at that exact age, born on January 1, using the mortality rates for that year over the course of his or her remaining life. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[5] The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Values are rounded after all computations.

[6] The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[7] The CPI is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

[8] The real GDP is the value of total output of goods and services in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[9] Total employment is total U.S. military and civilian employment. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[10] The average annual interest rate is the average of the nominal interest rates, which compound semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

Table 1B
Medicare – Demographic and Economic Assumptions

Demographic Assumptions

Year	Total Fertility Rate[1]	Age-Sex Adjusted Death Rate (per 100,000)[2]	Net Annual Immigration (persons per year)[3]
2015	1.91	771.3	1,465,000
2020	2.04	730.1	1,395,000
2030	2.00	667.6	1,190,000
2040	2.00	615.0	1,135,000
2050	2.00	568.9	1,110,000
2060	2.00	528.2	1,095,000
2070	2.00	492.2	1,085,000
2080	2.00	460.1	1,085,000

Economic Assumptions

					Per Beneficiary Cost[8] (percent change)			
						SMI		
Year	Real Wage Differ-ential (percent)[4]	Average Annual Wage In Covered Employment (percent change)[5]	CPI (percent change)[6]	Real GDP (percent change)[7]	HI	Part B	Part D	Real Interest Rate (percent)[9]
2015	3.18	3.38	0.20	3.3	(0.9)	2.2	2.5	2.1
2020	1.73	4.43	2.70	2.7	4.2	5.9	5.7	2.4
2030	1.23	3.93	2.70	2.1	4.4	4.9	5.1	2.9
2040	1.20	3.90	2.70	2.2	4.9	4.1	4.9	2.9
2050	1.21	3.91	2.70	2.1	3.9	3.7	4.8	2.9
2060	1.16	3.86	2.70	2.0	3.7	3.7	4.6	2.9
2070	1.11	3.81	2.70	2.1	3.9	3.7	4.5	2.9
2080	1.13	3.83	2.70	2.1	3.9	3.7	4.5	2.9

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

[2]The age-sex-adjusted death rate is based on the enumerated total population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[3]Net annual immigration is the number of persons who enter during the year (both legally and otherwise) less the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[4]The real-wage differential is the annual percentage change in the average annual wage in covered employment less the annual percentage change in CPI. Values are rounded after computations.

[5]The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

[6]The CPI is the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

[7]The real GDP is the value of total output of goods and services produced in the U.S. in 2009 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.

[8]These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, and pharmaceutical costs). These assumptions include changes in the payment rates, utilization, and intensity of each type of service.

[9]The real interest rate is the average rate of interest earned on new trust fund securities, above and beyond the rate of inflation.

Railroad Retirement

The Railroad Retirement and Survivor Benefit program pays full retirement annuities at age 60 to railroad workers with 30 years of service. The program pays disability annuities based on total or occupational disability. It also pays annuities to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, partitioned surviving spouses, partitioned surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Medicare covers qualified railroad retirement beneficiaries in the same way as it does Social Security beneficiaries.

The RRB and the SSA share jurisdiction over the payment of retirement and survivor benefits. The RRB has jurisdiction over the payment of retirement benefits if the employee has at least 10 years of railroad service, or 5 years if performed after 1995. For survivor benefits, RRB requires that the employee's last regular employment before retirement or death be in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

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

Other sources of program income include: financial transactions with the Social Security and Medicare Trust Funds, earnings on investments, federal income taxes on railroad retirement benefits, and appropriations (provided after 1974 as part of a phase out of certain vested dual benefits). The financial interchange between RRB's Social Security Equivalent Benefit (SSEB) Account, the Federal Old-Age and Survivors Insurance Trust Fund, the Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund is intended to put the latter three trust funds in the same position they would have been had railroad employment been covered under the Social Security Act. From a governmentwide perspective, these future financial interchanges and transactions are intragovernmental transfers and are eliminated in consolidation.

Railroad Retirement–Employment, Demographic, and Economic Assumptions

The most recent set of projections is prepared using employment, demographic, and economic assumptions reflecting the Board Members' reasonable estimate of expected future experience.

Three employment assumptions were used in preparing the projections and reflect optimistic, moderate, and pessimistic future passenger rail as well as freight employment. The average railroad employment is assumed to be 238,000 in 2015 under the moderate employment assumption. This employment assumption, based on a model developed by the Association of American Railroads, assumes that (1) passenger service employment will remain at the level of 46,000 and (2) the employment base, excluding passenger service employment, will decline at a constant 2.0 percent annual rate for 25 years, at a falling rate over the next 25 years, and remain level thereafter. All the projections are based on an open-group (i.e., future entrants) population.

The moderate (middle) economic assumptions include a long-term cost of living increase of 2.7 percent, an interest rate of 7.0 percent, and a wage increase of 3.7 percent. The cost of living assumption reflects the expected level of price inflation. The interest (or investment) rate assumption reflects the expected rate of return on NRRIT investments. The wage increase reflects the expected increase in railroad employee earnings.

Sources of the demographic assumptions (including mortality rates and total termination rates, remarriage rates for widow(er)s, retirement rates, and withdrawal rates) are listed in Table 2. For further details on the employment, demographic, economic and all other assumptions, refer to the 26th *Actuarial Valuation of the Assets and Liabilities under the Railroad Retirement Acts* (Valuation Report) as of December 31, 2013, with Technical Supplement.

Table 2
Railroad Retirement Demographic Actuarial Assumptions (Sources)

Mortality Rates [1]	Mortality after age retirement	2010 Base Year RRB Annuitants Mortality Table with 2013 RRB Mortality Improvement Scale
	Mortality after disability retirement	2010 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze with 2013 RRB Mortality Improvement Scale
		2010 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze with 2013 RRB Mortality Improvement Scale
	Mortality during active service	2009 RRB Active Service Mortality Table
	Mortality of widowed annuitants	2013 RRB Mortality Table for Widows
Total Termination Rates [2]	Termination for spouses	2010 Base Year RRB Spouse Total Termination Table with 2013 RRB Mortality Improvement Scale
	Termination for disabled children	2004 RRB Total Termination Table for Disabled Children
Widow(er) Remarriage Rates [3]	1997 RRB Remarriage Table	
Retirement Rates [4]	Age retirement	See the Valuation Report.
	Disability retirement	See the Valuation Report.
Withdrawal Rates [5]	See the Valuation Report.	

[1] These mortality tables are used to project the termination of eligible employee benefit payments within the population.
[2] Total termination rates are used to project the termination of dependent benefits to spouses and disabled children.
[3] This rate is used to project the termination of spousal survivor benefits.
[4] The retirement rates are used to determine the expected annuity to be paid based on age and years of service for both age and disability retirees.
[5] The withdrawal rates are used to project all withdrawals from the railroad industry and resultant effect on the population and accumulated benefits to be paid.

Black Lung–Disability Benefit Program

The Black Lung Disability Benefit Program provides for compensation, medical, and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (black lung disease) attributed to their coal mine employment. The same program also provides for survivor benefits for eligible survivors of coal miners who died due to pneumoconiosis. DOL operates the Black Lung Disability Benefit Program.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the domestic sale of coal, as are the fund's administrative costs. These taxes are collected by the Internal Revenue Service (IRS) and transferred to the BLDTF, which was established under the authority of the Black Lung Benefits Revenue Act, and administered by the Treasury.

P.L. 110-343, *Division B-Energy Improvement and Extension Act of 2008*, enacted on October 3, 2008, among other things, restructured the BLDTF debt by refinancing the outstanding high interest rate repayable advances with low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing.

Black Lung–Demographic and Economic Assumptions

The demographic assumptions used for the most recent set of projections are the number of beneficiaries and their life expectancy. The beneficiary population data is updated from information supplied by the program. The beneficiary population is a nearly closed universe in which attrition by death exceeds new entrants by a ratio of more than ten to one. SSA Life Tables are used to project the life expectancies of the beneficiary population.

The economic assumptions used for the most recent set of projections are coal excise tax revenue estimates, the tax rate structure, federal civilian pay raises, medical cost inflation, and the interest rates used to discount future cash flows.

Treasury's Office of Tax Analysis provides estimates of future receipts of the black lung excise tax. Its estimates are based on projections of future coal production and sale prices prepared by the Energy Information Administration (EIA) of DOE. In fiscal year 2015 EIA projections of future coal production and sale prices reflect, among other things, regulation pursuant to the Clean Power Plan. Treasury's Office of Tax Analysis provides the first 10 years of tax receipt estimates. In fiscal year 2015, DOL refined the approach for selecting the growth rate for tax receipt estimates for the remaining years to enhance consistency of future tax receipts over the projection period. For fiscal year 2015, the growth rate for the remaining years is based on the average EIA growth rates for future coal production that reflect regulation pursuant to the Clean Power Plan. For fiscal years 2011 through 2014, the remaining years of future tax receipts were estimated using a growth rate based on both historical tax receipts and Treasury's estimated tax receipts. The coal excise tax rate structure is $1.10 per ton of underground-mined coal and $0.55 per ton of surface-mined coal sold, with a cap of 4.4 percent of sales price until the earlier of December 31, 2018 (used in all presentations), or the first December 31, in which there exists no (1) balance of repayable debt described in section 9501 of the Internal Revenue Code and (2) unpaid interest on the debt. At that time, the tax rates revert to $0.50 per ton of underground-mined coal and $0.25 per ton of surface-mined coal sold, and a limit of 2.0 percent of sales price.

OMB supplies assumptions for future monthly benefit rate increases based on increases in the federal pay scale and future medical cost inflation based on increases in the CPIM, which are used to calculate future benefit costs. During the current projection period, the future benefit rate increases 3.03 percent in 2016, 3.25 percent in 2017, 3.02 percent in 2018, and 3.0 percent in each year thereafter, and medical cost increases 3.4 percent in 2016, 3.7 percent in 2017, 3.8 percent in 2018, and 3.9 percent in each year thereafter. Estimates for administrative costs for the first 10 years of the projection period are supplied by DOL's Budget Office, based on current year enacted amounts, while later years are based on the number of projected beneficiaries.

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts reconciles the change (between the current valuation and the prior valuation) in the present value of estimated future revenue less estimated future expenditures for current and future participants (the open group measure) over the next 75 years (except Black Lung which has a projection period through September 30, 2040). The reconciliation identifies several components of the changes that are significant and provides reasons for the changes. The following disclosures relate to the Statement of Changes in Social Insurance Amounts including the reasons for the components of the changes in the open group measure during the reporting period from the end of the previous reporting period for the Government's social insurance programs. The Statement of Changes in Social Insurance

Amounts shows two reconciliations: (1) changing from the period beginning on January 1, 2014, to the period beginning on January 1, 2015, and (2) changing from the period beginning on January 1, 2013, to the period beginning on January 1, 2014.

Social Security

All estimates relating to the Social Security Program in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for economic data, assumptions, and methods represent the additional effect of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. In general, an increase in the present value of net cash flows represents a positive change (improving financing), while a decrease in the present value of net cash flows represents a negative change (worsening financing).

Assumptions Used for the Components of the Changes for the Social Security Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic as well as demographic assumptions used for the intermediate assumptions in the Social Security Trustees Reports for these years. Table 1A summarizes these assumptions for the current year.

Period Beginning on January 1, 2014, and Ending January 1, 2015

Present values as of January 1, 2014 are calculated using interest rates from the intermediate assumptions of the 2014 Social Security Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2015. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2014 Social Security Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated using the interest rates under the intermediate assumptions of the 2015 Social Security Trustees Report.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Present values as of January 1, 2013, are calculated using interest rates from the intermediate assumptions of the 2013 Social Security Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2014. Estimates of the present value of changes in social insurance amounts due to changing the valuation period and changing demographic data, assumptions, and methods are presented using the interest rates under the intermediate assumptions of the 2013 Social Security Trustees Report. Because interest rates are an economic estimate and all estimates in the table are incremental to the prior change, all other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated using the interest rates under the intermediate assumptions of the 2014 Social Security Trustees Report.

Change in Valuation Period

Period Beginning on January 1, 2014, and Ending January 1, 2015

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2014-2088) to the current valuation period (2015-2089) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2014, replaces it with a much larger negative net cash flow for 2089, and measures the present values as of January 1, 2015, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2014-2088 to 2015-2089. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2014 are realized. The change in valuation period increased the starting level of asset reserves in the combined OASI and DI Trust Funds.

Period Beginning on January 1, 2013, and Ending January 1, 2014

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2013-2087) to the current valuation period (2014-2088) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2013, replaces it with a much larger negative net cash flow for 2088, and measures the present values as of January 1, 2014, one year later. Thus, the present value of estimated future net cash flows (excluding the combined OASI and DI Trust Fund asset reserves at the start of the period) decreased (became more negative) when the 75-year valuation period changed from 2013-2087 to 2014-2088. In addition, the effect on the level of asset reserves in the combined OASI and DI Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2013 are realized. The change in valuation period increased the level of asset reserves in the combined OASI and DI Trust Funds.

Changes in Demographic Data, Assumptions, and Methods

Period Beginning on January 1, 2014, and Ending January 1, 2015

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2015), with the exception of changes made due to the executive actions on immigration, are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- Final birth rate data for 2012 and preliminary data for 2013 indicated lower birth rates than were expected in the prior valuation. In this year's report the total fertility rate reaches the ultimate in 2027, which is eleven years earlier than in last year's report.
- Incorporating mortality data obtained from Medicare experience at ages 65 and older for 2012 resulted in slightly higher death rates for 2012 and a slightly slower rate of decline in mortality over the next 25 years than were projected in last year's report. Incorporating mortality data obtained from the National Centers for Health Statistics at ages under 65 for 2011 resulted in slightly lower death rates for 2011 and a slightly faster rate of decline in mortality over the next 25 years than were projected in last year's report.
- Historical legal immigration was revised to include single age data (rather than 5-year age groups); including more recent marriage, legal immigration, and other-than-legal immigration data; historical data since 2001 was revised to be more consistent with the most recent estimates from the Census Bureau.

The effect of including the new birth rate data and immigration data was a decrease in the present value of estimated future net cash flows, while the inclusion of the remaining data increased the present value of estimated future net cash flows.

Period Beginning on January 1, 2013, and Ending January 1, 2014

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2014) are the same as those for the prior valuation. However, the starting demographic values, and the way these values transition to the ultimate assumptions, were changed.

- Preliminary birth rate data for 2012 indicated lower birth rates than were expected in the prior valuation. During the period of transition to their ultimate values, the birth rates in the current valuation are generally lower than they were in the prior valuation.
- New detailed historical divorce data along with revisions in the assumed path of the age-sex-adjusted divorce rate in the period of transition to the ultimate were used in the current valuation.
- New historical data since 2001 along with smoothing to the historical distribution of the married population by age of husband and wife was used in the current valuation period.

The effect of including the new birth rate data was a decrease in the present value of estimated future net cash flows, while the inclusion of the remaining data increased the present value of estimated future net cash flows.

There was one change in demographic methodology.

- The modeling of the other immigrant population was divided into three distinct groups for the current valuation: (1) those with temporary legal status; (2) those never authorized to be in the country; and (3) those that had temporary legal status previously but are no longer authorized to be in the country.

The effect of this new valuation methodology was an increase in the present value of estimated future net cash flows.

Changes in Economic Data, Assumptions, and Methods

Period Beginning on January 1, 2014, and Ending January 1, 2015

For the current valuation (beginning on January 1, 2015), there was one change to the ultimate economic assumptions.

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period.

The higher real wage differential assumption is more consistent with recent experience and expectations of slower growth in employer sponsored group health insurance premiums from the Centers for Medicare and Medicaid Services. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax. This change to the real-wage assumption increased the present value of estimated future net cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values and the way these values transition to the ultimate assumptions were changed.

- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period.
- The projected suspense file contains fewer wage items, which is consistent with having fewer workers (many of whom are undocumented immigrants) with wages on the suspense file and more of these workers with earnings in the underground economy, compared to the previous valuation.

The change to the ratio of average taxable earnings to the average wage index increased the present value of estimated future net cash flows while the change to the suspense file decreased the present value of estimated future net cash flows. Other, smaller changes in starting values and near term growth assumptions combined to increase the present value of estimated future net cash flows.

Period Beginning on January 1, 2013, and Ending January 1, 2014

For the current valuation (beginning on January 1, 2014), there was one change to the ultimate economic assumptions.

- The ultimate annual rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is assumed to be 2.7 percent per year in the current valuation period, compared to 2.8 percent per year in the previous valuation period.

Lowering the ultimate average annual increase in the CPI-W makes it more comparable to recent historical annual increases. This change to the CPI-W assumption decreased the present value of estimated future cash flows.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values, and the way these values transition to the ultimate assumptions, were changed.

- The ratio of average taxable earnings to the average wage index is lower by 1.9 percent in 2012 and 1.5 percent in 2013, compared to the previous valuation period.

This change to the ratio of average taxable earnings to the average wage index decreased the present value of estimated future cash flows.

There were two main changes in the economic methodology.

- Projected labor force participation rates for the older population are slightly lower for the current valuation in order to better reflect the difference in participation rates between never-married and married populations and the projected improvement in life expectancy.
- Different earnings levels are assigned to the three distinct groups of the other immigrant population supplied by demography. (This change decreased the present value of estimated future net cash flows by about the same amount as the related change in the demography methodology increased the present value of estimated future net cash flows.)

The effect of including these changes in methodology decreased the present value of estimated future net cash flows.

Changes in Law or Policy

Period Beginning on January 1, 2014, and Ending January 1, 2015

In the current valuation period (beginning on January 1, 2015), no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, on November 20, 2014, the President announced a series of executive actions on immigration, which are expected to have a significant effect on the long-range income and cost of the OASDI program. Due to a federal court order, implementation of the actions affecting undocumented children and parents is on hold at the time of this report. However, the estimates in this report assume this court order will be temporary and that the executive actions will proceed by the end of 2015.

The effect of including these executive actions was an increase in the present value of estimated future net cash flows.

Period Beginning on January 1, 2013, and Ending January 1, 2014

In the current valuation period (beginning on January 1, 2014) no laws were enacted that are expected to have significant effects on the long-range cost of the OASDI program. However, the Supreme Court's decision in the *United States v. Windsor* repealed parts of the *Defense of Marriage Act*, which affects the payment of federal benefits based on same-sex marriages. The extent to which OASDI benefits based on marriage will be available to same-sex couples is still not completely clear. The agency has issued guidelines, approved by the Department of Justice, for certain benefits for same-sex couples who were legally married when the insured accountholder resided in a state or jurisdiction that recognized same-sex marriages at the time of application or death. For estimates in this valuation, it is assumed that the agency will expand its guidelines to recognize all auxiliary beneficiaries for such marriages and that same-sex marriage will eventually be recognized in all states.

This expected expansion of benefits decreased the present value of estimated future net cash flows.

Changes in Programmatic Data and Methods

Period Beginning on January 1, 2014, and Ending January 1, 2015

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2015). The most significant are identified below.

- The earnings histories of worker beneficiaries were changed to be more consistent with: (1) the projected employment and earnings by single year of age and gender used in estimating payroll tax revenue and (2) the projected distribution by single year of age and gender of newly entitled worker beneficiaries for each projection year.
- The projected relative earnings levels for those over age 65 were changed to those age 65 and younger. The projected insured rate for some immigrants was lowered. The affected group of immigrants includes those working in covered employment with a temporary visa that allows them to work and those working in covered employment without current legal work authorization.
- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period. There were also updates to programmatic data, changes in projections of beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

All of these methodological improvements increased the present value of estimated future net cash flows.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2014). The most significant are identified below.

- The ultimate projected ratio of income from taxation of benefits to total benefits was increased for this valuation period.
- There were also updates to programmatic data, method changes for projecting beneficiaries and benefit levels over the first 10 years of the projection period, other small methodological improvements, and interactions.

The change to taxation of benefits increased the present value of estimated future net cash flows, while updates of program-specific data decreased the present value of estimated future net cash flows. Taken together, these changes decreased the present value of estimated future net cash flows.

Medicare

All estimates relating to the Medicare program in the Statement of Changes in Social Insurance Amounts represent values that are incremental to the prior change. As an example, the present values shown for demographic assumptions, represent the additional effect that these assumptions have, once the effects from the change in the valuation period and projection base have been considered.

Assumptions Used for the Components of the Changes for the Medicare Program

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various economic and demographic assumptions used for the intermediate assumptions in the Medicare Trustees Reports for these years. Table 1B summarizes these assumptions for the current year**.**

Period Beginning on January 1, 2014, and Ending January 1, 2015

Present values as of January 1, 2014 are calculated using interest rates from the intermediate assumptions of the 2014 Medicare Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2015. Estimates of the present value of changes in social insurance amounts due to changing the valuation period, projection base, demographic assumptions, and law are determined using the interest rates under the intermediate assumptions of the 2014 Medicare Trustees Report. Since interest rates are economic assumptions, the estimates of the present values of changes in economic and health care assumptions are presented using the interest rates under the intermediate assumptions of the 2015 Medicare Trustees Report.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Present values as of January 1, 2013 are calculated using interest rates from the intermediate assumptions of the 2013 Medicare Trustees Report. All other present values in this part of the Statement of Changes in Social Insurance Amounts are calculated as a present value as of January 1, 2014. Estimates of the present value of changes in social insurance amounts due to changing the valuation period, projection base, demographic assumptions, and law are determined using the interest rates under the intermediate assumptions of the 2013 Medicare Trustees Report. Since interest rates are economic assumptions, the estimates of the present values of changes in economic and health care assumptions are presented using the interest rates under the intermediate assumptions of the 2014 Medicare Trustees Report.

Change in Valuation Period

Period Beginning on January 1, 2014, and Ending January 1, 2015

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2014-88) to the current valuation period (2015-2089) is measured by using the assumptions for the prior valuation period and applying them, in the absence of any other changes, to the current valuation period. Changing the valuation period removes a small negative net cash flow for 2014 and replaces it with a much larger negative net cash flow for 2089. The present value of estimated future net cash flow (including or excluding the combined Medicare Trust Fund assets at the start of the period) was therefore decreased (made more negative) when the 75-year valuation period changed from 2014-2088 to 2015-2089. In addition, the effect on the level of assets in the combined Medicare Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2014 are realized. The change in valuation period decreased the level of assets in the combined Medicare Trust Funds.

Period Beginning on January 1, 2013, and Ending January 1, 2014

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2013-2087) to the current valuation period (2014-2088) is measured by using the assumptions for the prior valuation period and applying them, in the absence of any other changes, to the current valuation period. Changing the valuation period removes a small negative net cash flow for 2013 and replaces it with a much larger negative net cash flow for 2088. The present value of estimated future net cash flow (including or excluding the combined Medicare Trust Fund assets at the start of the period) was therefore decreased (made more negative) when the 75-year valuation period changed from 2013-2087 to 2014-2088. In addition, the effect on the level of assets in the combined Medicare Trust Funds of changing the valuation period is measured by assuming all values projected in the prior valuation for the year 2013 are realized. The change in valuation period decreased the level of assets in the combined Medicare Trust Funds.

Changes in Demographic Assumptions

Period Beginning on January 1, 2014, and Ending January 1, 2015

The demographic assumptions used in the Medicare projections are the same as those used for the Old-Age Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at the SSA.

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2015) are the same as those for the prior valuation. However, the starting demographic values, and the way these values transition to the ultimate assumptions, were changed.

- Final birth rate data for 2012 and preliminary data for 2013 indicated lower birth rates than were expected in the prior valuation. In this year's projections the total fertility rate reaches the ultimate in 2027, which is eleven years earlier than in last year's projections.

- Incorporating mortality data obtained from Medicare experience at ages 65 and older for 2012 resulted in slightly higher death rates for 2012 and a slightly slower rate of decline in mortality over the next 25 years than were projected last year. Incorporating mortality data obtained from the National Centers for Health Statistics at ages under 65 for 2011 resulted in slightly lower death rates for 2011 and a slightly faster rate of decline in mortality over the next 25 years than were projected last year.
- Historical legal immigration was revised to include single age data (rather than 5-year age groups); including more recent marriage, legal immigration, and other-than-legal immigration data; historical data since 2001 was revised to be more consistent with the most recent estimates from the Census Bureau.

These changes slightly lowered overall Medicare enrollment for the current valuation period resulting in a decrease in the estimated future net cash flow, and had a very minor impact on the present value of estimated income and estimated expenditures for Part A, Part B, and Part D.

Period Beginning on January 1, 2013, and Ending January 1, 2014

The demographic assumptions used in the Medicare projections are the same as those used for the Old-Age Survivors and Disability Insurance (OASDI) and are prepared by the Office of the Chief Actuary at the SSA.

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2014) are the same as those for the prior valuation. However, the starting demographic values, and the way these values transition to the ultimate assumptions, were changed.

- Preliminary birth rate data for 2012 indicated lower birth rates than were expected in the prior valuation. During the period of transition to their ultimate values, the birth rates in the current valuation are generally lower than they were in the prior valuation.

There was one change in demographic methodology:

- The modeling of the other immigrant population was divided into three distinct groups for the current valuation: (1) those with the temporary legal status; (2) those never authorized to be in the country; and (3) those who had temporary legal status previously but are no longer authorized to be in the country.

These changes slightly lowered overall Medicare enrollment for the current valuation period resulting in a decrease in the estimated future net cash flow, and had a very minor impact on the present value of estimated income and estimated expenditures for Part A, Part B, and Part D.

A further assumption change was made that resulted in higher Part D enrollment for the current valuation period. The participation rate represents the percentage of beneficiaries assumed to enroll in a Part D plan out of all eligible and, in prior years, was assumed to stay relatively constant at the same rate as the recent historical period. However, since actual participation has consistently been higher than expected, it was decided to increase the participation rate by 1 percent per year for the first three years of the projection period before leveling out. This results in an assumed 62.4 percent participation rate, prior to adjustments for beneficiaries who have retiree drug subsidy coverage and those who are assumed to drop out because they are required to pay an income-related premium, for 2017 and later, which is higher than the 57.2 percent that was assumed for all years in the prior valuation period. This assumption change resulted in an increase in the present value of estimated future income and estimated future expenditures for Part D, and had no impact on the Part A and Part B present values.

Changes in Economic and Health Care Assumptions

Period Beginning on January 1, 2014, and Ending January 1, 2015

The economic assumptions used in the Medicare projections are the same as those used for the OASDI and are prepared by the Office of the Chief Actuary at the SSA.

For the current valuation (beginning on January 1, 2015), there was one change to the ultimate economic assumptions:

- The ultimate real-wage differential is assumed to be 1.17 percent in the current valuation period, compared to 1.13 percent in the previous valuation period.

The higher real wage differential assumption is more consistent with recent experience and expectations of slower growth in employer sponsored group health insurance premiums from the Office of the Actuary at the CMS. Because these premiums are not subject to the payroll tax, slower growth in these premiums means that a greater share of employee compensation will be in the form of wages that are subject to the payroll tax.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values, and the way these values transition to the ultimate assumptions, were changed.

- The ratio of average taxable earnings to the average wage averages about 0.6 percentage point higher during the long-range period, compared to the previous valuation period.
- The projected suspense file contains fewer wage items, which is consistent with having fewer workers (many of whom are undocumented immigrants) with wages on the suspense file and more of these workers with earnings in the underground economy, compared to the previous valuation.

The health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation.

- Lower long-range growth rate assumptions.
- Utilization rate assumptions for inpatient hospital services were decreased.
- Lower assumed hospice spending.
- Higher assumed enrollment in Medicare Advantage plans where benefits are more costly.
- Introduction of high-cost specialty drugs used to treat hepatitis C.

The net impact of these changes resulted in an increase in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in an increase to the present value of estimated future expenditures and income, with an overall increase in the estimated future net cash flow. For Part B and Part D, these changes decreased the present value of estimated future expenditures (and also income).

Period Beginning on January 1, 2013, and Ending January 1, 2014

The economic assumptions used in the Medicare projections are the same as those used for the OASDI and are prepared by the Office of the Chief Actuary at the SSA.

For the current valuation (beginning on January 1, 2014), there was one change to the ultimate economic assumptions:

- The ultimate annual rate of change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is assumed to be 2.7 percent per year in the current valuation period, compared to 2.8 percent per year in the previous valuation period. Lowering the ultimate average annual increase in the CPI-W makes it more comparable to recent historical annual increases.

Otherwise, the ultimate economic assumptions for the current valuation are the same as those for the prior valuation. However, the starting economic values, and the way these values transition to the ultimate assumptions, were changed.

- The ratio of average taxable earnings to the average wage index is lower by 1.9 percent in 2012 and 1.5 percent in 2013, compared to the previous valuation period.

There were two main changes in the economic methodology.

- Projected labor force participation rates for the older population are slightly lower for the current valuation in order to better reflect the difference in participation rates between never-married and married populations and the projected improvement in life expectancy.
- Different earnings levels are assigned to the three distinct groups of the other immigrant population supplied by demography. (This change decreased the present value of estimated future cash flows by about the same amount as the related change in the demography methodology increased the present value of estimated future cash flows.)

The health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation.

- The projections emphasized in the 2014 Medicare Trustees Report were changed to reflect the projected baseline scenario. This scenario assumes that the physician payment updates required under current-law sustainable growth rate formula will be overridden by lawmakers. The use of these projections increases the present value of estimated future expenditures, compared to the current law projections, for Part B by roughly 11 percent, and for total Medicare by about 5 percent.
- Utilization rate assumptions for inpatient hospital services were decreased.
- Case mix increase assumptions for skilled nursing facilities and home health agencies were decreased.
- Market basket differential for skilled nursing facilities was lowered.

- Higher assumed enrollment in Medicare Advantage plans where benefits are generally more costly.
- Higher increases in productivity rates, resulting in lower payment updates.
- The methodology used to transition from the short-range projections to the long-range projections was refined, resulting in smaller increases during this transition period.
- Lower projected prescription drug trend rates.
- Higher assumed rebates from drug manufacturers.

The net impact of these changes resulted in an increase in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in a decrease to the present value of estimated future expenditures and income, with an overall increase in the estimated future net cash flow. For Part B, these changes increased the present value of estimated future expenditures (and also income). On the other hand, the abovementioned changes lowered the present value of estimated future expenditures (and also income) for Part D.

Changes in Law

Period Beginning on January 1, 2014, and Ending January 1, 2015

Although Medicare legislation was enacted since the prior valuation date, some of the provisions have a negligible impact on the present value of the 75-year estimated future income, expenditures, and net cash flow. The *Veteran's Access, Choice, and Accountability Act of 2014* established a temporary program that allows eligible veterans to receive hospital care and medical services from eligible providers outside of the Department of Veterans Affairs (VA) system, rather than waiting for a VA appointment or traveling to a VA facility. The *Improving Medicare Post-Acute Care Transformation Act of 2014* standardized the collection of data for post-acute providers and aligned the inflation of the hospice aggregate cap with that of hospice reimbursement. The *Tax Increase Prevention Act of 2014* accelerated the start date for the payment adjustment of misvalued codes under the physician fee schedule from 2017 to 2016, and delayed inclusion of oral-only end-stage renal disease (ESRD)-related drugs into the ESRD bundled payment system from 2024 to 2025. MACRA included many provisions affecting Medicare spending, including the repeal of the SGR formula for determining payments under the physician fee schedule, the continuation of extensions for several provisions from prior legislation, a reduction in payment updates for most post-acute providers in 2018, the replacement of a 3.2 percent reduction to inpatient hospitals in 2018 with a 0.5 percent reduction in 2018 through 2023, and a revision to the income thresholds for determining the income-related monthly adjustment amounts under Part B and Part D.

Overall these provisions resulted in an increase in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in a decrease to the present value of estimated future expenditures, with an overall increase in the estimated future net cash flow. For Part B, these changes increased the present value of estimated future expenditures (and also income). For Part D, the above-mentioned changes increased the present value of estimated future expenditures (and also income) only very slightly.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Although Medicare legislation was enacted since the prior valuation date, many of the provisions have a negligible impact on the present value of the 75-year estimated future income, expenditures, and net cash flow. The *Continuing Appropriations Resolution of 2014* included several provisions that had an impact on the Medicare program, including a 0.5 percent physician payment update for January through March of 2014, extension of the Medicare sequester to fiscal year 2022 and 2023, and payment reform for long-term care hospitals. Further, sections 1 and 3 of Public Law 113-82 included a further extension of the Medicare sequester to fiscal year 2024. Lastly, the *Protecting Access to Medicare Act of 2014* extended the 0.5 percent physician update through December 2014, enacted a 0 percent update for January through March of 2015, improved payment policy for clinical diagnostic lab tests, made revisions to the ESRD prospective payment system and physician fee schedule, and realigned the Medicare sequester in fiscal year 2024. Overall these provisions resulted in an increase in the estimated future net cash flow for total Medicare. For Part A, these changes resulted in an increase to the present value of estimated future expenditures, with an overall increase in the estimated future net cash flow. For Part B, these changes lowered the present value of estimated future expenditures (and also income) only very slightly. For Part D, the above mentioned changes increased the present value of estimated future expenditures (and also income) also very slightly.

Change in Projection Base

Period Beginning on January 1, 2014, and Ending January 1, 2015

Actual income and expenditures in 2014 were different than what was anticipated when the 2014 Trustees Report projections were prepared. Part A income was slightly lower and expenditures were slightly higher than anticipated, based on actual experience. Part B total income and expenditures were also higher than estimated based on actual experience. For Part D, actual income and expenditures were both higher than prior estimates. The net impact of the Part A, B, and D projection base changes is a decrease in the estimated future net cash flow. Actual experience of the Medicare Trust Funds between January 1, 2014 and January 1, 2015 is incorporated in the current valuation and is slightly more than projected in the prior valuation.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Actual income and expenditures in 2013 were different than what was anticipated when the 2013 Trustees Report projections were prepared. Part A income was slightly higher and expenditures were lower than anticipated, based on actual experience. Part B total income and expenditures were also lower than estimated based on actual experience. For Part D, actual income and expenditures were both slightly higher on an incurred basis than prior estimates. The net impact of the Part A, B, and D projection base changes is an increase in the estimated future net cash flow. Actual experience of the Medicare Trust Funds between January 1, 2013 and January 1, 2014 is incorporated in the current valuation and is slightly more than projected in the prior valuation.

Railroad Retirement

The present values included in the Statement of Changes in Social Insurance Amounts are for the current and prior years and are based on various employment, demographic, and economic assumptions that reflect the RRB's reasonable estimate of expected future financial and actuarial status of the trust funds. Some economic and demographic assumptions were updated in 2015 along with the following other components of changes in the open group measure.

Change in Valuation Period

Period Beginning on January 1, 2014, and Ending January 1, 2015

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2014-2088) to the current valuation period (2015-2089) was a $1.6 billion decrease (became more negative) on the open group measure between January 1, 2014, and January 1, 2015.

Period Beginning on January 1, 2013, and Ending January 1, 2014

The effect on the 75-year present values of changing the valuation period from the prior valuation period (2013-2087) to the current valuation period (2014-2088) was a $1.7 billion decrease (became more negative) on the open group measure between January 1, 2013, and January 1, 2014.

Changes in Demographic Data, Assumptions, and Methods

Period Beginning on January 1, 2014, and Ending January 1, 2015

Some demographic assumptions, such as the Annuitants Mortality Table, the Disabled Mortality Table for Annuitants with Disability Freeze, the Disabled Mortality Table for Annuitants without Disability Freeze, the Active Service Mortality Table, the Spouse Total Termination Table, the Mortality Improvement Scale, the probability of an employee having an eligible spouse, the Mortality Table for Widows, the rates of immediate age retirement, the rates of immediate disability retirement, the rates of eligibility for disability freeze, service months, salary scales, and family characteristics, were changed between the Statement of Social Insurance as of January 1, 2014, and the Statement of Social Insurance as of January 1, 2015. Changes in demographic data, assumptions, and methods resulted in a decrease of $3.5 billion in the open group measure between January 1, 2014, and January 1, 2015.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Demographic assumptions were not changed between the Statement of Social Insurance as of January 1, 2013, and the Statement of Social Insurance as of January 1, 2014. Changes in demographic data resulted in an increase of $2.3 billion in the open group measure between January 1, 2013, and January 1, 2014.

Changes in Economic Data, Assumptions, and Methods

Period Beginning on January 1, 2014, and Ending January 1, 2015

Both select and ultimate economic assumptions were changed between the Statement of Social Insurance as of January 1, 2014, and the Statement of Social Insurance as of January 1, 2015. A COLA of 0.5 percent was used for 2016 in place of the 2.2 percent COLA assumed for 2016 in the prior year's report. A 1.6 percent COLA was assumed for 2017 instead of a 2.8 percent COLA. An ultimate COLA of 2.7 percent for 2018 and the following years was used in place of the ultimate COLA of 2.8 percent used in the prior year's report. An ultimate wage increase assumption of 3.7 percent was used in place of the 3.8 percent wage increase assumption used in the prior year's report. Also, the actual 2014 investment return of 5.5 percent was lower than the assumed 7.0 percent investment return used for 2014 in the prior year's report. Changes in economic data, assumptions and methods resulted in a change of about $3.2 billion from January 1, 2014, to January 1, 2015.

Period Beginning on January 1, 2013, and Ending January 1, 2014

Ultimate economic assumptions were not changed between the Statement of Social Insurance as of January 1, 2013, and the Statement of Social Insurance as of January 1, 2014, but select economic assumptions were. The actual COLA of 1.5 percent was used for 2014 in place of the 1.8 percent COLA assumed for 2014 in the prior year's report. A 1.7 percent COLA was assumed for 2015 instead of a 2.3 percent COLA, and a 2.2 percent COLA was assumed for 2016 instead of a 2.8 percent COLA. Also, the actual 2013 investment return of 16.0 percent was higher than the assumed 7.0 percent investment return used for 2013 in the prior year's report. Changes in economic data, assumptions, and methods resulted in a change of about ($1.2) billion between January 1, 2013, and January 1, 2014.

Changes in Methodology and Programmatic Data

Period Beginning on January 1, 2014, and Ending January 1, 2015

There were no changes in methodology and programmatic data.

Period Beginning on January 1, 2013, and Ending January 1, 2014

There were no changes in methodology and programmatic data.

Changes in Law or Policy

Period Beginning on January 1, 2014, and Ending January 1, 2015

There were no changes in law or policy.

Period Beginning on January 1, 2013, and Ending January 1, 2014

There were no changes in law or policy.

Black Lung

The significant assumptions used in the projections of the Black Lung social insurance program presented in the Statement of Social Insurance are the coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, federal civilian pay raises, medical cost inflation, and the interest rates used to discount future cash flows. These assumptions also affect the amounts reported on the Statement of Changes in Social Insurance Amounts.

During fiscal year 2015, the decrease in the open and closed group measures of ($2,886.1) million was primarily due to projected lower coal excise tax revenues and higher administrative costs, offset in part due to lower beneficiary costs and the change in interest rates used to discount the cash flows from 2.5 percent and 2.63 percent in fiscal year 2014 to 2.25 percent for income payments, medical payments, administrative expenses, and coal excise tax collections in fiscal year 2015. In fiscal years 2015 and 2014, DOL's approach for selecting the interest rate assumptions used to discount projected annual cash flows enhanced matching between the timing of cash flows and interest rates and increased comparability; the approach had been refined in fiscal year 2014. For fiscal year 2015, projected annual cash flows were discounted to present value based on Treasury rates that reflect the average duration of cash flows between 10.3 and 11.2 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rate used to discount fiscal year 2015 projections is 2.25 percent for income payments, medical payments, administrative expenses, and coal excise tax collections.

During fiscal year 2014, the decrease in the open and closed group measures of ($137.5) million was primarily due to projected lower coal excise tax revenues, offset in part due to lower beneficiary costs, and the change in interest rates used to discount the cash flows from between 2.79 and 2.95 percent in fiscal year 2013 to 2.5 percent for income payments, and 2.63 percent for medical payments, administrative expenses, and coal excise tax collections in fiscal year 2014. For fiscal year 2014, projected annual cash flows were discounted to present value based on Treasury rates that reflect the average duration of cash flows between 10.4 and 12.2 years for income payments, medical payments, administrative expenses, and coal excise tax collections. The interest rates used to discount fiscal year 2014 projections were 2.5 percent for income payments, and 2.63 percent for medical payments, administrative expenses, and coal excise tax collections.

Note 24. Long-Term Fiscal Projections

The Statement of Long-Term Fiscal Projections is prepared pursuant to SFFAS No. 36, *Comprehensive Long-Term Projections for the U.S. Government*, as amended. The basic financial statement, Note 24, and related unaudited required supplementary information (RSI) provide information to aid users in assessing whether current policies for Federal spending and taxation can be sustained and the extent to which the cost of public services received by current taxpayers will be shifted to future taxpayers under sustainable policies. This assessment requires prospective information about receipts and spending, the resulting debt, and how these amounts relate to the economy. A sustainable policy is defined as one where the ratio of Federal debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining. The *Financial Report* does not address the sustainability of State and local government fiscal policy.

The projections and analysis presented here are extrapolations based on an array of assumptions described in detail below. A fundamental assumption is that current Federal policy will not change. This assumption is made so as to inform the question of whether current fiscal policy is sustainable and, if it is not sustainable, the magnitude of needed reforms to make fiscal policy sustainable. The projections are therefore neither forecasts nor predictions. If policy changes are implemented, perhaps in response to projections like those presented here, then actual financial outcomes will of course be different than those projected. The methods and assumptions underlying the projections are subject to continuing refinement.

The projections focus on future cash flows, and do not reflect either the accrual basis or the modified-cash basis of accounting. These cash-based projections reflect receipts or spending at the time cash is received or when a payment is made by the Government. In contrast, accrual-based projections would reflect amounts in the time period in which income is earned or when an expense or obligation is incurred. The cash basis accounting underlying the long-term fiscal projections is consistent with methods used to prepare the Statements of Social Insurance (SOSI) and the generally cash-based Federal budget.

The basic financial statement, Long-Term Fiscal Projections for the U.S. Government, displays the present value of 75-year projections for various categories of the Federal Government's receipts and non-interest spending.[8] Unaudited fiscal year 2014 projections from last year's *Financial Report* are included for comparison. The projections for fiscal years 2015 and 2014 are expressed in present value dollars and as a percentage of the present value of Gross Domestic Product (GDP)[9] as of September 30, 2015 and September 30, 2014, respectively. The present value of a future amount, for example $1 billion in October 2090, is the amount of money that if invested on September 30, 2015 in an account earning the government borrowing rate would have a value of $1 billion in October 2090.[10]

The present value of a receipt or expenditure category over 75 years is the sum of the annual present value amounts. When expressing a receipt or expenditure category over 75 years as a percent of GDP, the present value dollar amount is divided by the present value of GDP over 75 years. Measuring receipts and expenditures as a percentage of GDP is a useful indicator of the economy's capacity to sustain Federal Government programs.

Fiscal Projections

Receipt categories in the long-term fiscal projections include individual income taxes, Social Security and Medicare payroll taxes, and residual remaining category of "other receipts." On the spending side, categories include: (1) discretionary spending that is funded through annual appropriations, such as spending for national security, and (2) mandatory (entitlement) spending that is generally financed with permanent or multi-year appropriations, such as spending for Social Security and Medicare. This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2015 Social Security and Medicare trustees' reports and the 2015 Statement of Social Insurance, while comparative information presented from last year's report is based on the 2014 Social Security and Medicare trustees' reports and the 2014 Statement of Social Insurance. Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions used from the trustees' reports. The projections assume the continuance of current policy which, as is explained below, can be different than current law in cases where lawmakers have in the past periodically changed the law in a consistent way.

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[8] For the purposes of this analysis, spending is defined in terms of outlays. In the context of Federal budgeting, spending can either refer to budget authority – the authority to commit the government to make a payment; to obligations – binding agreements that will result in payments, either immediately or in the future; or to outlays – actual payments made.

[9] GDP is a standard measure of the overall size of the economy and represents the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports less imports). Equivalently, GDP is a measure of the gross income generated from domestic production over the same time period.

[10] Present values recognize that a dollar paid or collected in the future is worth less than a dollar today because a dollar today could be invested and earn interest. To calculate a present value, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

The projections shown in the basic statement are made over a 75-year time frame, consistent with the time frame featured in the Social Security and Medicare trustees' reports. However, these projections are for fiscal years starting on October 1, whereas the trustees' reports feature calendar-year projections. This difference allows the projections to start from the actual budget results from fiscal years 2015 and 2014.

Changes in Long-Term Fiscal Projections

Present Value (PV) of 75-Year Projections	Trillions of $	Percent of 75-Year PV of GDP
Non-Interest Spending Less Receipts: as of September 30, 2014 (unaudited)	4.7	0.4
Components of Change:		
Change due to Economic and Demographic Assumptions	(1.4)	(0.1)
Change due to Program-Specific Actuarial Assumptions	(6.8)	(0.6)
Change due to Enacted Legislation	-	-
Change due to Updated Budget Data	7.0	0.6
Change in Reporting Period	0.1	0.0
Change in Model Technical Assumptions	0.4	0.0
Total	(0.6)	(0.1)
Non-Interest Spending Less Receipts: as of September 30, 2015	4.1	0.3

NOTE: Totals may not equal the sum of components due to rounding.

This year's estimate of the 75-year present value imbalance of non-interest spending over receipts expressed as a share of the 75-year present value of GDP is 0.3, compared to 0.4 as was projected in last year's *Financial Report*. The above table reports the effects of various factors on the updated projections. The largest such factor, increasing the imbalance by 0.6 percent of GDP ($7.0 trillion), is attributable to actual budget results for fiscal year 2015 and other budget data used in formulating the projection. The next largest change in the table – lowering the imbalance by 0.6 percent of GDP ($6.8 trillion) – is attributable to programmatic assumptions for Social Security, Medicare, and Medicaid that decrease the present value of outlays less payroll taxes for those programs. The final substantial change noted in the table – lowering the imbalance by 0.1 percent of GDP ($1.4 trillion) – is attributable to changes in economic and demographic assumptions.[11]

The last row in the basic financial statement shows that this year's estimate of the overall 75-year present value net excess of non-interest spending over receipts is 0.3 percent of the 75-year present value of GDP ($4.1 trillion, as compared to GDP of $1,196.3 trillion). This imbalance can be broken down by funding source. There is a surplus of receipts over spending of 1.1 percent of GDP ($13.2 trillion) among programs funded by the government's general revenues, but an imbalance of 1.4 percent of GDP ($17.3 trillion[12]) for the combination of Social Security (OASDI) and Medicare Part A,

[11] As the 2015 long-term fiscal projections represent current policy without change as of September 30, 2015, the 2015 projections do not include the effects of the *Bipartisan Budget Act of 2015* (*BBA*) or the *Protecting Americans from Tax Hikes (PATH) Act of 2015*, both of which represent changes in policy after September 30, 2015. Among the important provisions included in the BBA are: (1) an increase in the statutory limits on discretionary spending in 2016 and 2017, (2) extension of Joint Committee mandatory sequestration by one year, to 2025, and (3) specific programmatic deficit reduction in Medicare, Social Security, the Pension Benefit Guaranty Corporation, and the Strategic Petroleum Reserve, among other programs. The PATH Act extended a large number of expiring tax provisions, with the largest effects on sources of revenues that the long-term fiscal projections based on historical averages rather than on particular provisions of tax law. Neither of these acts is expected to have a material effect on the projections included in this *Financial Report*.

[12] The 75-year present value imbalance for Social Security and Medicare Part A of $17.3 trillion is comprised of several line items from the long-term fiscal projections – Social Security outlays net of Social Security Payroll Taxes ($17.6 trillion) and Medicare Part A outlays net of Medicare Payroll Taxes ($6.6 trillion) – as well as subcomponents of these programs not presented separately in the table. These subcomponents include Social Security and Medicare Part A administrative costs that are classified as non-defense discretionary spending ($0.6 trillion) and Social Security and Medicare Part A revenue other than payroll taxes: taxation of benefits (-$3.5 trillion), Federal employer share (-$1.1 trillion), and other income (-$2.9 trillion).

which under current law are funded with payroll taxes and not in any material respect with general revenues.[13, 14] By comparison, the fiscal year 2014 projections showed that programs funded by the Government's general revenues had an excess of receipts over spending of 1.2 percent of GDP ($13.5 trillion) while the payroll tax-funded programs had an imbalance of spending over receipts of 1.6 percent of GDP ($18.2 trillion).

Sustainability and the Fiscal Gap

As discussed further in RSI, the projections in this report indicate that current policy is not sustainable. If current policy is left unchanged, the projections show the debt-to-GDP ratio will fall about 6 percentage points between 2015 and 2025 before commencing a steady rise, exceeding its 2015 level (74 percent) by 2031, exceeding 100 percent by 2043, and reaching 223 percent in 2090. Moreover, if the trends that underlie the 75-year projections were to continue, the debt-to-GDP ratio would continue to rise beyond the 75-year window.

The fiscal gap measures how much the primary surplus (receipts less non-interest spending) must increase in order for fiscal policy to achieve a target debt-to-GDP ratio in a particular future year. In these projections, the fiscal gap is estimated over a 75-year period, from 2016 to 2090, and the target debt-to-GDP ratio is equal to the ratio at the beginning of the projection period, in this case the debt-to-GDP ratio at the end of fiscal year 2015.

The 75-year fiscal gap under current policy is estimated at 1.2 percent of GDP, which is 6.1 percent of the 75-year present value of projected receipts and 6.0 percent of the 75-year present value of non-interest spending. This estimate of the fiscal gap is 0.9 percentage point smaller than was estimated in 2014 (2.1 percent of GDP).

The projections show that projected primary deficits average 0.3 percent of GDP over the next 75 years under current policies. If policies were put in place that would result in a zero fiscal gap, the average primary surplus over the next 75 years would be 0.9 percent of GDP, 1.2 percentage points higher than the projected present value net excess of non-interest spending over receipts shown in the basic financial statement. Closing the fiscal gap requires that primary surpluses be substantially positive because the projections assume that interest rates will exceed the growth rate of GDP, so merely achieving primary balance would result in debt growing faster than GDP.

Assumptions Used and Relationship to Other Financial Statements

A fundamental assumption underlying the projections is that current Federal policy (defined below) does not change. The projections are therefore neither forecasts nor predictions, and do not consider large infrequent events such as natural disasters, military engagements, or economic crises. If policy changes are enacted, perhaps in response to projections like those presented here, then actual fiscal outcomes will of course be different than those projected.

Even if policy does not change, actual expenditures and receipts could differ materially from those projected here. Long-range projections are inherently uncertain and are necessarily based on simplifying assumptions. For example, one key simplifying assumption is that interest rates paid on debt held by the public remain unchanged, regardless of the amount of debt outstanding. To the contrary, it is likely that future interest rates would increase if the debt-to-GDP ratio rises as in these projections. To help illustrate this uncertainty, projections that assume higher and lower interest rate scenarios are presented in the "Alternative Scenarios" discussion in the RSI section of this *Financial Report*.

As is true for prior fiscal year projections, the assumptions for GDP, interest rates, and other economic factors underlying this year's projections are the same assumptions that underlie the most recent Social Security and Medicare trustees' report projections. The use of discount factors consistent with the Social Security trustees' rate allows for consistent

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[13] As an example of General Fund transfers to these programs, the OASDI trust fund received General Fund transfers, primarily in 2011 and 2012, to account for lost payroll taxes resulting from enactment of the temporary 2 percent reduction of the employee payroll taxes. Social Security and Medicare Part A expenditures can exceed payroll tax revenues in any given year to the extent that there are sufficient balances in the respective trust funds, balances that derive from past excesses of payroll tax revenues over expenditures and interest earned on those balances and represent the amount the General Fund owes the respective trust fund programs. When spending does exceed payroll tax revenues, as has occurred each year since 2008 for Medicare Part A and 2010 for Social Security, the excess spending is financed first with interest due from the General Fund and secondly with a drawdown of the General Fund's loan balance; in either case, the spending is ultimately supported by general revenues or borrowing. Under current law, benefits for Social Security and Medicare Part A can be paid only to the extent that there are sufficient balances in the respective trust funds. In order for the projections here to reflect the full size of these program's commitments to pay future benefits, the projections assume that all scheduled benefits will be financed with borrowing to the extent necessary after the trust funds are exhausted.

[14] The fiscal imbalances reported in the long-term fiscal projections are limited to future outlays and receipts. They do not include the initial level of publicly-held debt, which was $13.1 trillion in 2015 and $12.8 trillion in 2014, and therefore they do not by themselves answer the question of how large fiscal reforms must be to make fiscal policy sustainable, or how those reforms divide between reforms to Social Security and Medicare Part A and to other programs. Other things equal, past cash flows (primarily surpluses) for Social Security and Medicare Part A reduced Federal debt at the end of 2015 by $3.0 trillion (the trust fund balances at that time); the contribution of other programs to Federal debt at the end of 2015 was therefore $16.1 trillion. Because the $17.3 trillion imbalance between outlays and receipts over the next 75 years for Social Security and Medicare Part A does not take account of the Social Security and Medicare Part A trust fund balances, it overstates the magnitude of reforms necessary to make Social Security and Medicare Part A solvent over 75 years by $3.0 trillion. The $3.0 trillion combined Social Security and Medicare Part A trust fund balance represents a claim on future general revenues.

present value calculations over 75 years between the Statements of Long-Term Fiscal Projections and the Statements of Social Insurance. Present value calculations under higher and lower interest rate scenarios are presented in the "Alternative Scenarios" section in RSI.

The following bullets summarize the key assumptions used for the categories of receipts and spending presented in the basic financial statement and the disclosures:

- **Social Security:** Projected Social Security (OASDI) spending excludes administrative expenses, which are classified as discretionary spending, and is based on the projected expenditures in the 2015 Social Security trustees' report for benefits and for the Railroad Retirement interchange. The projections of Social Security payroll taxes and future Social Security spending begin with actual receipts and expenditures for FY 2015, and assume the same growth rates for future spending and for payroll taxes as are projected in the 2015 Social Security trustees' report. More information about the assumptions for Social Security cost growth can be found in Note 23 and the RSI discussion of Social Insurance.
- **Medicare:** Projected Medicare spending is also shown net of administrative expenses and is based on projected incurred expenditures from the 2015 Medicare trustees' report. The projections here make some adjustments to the trustees' report projections. Medicare Part B and D premiums, as well as State contributions to Part D, are subtracted from gross spending in measuring Part B and Part D outlays, just as they are subtracted from gross cost to yield net cost in the financial statements.[15] Here, as in the Federal budget, premiums are treated as "negative spending" rather than receipts since they represent payment for a service rather than payments obtained through the Government's sovereign power to tax. This is similar to the financial statement treatment of premiums as "earned" revenue as distinct from all other sources of revenue, such as taxes. The projections start with actual FY 2015 Medicare spending and assume spending growth accords with the growth rates projected in the Medicare trustees' report. Medicare Part A payroll taxes are projected similarly. More information about the assumptions for Medicare cost growth can be found in Note 23 and the Required Supplementary Information for Social Insurance. As discussed in Note 23, there is uncertainty about whether the reductions in health care cost growth projected in the Medicare trustees' report will be fully achieved. Note 23 illustrates this uncertainty by considering Medicare cost growth assumptions under varying policy assumptions.
- **Medicaid:** The Medicaid spending projections start with the projections from the *2014 Actuarial Report on the Financial Outlook for Medicaid* prepared by the Office of the Actuary, Centers for Medicare & Medicaid Services (CMS)[16]. These projections are based on recent trends in Medicaid spending, the demographic, economic, and health cost growth assumptions in the 2014 Medicare Trustees' Report, and projections of the effect of the *Affordable Care Act (ACA)* on Medicaid enrollment. The projections, which end in 2023, are adjusted to accord with the actual Medicaid expenditures in fiscal year 2015. After 2023, the projections assume no further expansion in State Medicaid coverage under the ACA, with the number of Medicaid beneficiaries expected to grow at the same rate as total population, and Medicaid costs per beneficiary assumed to grow at the same rate as Medicare benefits per beneficiary, as is generally consistent with the experience since 1987. Between 1987 and 2014, the average annual growth rate of outlays per beneficiary for Medicaid and Medicare were within 0.4 percentage point of each other. Projections of Medicaid spending are subject to added uncertainty related to: (1) assumed reductions in health care cost growth discussed above in the context of Medicare, and (2) the projected size of the Medicaid enrolled population, which depends on a variety of factors, including the future extent of the ACA Medicaid expansion.
- **Other Mandatory Spending:** Other mandatory spending, which includes means-tested entitlements other than Medicaid, Federal employee retirement, and veterans disability benefits, is projected in two steps. First, spending prior to the automatic spending cuts called for by the enforcement provisions of the *Budget Control Act (BCA)* is projected and, second, the effect of the BCA enforcement is projected throughout the projection period. With regard to pre-BCA spending: (a) Current mandatory spending components that are judged permanent under current policy are assumed to increase by the rate of growth in nominal GDP starting in 2016, implying that such spending will remain constant as a percentage of GDP[17]; and (b) Projected spending for insurance exchange subsidies starting in 2016 grows with growth in the non-elderly population and with the National Health Expenditure (NHE) projected per enrollee cost growth for other private health insurance for the NHE projection period (through 2024 for the fiscal year 2015 projections), and with growth in per enrollee health care costs as projected for the Medicare program after

[15] Medicare Part B and D premiums and State contributions to Part D are subtracted from the Part B and D spending displayed in the basic financial statement. The total 75-year present value of these subtractions is $10.8 trillion, or 0.9 percent of GDP.
[16] Christopher J. Truffer, Christian J. Wolfe, and Kathryn E. Rennie, *2014 Actuarial Report on the Financial Condition for Medicaid*, Office of the Actuary, Centers for Medicare and Medicaid Services, United States Department of Health and Human Services, December 2014.
[17] This assumed growth rate for other mandatory programs exceeds the growth rate in the most recent OMB and CBO 10-year budget baselines.

that period. Exchange subsidy spending is ultimately constrained as a percentage of GDP in accordance with the failsafe provision in the ACA holding this spending to 0.504 percent of GDP.

- **Defense and Non-defense Discretionary Spending:** Through 2021, discretionary spending other than for Overseas Contingency Operations (OCO) is dictated by the spending caps and automatic spending cuts called for by the BCA. After 2021, this spending is assumed to grow at the same rate as nominal GDP, and thus plateaus at a long-term level of 4.8 percent of GDP. The BCA is projected to reduce the present value of spending by $0.5 trillion through 2021, and by an additional $3.9 trillion between 2022 and 2090 because of the lower base spending in 2021. Projected OCO spending steadily declines and is fully phased out after 2025, and amounts to $0.2 trillion in present value. To illustrate uncertainty, present value calculations under alternative discretionary growth scenarios are presented in the "Alternative Scenarios" RSI section.
- **Receipts (Other than Social Security and Medicare):** It is assumed that individual income taxes will equal the same share of wages and salaries as in the Administration's latest Budget current law baseline projection. That baseline accords with current policy as defined above, and incorporates the effects of the economic recovery and bracket creep. After reaching about 22 percent of wages and salaries in 2023, individual income taxes increase gradually to 29 percent of wages and salaries in 2090 as real taxable incomes rise over time and an increasing share of total income is taxed in the higher tax brackets. The ratio of all other receipts combined to GDP is projected to remain at 3.6 percent of GDP, based on a long-run historical average. To illustrate uncertainty, present value calculations under higher and lower receipts growth scenarios are presented in the "Alternative Scenarios" section.
- **Debt and Interest Spending:** Interest spending is determined by projected interest rates and the level of outstanding debt held by the public. The long-run interest rate assumptions accord with those in the 2015 Social Security trustees' report.[18] The average interest rate over the projection period is 5.4 percent. These rates are also used to convert future cash flows to present values as of the start of fiscal year 2016. Debt at the end of each year is projected by adding that year's deficit and other financing requirements to the debt at the end of the previous year.

The methods described above include several refinements from those used to produce the fiscal year 2014 projections. First, insurance exchange subsidies are projected based on assumed growth in enrollment and health care cost growth starting with the first projection year, rather than using external projections for the first 10-year period, and explicitly account for the ACA's failsafe provision. Second, the magnitude of the effect of other means of financing on changes in debt is based on assumptions about the eventual level of financial assets implied by other means financing, rather than simply based on the most recent actual level for other means of financing. Third, BCA enforcement through 2024 is now adjusted to account for the fact that Medicare enforcement through 2024 is included in the Medicare actuarial projections and does not need to be accounted for separately.

Departures of Current Policy from Current Law

The long-term fiscal projections are made on the basis of current Federal policy, which in some cases is different from current law. The notable differences between current policy that underlies the projections and current law are: (1) projected spending and receipts imply violation of the current statutory limit on Federal debt, (2) continued discretionary appropriations are assumed throughout the projection period, (3) scheduled Social Security and Medicare benefit payments are assumed to occur beyond the projected point of trust fund exhaustion, (4) many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized, and (5) mandatory sequestration is assumed to continue throughout the projection period, notwithstanding its statutory expiration in 2025. As is true in the Medicare trustees' report and in the Statement of Social Insurance, the projections incorporate programmatic changes already scheduled in law, such as the ACA productivity adjustment for non-physician Medicare services.[19]

[18] As indicated in the more detailed discussion of Social Insurance in Note 23 to the financial statements.

[19] In the 2014 projections, Medicare physician payments were assumed to increase throughout the projected period, rather than being reduced sharply in April 2015 as scheduled under current law at that time. However, a permanent reform to Medicare physician payments has been enacted, so there is no departure from current law in this area in the 2015 projections.

Note 25. Stewardship Land and Heritage Assets

Stewardship land is federally-owned land set aside for the use and enjoyment of present and future generations, and land on which military bases are located. Except for military bases, this land is not used or held for use in general government operations. Stewardship land is land that the government does not expect to use to meet its obligations, unlike the assets listed in the Balance Sheets. Stewardship land is measured in non-financial units such as acres of land and lakes, and the number of National Parks and National Marine Sanctuaries. Examples of stewardship land include national parks, national forests, wilderness areas, and land used to enhance ecosystems for the encouragement of animal and plant species, and nature conservation. This category excludes lands administered by the Bureau of Indian Affairs and held in trust.

The majority of public lands that are under the management of DOI were acquired by the government during the first century of the Nation's existence between 1781 and 1867.

Stewardship land is used and managed in accordance with the statutes authorizing acquisition or directing use and management. Additional detailed information concerning stewardship land, such as agency stewardship policies, physical units by major categories, and the condition of stewardship land, can be obtained from the financial statements of DOI, DOD, DOE, HHS, TVA, and USDA.

Heritage assets are government-owned assets that have one or more of the following characteristics:

- Historical or natural significance;
- Cultural, educational, or artistic importance; and/or
- Significant architectural characteristics

The cost of heritage assets often is not determinable or relevant to their significance. Like stewardship land, the government does not expect to use these assets to meet its obligations. The most relevant information about heritage assets is non-financial. The public entrusts the government with these assets and holds it accountable for their preservation. Examples of heritage assets include the Mount Rushmore National Memorial and Yosemite National Park. Other examples of heritage assets include the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as the Vietnam Veterans Memorial, the Jefferson Memorial, and the Washington Monument, as well as the Library of Congress. Many other sites such as battlefields, historic structures, and national historic landmarks are placed in this category, as well.

Many laws and regulations govern the preservation and management of heritage assets. Established policies by individual federal agencies for heritage assets ensure the proper care and handling of the assets under their control and preserve these assets for the benefit of the American public.

Some heritage assets are used both to remind us of our heritage and for day-to-day operations. These assets are referred to as multi-use heritage assets. One typical example is the White House. The cost of acquisition, betterment, or reconstruction of all multi-use heritage assets is capitalized as general Property, Plant, and Equipment (PP&E) and is depreciated.

The government classifies heritage assets into two broad categories: collection type and non-collection type. Collection type heritage assets include objects gathered and maintained for museum and library collections. Non-collection type heritage assets include national wilderness areas, wild and scenic rivers, natural landmarks, forests, grasslands, historic places and structures, memorials and monuments, buildings, national cemeteries, and archeological sites.

This discussion of the government's heritage assets is not exhaustive. Rather, it highlights significant heritage assets reported by federal agencies. Please refer to the individual financial statements of the DOC, VA, DOT, State, DOD, as well as websites for the Library of Congress (http://loc.gov), the Smithsonian Institution (http://si.edu), and the Architect of the Capitol (http://aoc.gov) for additional information on multi-use heritage assets, agency stewardship policies, and physical units by major categories.

Note 26. Subsequent Events

Statutory Debt Limit

On November 2, 2015 Congress enacted the *Bipartisan Budget Act of 2015* (P.L. 114-74) which temporarily suspended the debt limit through March 15, 2017. This was following a delay in raising the statutory debt limit from March 16, 2015 to November 1, 2015. During the delay period, Treasury deviated from its normal debt management operations and took extraordinary measures to meet the government's obligations as they came due without exceeding the debt limit. As a result of Treasury securities not being issued to the Government Securities Investment Fund (G-Fund) of the Thrift Savings Plan, Treasury reported in Note 16— Other Liabilities miscellaneous liabilities in the amount of $204.6 billion, representing uninvested principal of and related interest for the G-fund that would have been reported in Note 11— Federal Debt Securities Held by the Public and Accrued Interest had there not been a delay in raising the statutory debt limit as of September 30, 2015, and had the securities been issued Also as a result of Treasury securities not being issued, uninvested principal and related interest of $146.1 billion was not included in intragovernmental debt holding balances for the Civil Service Retirement and Disability Fund and the Postal Service Retiree Health Benefits Fund as of September 30, 2015. As required by the relevant statutes, the Department of the Treasury restored these funds with the accumulated principal balance of Treasury debt securities that bears such interest rates and maturity dates necessary to replicate the investments the funds would have held had the delay not occurred (the uninvested principal). Also as required by the relevant statutes, Treasury paid these funds the related lost interest (foregone interest) on the uninvested principal. See Note 11– Federal Debt Securities Held by the Public and Accrued Interest and Note 16 – Other Liabilities for further information on the Statutory Debt Limit.