

# Financial Statements of the United States Government for the Year Ended September 30, 1998

## Statement of Operations and Changes in Net Position

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

### Revenue

The main source of revenue for Government operations consists of taxes and other revenue the Federal Government generates under its sovereign powers or receives by donation.

"Individual income tax and tax withholdings" consist of Federal income taxes, and Social Security and Medicare taxes, net of refunds.

"Miscellaneous earned revenue" consists of earned revenues received from the public with virtually no associated cost. This category includes revenues generated from spectrum auctions and rents and royalties on the Outer Continental Shelf Lands.

### Net Cost of Government Operations

The Statement of Net Cost presents the "Net cost of Government operations," which is gross cost minus earned revenue.

### Unreconciled Transactions

"Unreconciled transactions" are adjustments made to balance the change in Net Position.

### Net Position— Beginning of Period

The "Net position—beginning of period" reflects the net

position reported on the prior year's Balance Sheet.

### Prior Period Adjustments

"Changes in accounting principles" is the retroactive effect of applying new Federal Financial Accounting Standards.

"Other adjustments" are revisions to correct the beginning net position.

### Net Position— End of Period

This amount reflects the net position on the current year's Balance Sheet.

## Statement of Net Cost

This statement reports the net cost of fiscal 1998 Government operations. It also shows the cost to carry out national priorities as determined by law.

It also categorizes costs by major function. It presents costs in much the same way as does the budget, except that costs are allocated to functions based on accounting standards. Thus, this statement reports costs on an accrual basis and allocates them differently than the budget. For example, this statement allocates the cost of pensions and retiree health

benefits among all the functions that employ workers. The budget categorizes pension payments to retirees as a subfunction, found under "Income security." The budget categorizes agency contributions to retirement funds as intragovernmental outlays distributed among all the functions that employ workers. A description of each of the functions and the components of net cost for the activities included in each function is presented in Supplemental Information as "Net cost detail."

The Statement contains the following three components for each function:

- The gross cost of Government operations.
- The revenues earned from the public for goods and services.

- The net cost of Government operations, which is gross cost less revenue earned.

### Gross Cost

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

### Earned Revenue

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

### Net Cost

The "Net cost" of Government operations is computed by subtracting "Earned revenues" from "Gross cost."

## Balance Sheet

This Balance Sheet shows the Government's assets and liabilities. It alone does not provide a complete picture of the Government's financial resources nor the current and future claims on them. However, when combined with Stewardship Information, this information presents a more comprehensive understanding of the Government's financial position. Most line items on the Balance Sheet are described in the Notes to the Financial Statements. The first note, for example, provides information on the accounting policies for assets and liabilities.

## Assets

Assets included on the Balance Sheet are resources of the Federal Government that remain available to meet future needs. The most significant assets reported in the Balance Sheet are loans receivable and inventories, as well as property, plant and equipment. There are, however, other significant resources available to the Government that extend beyond the assets presented in this Financial Statement. Those assets include the Government's sovereign powers to tax, regulate commerce and set monetary policy. They also include natural resources.

A change in accounting standards, effective as of October 1, 1997, created a new class of assets, termed Stewardship Assets. Selected assets now are highlighted separately from the Balance Sheet under Stewardship Information. As steward of these as-

sets, it is incumbent on the Government to demonstrate accountability by including these assets in its financial reports.

### National defense assets

"National defense assets" are weapon systems and supporting assets used by the military for the Nation's common defense and general welfare. The predominant reporting objectives for national defense assets are their availability to defend the country in times of need. These objectives are best measured in non-financial terms. Effective October 1, 1997, national defense assets totaling \$655.2 billion were reclassified from the Balance Sheet to Stewardship Information. Examples of those assets in-

clude aircraft carriers, submarines, tanks and missiles.

### Stewardship land

“Stewardship land” is land owned by the Federal Government and set aside for the use and enjoyment of present and future generations. The Federal Government does not expect to use this land to meet its obligations, unlike the assets listed on the Balance Sheet. Stewardship land is measured in non-financial units such as acres of land and lakes, miles of parkways, and wild and scenic rivers. Examples of stewardship land include historic parks, national forests, wilderness areas and land used to enhance ecosystems to encourage animal and plant species and to conserve nature.

### Heritage assets

“Heritage assets” are Government-owned assets that have one or more of the following characteristics: historical or natural significance; cul-

tural, educational, or artistic importance; or significant architectural features. 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. Instead, information on their existence provides the best measure of the Government’s custodial responsibility. Examples of heritage assets include: the Declaration of Independence, the Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments such as the Vietnam Veterans Memorial, Jefferson Memorial and the Washington Monument as well as art and cultural treasures at the Smithsonian Institution and the Library of Congress. Many other sites such as the battlefields, historic structures and national historic landmarks also are placed under this category.



## Liabilities and Net Position

Liabilities are obligations of the Federal Government resulting from prior actions that will require resources. The most significant liabilities reported on the Balance Sheet are Federal debt securities held by the public and accrued pension liabilities for current and retired Federal civilian and military personnel. However, the Government’s responsibilities are much broader than these Balance Sheet liabilities.

The Government’s responsibilities and policy commitments include the social insurance programs disclosed in Stewardship Information and certain future loss contingencies.

The magnitude and complexity of social insurance programs coupled with the extreme sensitivity of projections relating to the many assumptions of the program produce a large range

of possible results. The Stewardship Responsibilities section explains factors that impact the various programs. Using this information, the readers can apply their own judgment to the sustainability of the individual programs. The Federal Accounting Standards Advisory Board continues to consider the appropriate accounting treatment for them.

The Balance Sheet includes social insurance benefits due and payable as of the reporting date.

Each of the social insurance programs has an associated trust fund to account for its activity. An explanation of the large trust funds for social insurance and many of the other large trust funds is included in Note 17–Dedicated Collections. That note also contains information

about trust fund receipts, disbursements and assets.

A broad perspective on the Federal Government’s responsibilities is provided by the Current Services Assessment, which also can be found under Stewardship Information. Presented in accordance with the President’s budget, this information estimates Federal expenditures for fiscal years 1999 through 2004 if there are no changes to current law.

The Government also has unresolved contingencies where existing conditions, situations or circumstances create uncertainty about future losses. Contingent liabilities that do not meet the criteria for recognition on the Balance Sheet, but for which there is at least a reasonable possibility that a loss has been incurred, are disclosed in Note 15–Commitments and Contingencies.

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

**United States Government  
Statement of Operations and Changes in Net Position  
for the Year Ended September 30, 1998**

(In billions of dollars)

**Revenue:**

Individual income tax and tax withholdings . . . . .	1,374.2
Corporation income taxes . . . . .	186.3
Unemployment taxes . . . . .	26.4
Excise taxes . . . . .	57.6
Estate and gift taxes . . . . .	24.0
Customs duties . . . . .	17.7
Other taxes and receipts . . . . .	26.6
Miscellaneous earned revenues . . . . .	7.4
<b>Total revenue . . . . .</b>	<b>1,720.2</b>

**Net Cost of Government Operations:**

National defense . . . . .	321.6
Human resources . . . . .	1,080.4
Physical resources . . . . .	100.2
Net interest . . . . .	243.1
Other functions . . . . .	108.7
<b>Total net cost of Government operations . . . . .</b>	<b>1,854.0</b>

**Excess of Net Cost Over Revenue . . . . .** (133.8)

Unreconciled transactions affecting the change in net position (Note 16) . . . . .	23.9
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**Decrease in net position . . . . .** (109.9)

**Net position, beginning of period . . . . .** (5,003.0)

Prior Period Adjustments (Note 14):

Changes in accounting principles . . . . .	(681.7)
Other adjustments . . . . .	(339.8)

**Net position, end of period . . . . .** (6,134.4)

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

**United States Government  
Statement of Net Cost  
for the Year Ended September 30, 1998**

(In billions of dollars)	Gross Cost	Earned Revenue	Net Cost
<b>National defense</b> . . . . .	343.6	22.0	321.6
<b>Human Resources:</b>			
Education, training, employment and social services . . . . .	54.7	3.3	51.4
Health . . . . .	125.3	1.1	124.2
Medicare . . . . .	213.7	20.6	193.1
Income security . . . . .	181.8	7.7	174.1
Social Security . . . . .	378.7	-	378.7
Veterans benefits and services (Note 10) . . . . .	160.2	1.3	158.9
Total human resources . . . . .	1,114.4	34.0	1,080.4
<b>Physical Resources:</b>			
Energy . . . . .	13.3	11.9	1.4
Natural resources and environment . . . . .	27.0	4.2	22.8
Commerce and housing credit . . . . .	96.5	70.7	25.8
Transportation . . . . .	41.6	3.7	37.9
Community and regional development . . . . .	14.7	2.4	12.3
Total physical resources . . . . .	193.1	92.9	100.2
<b>Net interest</b> . . . . .	243.1	-	243.1
<b>Other Functions:</b>			
International affairs . . . . .	24.8	6.0	18.8
General science, space and technology . . . . .	19.9	0.1	19.8
Agriculture . . . . .	19.1	2.3	16.8
Administration of justice . . . . .	28.3	1.4	26.9
General government . . . . .	29.2	2.8	26.4
Total other functions . . . . .	121.3	12.6	108.7
Total . . . . .	2,015.5	161.5	1,854.0

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

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**United States Government  
Balance Sheet  
as of September 30, 1998**

(In billions of dollars)

**Assets:**

Cash and other monetary assets (Note 2) . . . . .	96.8
Accounts receivable . . . . .	36.1
Loans receivable (Note 3). . . . .	166.8
Taxes receivable (Note 4). . . . .	27.1
Inventories and related property (Note 5). . . . .	166.8
Property, plant and equipment (Note 6). . . . .	299.3
Other assets (Note 7) . . . . .	59.9
<b>Total assets</b> . . . . .	<b>852.8</b>

**Liabilities and Net Position:**

Accounts payable (Note 8) . . . . .	90.0
Federal debt securities held by the public (Note 9). . . . .	3,717.7
Federal employee and veteran benefits payable (Note 10) . . . . .	2,685.1
Environmental liabilities (Note 11) . . . . .	224.5
Benefits due and payable (Note 12) . . . . .	77.6
Loan guarantee liabilities (Note 3) . . . . .	37.7
Other liabilities (Note 13). . . . .	154.6
<b>Total liabilities</b> . . . . .	<b>6,987.2</b>

Commitments and Contingencies (Note 15)

<b>Net Position</b> . . . . .	<b>(6,134.4)</b>
<b>Total liabilities and net position</b> . . . . .	<b>852.8</b>

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

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