# Notes to financial statements

INTERACTIVE ANALYSIS

## General note on sources

### Federal government

Federal government amounts and the related text within Notes 2 through 22 and Note 25 below were copied from the 2018 United States (US) Treasury (Treasury) *Financial Report of the United States* (the Financial Report). We condensed and reordered the Financial Report information in reproducing it here to reflect the materiality level of this report, generally rounding dollars to the nearest billion, condensing amounts in tables less than 5% of the respective totals, and deleting the corresponding text. We also excluded the following notes of the Financial Report in creating this report:

- *Note 1 – Summary of significant accounting policies* – excluded because aggregated accounting policies for state and local governments are not available, and the federal accounting policies are voluminous and less helpful without the associated state and local government information. Rather, we refer you to each of our sources for information on their accounting policies – see *Part I, About this Report, Structure and content, Sources of data* within this report for more information on our financial statement sources;
- *Note 17 – Collections and refunds of federal revenue* – excluded because the footnote provides details on federal government revenues shown in the Financial Report, whereas our revenues come from a different source and therefore this detail is not applicable to our report; and
- *Note 22 – Social insurance* and *Note 23 – Long-term fiscal projections* – excluded because these footnotes primarily contain projections that a company would not normally include in its footnotes, though we have provided some supplemental information on potential future social insurance program (e.g. Medicare, Social Security) obligations in Exhibits 99.06 and 99.07 of this report.

We also reviewed the 2019 US Treasury *Financial Report of the United States* (the 2019 Financial Report) and noted that the Treasury had adjusted certain 2018 figures after releasing the Financial Report. We made corresponding adjustments in this report, resulting in changes to: Trading Securities – All other equity securities (*Note 7 – Debt and equity securities*), reflecting a misstatement related to the Smithsonian Institution, and a related decrease to Other assets (*Note 9 – Other assets)*. See the 2019 Financial Report for more details.

Finally, we supplemented the Financial Report information in *Note 8 – Investments in government-sponsored enterprises* by providing the Fannie Mae and Freddie Mac balance sheets (obtained from their respective Form 10-Ks) and in *Note 22 – Stewardship land and heritage assets* by providing tables that show revenues generated from federally owned land, including stewardship land (see source in *Note 22*).

Please see also *Note 1 – Accounting policies* below.

### State and local government

State and local government amounts within these footnotes were sourced from the Federal Reserve. We have aggregated certain figures to reflect the materiality level of this report and grouped the figures to match the federal government categories. The Federal Reserve does not provide definitions or other accompanying text for the state and local government data. Therefore, there is a risk that we mapped the state and local government figures to the federal government categories in a different way than the state and local governments or the Federal Reserve would have mapped them. In addition, we have not provided as much information for state and local governments in these footnotes as we have for the federal government due to this data source limitation. We plan to provide more detailed state and local data in the future.

## Note 1 – Accounting policies

### Accounting principles

As discussed under *General note on sources* above, our combined financial statements and accompanying notes represent the aggregation of data prepared by other organizations. The accounting principles, including principles of combination, the preparation of estimates, and the use of assumptions can be found at each respective source. Principles we have applied in addition to theirs are discussed in this note.

### Principles of combination

The combined financial statements have been prepared through the aggregation of federal and state and local government data, as described above. Certain intergovernmental amounts have been eliminated (see *Note 23 – Intergovernmental transfers*) and certain revenues and expenditures have been netted (see *Note 24 – Offsetting amounts*).

### Estimates and assumptions

Preparing financial statements requires management of organizations to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenditures. As our financial statements comprise the combined data of other organizations, the related estimates and assumptions have been made by management of those organizations.

### Changes in prior period amounts

Within our financial statements and footnotes, we have adjusted prior period amounts that our sources have adjusted. In addition, we have reclassified certain prior period amounts to conform to the current period presentation, with no impact on combined net deficit. See details in *Note 17 – Prior period adjustments*.

## Note 2 – Cash and other monetary assets

| **(In billions)** | **2018** | **2017** |
|---|---|---|
| Federal | $ 508 | $ 271 |
| State and local | 802 | 786 |
| Total cash and other monetary assets | $ 1,310 | $ 1,057 |

### Federal government

| **(In billions)** | **2018** | **2017** |
|---|---|---|
| Unrestricted cash | | |
| Cash held by Treasury for federal government-wide operations | $ 379 | $ 153 |
| Other | 4 | 4 |
| Restricted cash | 32 | 26 |
| Total cash | 415 | 183 |
| International monetary assets | 67 | 63 |
| Other monetary assets | 26 | 25 |
| Total cash and other monetary assets | $ 508 | $ 271 |

Unrestricted cash includes cash held by Treasury for governmentwide operations (Operating Cash) and all other unrestricted cash held by the federal entities. Operating Cash represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments 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 entities, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, and imprest funds. Operating Cash held by the Treasury increased by $226 billion (an increase of approximately 148%) in fiscal year 2018 due to Treasury's investment and borrowing decisions to manage the balance and timing of the federal 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 Security Assistance Accounts (SAA), which execute foreign military sales. The SAA included $26 billion and $21 billion as of September 30, 2018 and 2017, respectively.

International monetary assets include the US reserve position in the International Monetary Fund (IMF) and US holdings of Special Drawing Rights (SDRs). The US 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 US 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 $100 billion and $105 billion as of September 30, 2018, and 2017, respectively. The US reserve position in the IMF had a US dollar equivalent of $15 billion and $10 billion as of September 30, 2018, and 2017, 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. US 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 $51 billion and $52 billion as of September 30, 2018, and 2017, 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 billion as of September 30, 2018, and 2017, and are included in *Note 16 – Other liabilities*.

As of September 30, 2018, and 2017, other liabilities included $49 billion and $50 billion, respectively, 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 US in allocations. The US has received no SDR allocations since 2009.

## State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| **Non-pension** | | |
| Time and savings deposits | $ 384 | $ 371 |
| Security repurchase agreements | 165 | 158 |
| Money market fund shares | 20 | 20 |
| Checkable deposits and currency | 135 | 141 |
| Total non-pension cash and other monetary assets | $ 704 | $ 690 |
| **Pension** | | |
| Money market fund shares | $ 61 | $ 58 |
| Other | 37 | 38 |
| Total pension cash and other monetary assets | 98 | 96 |
| Total cash and other monetary assets | $ 802 | $ 786 |

# Note 3 – Accounts and taxes receivable, net

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 145 | $ 143 |
| State and local | 374 | 348 |
| Total accounts and taxes receivable, net | $ 519 | $ 491 |

## Federal government

| (In billions) | 2018 | 2017 |
|---|---|---|
| **Accounts receivable** | | |
| Gross accounts receivable | $ 113 | $ 118 |
| Allowance for uncollectible amounts | (31) | (30) |
| Accounts receivable, net | $ 82 | $ 88 |
| **Taxes receivable** | | |
| Gross taxes receivable | $ 227 | $ 204 |
| Allowance for uncollectible amounts | (164) | (149) |
| Taxes receivable, net | $ 63 | $ 55 |
| Total accounts and taxes receivable, net | $ 145 | $ 143 |

Gross accounts receivable include related interest receivable of $4 billion and $3 billion as of September 30, 2018, and 2017, respectively.

Treasury comprises approximately 41% of the federal government's reported accounts and taxes receivable, net, as of September 30, 2017. The following list of entities comprise 98% of the federal government's accounts and taxes receivable, net, of $145 billion as of September 30, 2018. Please refer to the following financial statements for details on gross accounts and taxes receivable and the related allowance for uncollectible amounts: of the Department of the Treasury (Treasury), the Department of Health and Human Services (HHS), the Social Security Administration (SSA), the Department of the Interior (DOI), the Department of Homeland Security (DHS), the Department of Defense (DOD), the Pension Benefit Guaranty Corporation (PBGC), the Department of Energy (DOE), the Federal Deposit Insurance Corporation (FDIC), the Department of Veterans Affairs (VA), the Tennessee Valley Authority (TVA), the Office of Personnel Management (OPM), the Department of Labor (DOL), the Department of Agriculture (USDA), the United States Postal

Service (USPS), the Federal Communications Commission (FCC), the Department of Housing and Urban Development (HUD), the Federal Trade Commission (FTC), and the Environmental Protection Agency (EPA).

Accounts and taxes receivable, net, have historically included amounts related to criminal restitution owed to the federal government. In fiscal years 2018 and 2017, accounts and taxes receivable, net included $8 billion and $9 billion, respectively, of gross receivables related to criminal restitution orders monitored by responsible entities, of which $0.7 billion and $0.5 billion is determined to be collectible for fiscal years 2018 and 2017, respectively. Of this gross receivable amount as of September 30 2018 and 2017, Treasury, HHS, and SSA collectively account for $5 billion and $8 billion, respectively, of which $0.5 billion is determined to be collectible for both September 30, 2018 and 2017.

### State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Accounts receivable, net | $ 219 | $ 199 |
| Taxes receivable, net | 155 | 149 |
| Total accounts and taxes receivable, net | $ 374 | $ 348 |

## Note 4 – Loans receivable and loan guarantee liabilities, net

### Loans receivable

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 1,400 | $ 1,332 |
| State and local | 268 | 256 |
| Total loans receivable | $ 1,668 | $ 1,588 |

### Loan guarantee liabilities

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 38 | $ 43 |
| State and local | — | — |
| Total loan guarantee liabilities | $ 38 | $ 43 |

### Federal government

The federal 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 (including defaulted guaranteed loans) as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for subsidy 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 federal government sustained under post-1991 loan guarantees. Please refer to the financial statements of the 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.

## Loans receivable

| (In billions) | Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance for Subsidy | Net Loans Receivable | Subsidy Expense (Income) for the Fiscal Year |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Federal Direct Student Loans – Education | $ 1,084 | $ 72 | $ — | $ (41) | $ 1,115 | $ 4 |
| Federal Family Education Loans – Education | 95 | 21 | — | (23) | 93 | 2 |
| All other programs | 212 | 12 | 2 | (34) | 192 | 1 |
| Total loans receivable | $ 1,391 | $ 105 | $ 2 | $ (98) | $ 1,400 | $ 7 |

| (In billions) | Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Allowance for Subsidy | Net Loans Receivable | Subsidy Expense (Income) for the Fiscal Year |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Federal Direct Student Loans – Education | $ 999 | $ 60 | $ — | $ (17) | $ 1,042 | $ 5 |
| Federal Family Education Loans – Education | 102 | 19 | — | (19) | 102 | 2 |
| All other programs | 210 | 10 | 3 | (35) | 188 | — |
| Total loans receivable | $ 1,311 | $ 89 | $ 3 | $ (71) | $ 1,332 | $ 7 |

## Loan guarantee liabilities

| | Principal Amount of Loans Under Guarantee | | Principal Amount Guaranteed by the US | | Loan Guarantee Liabilities | | Subsidy Expense (Income) for the Fiscal Year | |
|---|---|---|---|---|---|---|---|---|
| **(In billions)** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Federal Housing Administration Loans – HUD | $ 1,471 | $ 1,410 | $ 1,327 | $ 1,278 | $ 19 | $ 21 | $ (9) | $ 13 |
| Veterans Housing Benefit Programs – VA | 664 | 597 | 168 | 152 | 9 | 10 | (3) | (1) |
| All other guaranteed loan programs | 511 | 528 | 468 | 488 | 10 | 12 | (2) | — |
| Total loan guarantees | $ 2,646 | $ 2,535 | $ 1,963 | $ 1,918 | $ 38 | $ 43 | $ (14) | $ 12 |

### Loan programs

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

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 Loan Program, (referred to as the Direct Loan Program) that was established in fiscal year 1994. The Direct Loan Program offered four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the federal 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 $134 billion in Direct Loans to eligible borrowers in fiscal year 2018 and approximately $143 billion in fiscal year 2017. 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 offered 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 (P.L. 111-152), eliminated the authority to guarantee new FFEL after June 30, 2010. During fiscal year 2018, Education net loans receivable increased by $64 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 homeownership. 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 homeownership. 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.

VA operates the following direct loan and loan guaranty programs: Home Loans, Insurance Policy Loans, and Vocational Rehabilitation and Employment Loans. 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 2018, the face value of outstanding principal on loans guaranteed by the VA increased by $67 billion. This increase was primarily due to $146 billion in new loans guaranteed by the VA, partially offset by $78 billion in guaranteed loan terminations.

## State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Loans (mortgages) | $ 259 | $ 247 |
| Loans (mortgages) – pensions | 9 | 9 |
| Total loans receivable | $ 268 | $ 256 |

## Note 5 – Inventories and related property, net

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 338 | $ 327 |
| State and local | — | — |
| Total inventories and related property, net | $ 338 | $ 327 |

## Federal government

| (In billions) | 2018 | 2017 |
| --- | --- | --- |
| Operating materials and supplies held for use | $ 125 | $ 144 |
| Inventory and operating material and supplies held for repair | 71 | 67 |
| Inventory purchased for resale | 68 | 62 |
| Stockpile materials held in reserve for future use | 52 | 49 |
| Other inventories and related property | 31 | 13 |
| Allowance for loss | (9) | (8) |
| Total inventories and related property, net | $ 338 | $ 327 |

Beginning in fiscal year 2018, all entities are now reported together in each line item total for inventories and related property, net. DOD comprises approximately 82% of the government's inventories and related property, net, as of September 30, 2018. DOD continues to implement Statements of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, which permits alternative methods in establishing opening balances for inventories and related property.

The following entities comprise over 98% of the government's reported inventories and related property, net of $338 billion as of September 30, 2018. Refer to each entities' financial statements for details: DOD, DOE, and HHS.

Operating materials and supplies held for use are tangible personal property to be consumed in normal operations.

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 purchased for resale is the cost or value of tangible personal property purchased by an agency for resale. As of September 30, 2017, DOD values approximately 98% of its resale inventory using the moving average cost (MAC) method. DOD reports the remaining 2% of resale inventories at an approximation of historical cost using LAC adjusted for holding gains and losses. DOD continues to implement SFFAS No. 48, permitting alternative methods in establishing opening balances. Please refer to the financial statements of DOD for more information on its inventories.

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. The majority of the stockpile materials held in reserve for future use were reported by the Department of Energy (DOE). Please refer to the financial statements of DOE for more information on stockpile materials.

## State and local government

Based on our review of specific Comprehensive Annual Financial Reports, we know that the state governments do have inventories and related property, however the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source of the data.

# Note 6 – Property, plant, and equipment, net

| (In billions) | 2018 | 2017 |
| --- | --- | --- |
| Federal | $ 1,091 | $ 1,087 |
| State and local | 11,323 | 10,725 |
| Total property, plant, and equipment, net | $ 12,414 | $ 11,812 |

## Federal government

| (In billions) | 2018 Cost | 2018 Accumulated Depreciation/ Amortization | 2018 Net | 2017 Cost | 2017 Accumulated Depreciation/ Amortization | 2017 Net |
|---|---|---|---|---|---|---|
| Furniture, fixtures, and equipment | $ 1,364 | $ 783 | $ 581 | $ 1,321 | $ 753 | $ 568 |
| Buildings, structures, and facilities | 728 | 431 | 297 | 693 | 407 | 286 |
| Construction in progress | 160 | — | 160 | 168 | — | 168 |
| Land | 22 | — | 22 | 24 | — | 24 |
| Other property, plant, and equipment | 87 | 56 | 31 | 84 | 43 | 41 |
| Total property, plant, and equipment, net | $ 2,361 | $ 1,270 | $ 1,091 | $ 2,290 | $ 1,203 | $ 1,087 |

Beginning in fiscal year 2018, all entities are now reported together in each line item total for property, plant and equipment, net (PP&E). DOD comprises approximately 70% of the federal government's reported PP&E, as of September 30, 2018. DOD continues to implement SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*, which permits alternative methods in establish opening balances for general property, plant and equipment.

The following agencies comprise over 90% of the federal government's reported PP&E, of $1,091 billion as of September 30, 2018. Refer to each agencies' financial statements for details: DOD, DOE, General Services Administration (GSA), VA, TVA, DOI, the Department of State (DOS), Department of Transportation (DOT), USPS, DHS, National Aeronautics and Space Administration (NASA), Department of Commerce (DOC), Department of Justice (DOJ), and HHS.

## State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Structures | $ 10,929 | $ 10,346 |
| Equipment | 258 | 251 |
| Intellectual property | 136 | 128 |
| Total property, plant, and equipment, net | $ 11,323 | $ 10,725 |

# Note 7 – Debt and equity securities

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 112 | $ 116 |
| State and local | 4,963 | 4,629 |
| Total debt and equity securities | $ 5,075 | $ 4,745 |

## Federal government

| (In billions) | Cost | Adjustment | Book Value |
|---|---|---|---|
| **2018** | | | |
| **Held-to-Maturity** | | | |
| Equity securities | $ 4 | $ — | $ 4 |
| Total held-to-maturity (net investment) | $ 4 | $ — | $ 4 |
| **Available-for-Sale** | | | |
| Debt securities | $ 4 | $ — | $ 4 |
| Total available-for-sale (fair value) | $ 4 | $ — | $ 4 |
| **Trading Securities** | | | |
| Debt securities: | | | |
| Non-US Government | $ 13 | $ — | $ 13 |
| Corporate and other bonds | 16 | — | 16 |
| All other debt securities | 6 | (1) | 5 |
| Equity securities: | | | |
| Unit trust | 16 | 10 | 26 |
| All other equity securities | 17 | 1 | 18 |
| Total trading securities (fair value) | $ 68 | $ 10 | $ 78 |
| Total debt and equity securities categorized as held-to-maturity, available-for-sale or trading | | | $ 86 |
| Total Railroad Retirement Board (RRB) debt and equity securities | | | 26 |
| Total debt and equity securities | | | $ 112 |

| (In billions) | Cost | Adjustment | Book Value |
|---|---|---|---|
| **2017** | | | |
| **Held-to-Maturity** | | | |
| Equity securities | $ 4 | $ — | $ 4 |
| Total held-to-maturity (net investment) | $ 4 | $ — | $ 4 |
| **Available-for-Sale** | | | |
| Debt securities | $ 5 | $ 1 | $ 6 |
| Total available-for-sale (fair value) | $ 5 | $ 1 | $ 6 |
| **Trading Securities** | | | |
| Debt securities: | | | |
| Non-US Government | $ 12 | $ — | $ 12 |
| Corporate and other bonds | 16 | 1 | 17 |
| All other debt securities | 9 | — | 9 |
| Equity securities: | | | |
| Unit trust | 18 | 8 | 26 |
| All other equity securities | 16 | — | 16 |
| Total trading securities (fair value) | $ 71 | $ 9 | $ 80 |
| Total debt and equity securities categorized as held-to-maturity, available-for-sale or trading | | | $ 90 |
| Total Railroad Retirement Board (RRB) debt and equity securities | | | 26 |
| Total debt and equity securities | | | $ 116 |

### Debt and equity securities by agency

| (In billions) | 2018 | 2017 |
|---|---|---|
| Pension Benefit Guaranty Corporation (PBGC) | $ 62 | $ 67 |
| Railroad Retirement Board (RRB) | 26 | 26 |
| Tennessee Valley Authority (TVA) | 12 | 11 |
| All other | 12 | 12 |
| Total securities and investments | $ 112 | $ 116 |

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 total net investment, net of unamortized discounts and premiums. Available-for-sale debt and equity securities are reported at fair value, net of unrealized gain or loss. Trading debt and equity securities are reported at fair value, net of unrealized gain or loss.

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. Please refer to NRRIT's financial statements for more detailed information concerning this specific investment.

Certain significant consolidation entities apply financial accounting and reporting standards issued by the Financial Accounting Standards Board (FASB) (FASB standards), and such entities, as permitted by SFFAS No.47, are consolidated into the consolidated financial statements without conversion to financial and reporting standards issued by the FASAB (FASAB standards). PBGC, NRRIT, and TVA debt and equity securities are recorded at fair value and have been categorized based upon a fair value hierarchy, in accordance with FASB ASC Section 820, *Fair Value Measures and Disclosures*, in their respective financial statements.

PBGC and TVA invest primarily in fixed maturity and equity securities, classified as trading. PBGC reported an unrealized loss related to trading securities held as of September 30, 2018, of $1 billion and an unrealized gain related to trading securities as of September 30, 2017 of $3 billion. TVA reported gains related to trading securities held as of September 30, 2018 and 2017 of $2 billion and $1 billion, respectively. $9 $10 billion. The TVA balance includes $8 billion and $9 billion as of September 30, 2018, and 2017, respectively, for the Tennessee Valley Authority Retirement System (TVARS). TVARS includes unrealized gains of $0.8 billion as of both September 30, 2018 and 2017. PBGC, NRRIT, and TVA base market values on the last sale of a listed security, on the mean of the "bid-and-ask" for non-listed 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, and TVA for more detailed information related to debt and equity securities. These agencies comprise 90%[54] of the total reported debt and equity securities of $112 billion as of September 30, 2018.

## State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| **Pension** | | |
| Corporate equities | $ 2,708 | $ 2,491 |
| Corporate and foreign bonds | 462 | 507 |
| Mutual fund shares | 292 | 243 |
| Other | 383 | 328 |
| Total pension debt and equity securities | $ 3,845 | $ 3,569 |
| **Non-pension** | | |
| Agency and GSE-backed securities | $ 514 | $ 481 |
| Corporate equities | 153 | 139 |
| Other | 451 | 440 |
| Total non-pension debt and equity securities | $ 1,118 | $ 1,060 |
| Total debt and equity securities | $ 4,963 | $ 4,629 |

## Note 8 – Investments in government-sponsored enterprises

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 113 | $ 93 |
| State and local | — | — |
| Total investments in government-sponsored enterprises | $ 113 | $ 93 |

## Federal government

| (In billions)<br>2018 | Gross Investments | Cumulative Valuation Gain/(Loss) | Fair Value |
|---|---|---|---|
| Fannie Mae senior preferred stock | $ 124 | $ (65) | $ 59 |
| Freddie Mac senior preferred stock | 75 | (30) | 45 |
| Fannie Mae warrants common stock | 3 | 3 | 6 |
| Freddie Mac warrants common stock | 2 | 1 | 3 |
| Total investments in GSEs | $ 204 | $ (91) | $ 113 |

| (In billions)<br>2017 | Gross Investments | Cumulative Valuation Gain/(Loss) | Fair Value |
|---|---|---|---|
| Fannie Mae senior preferred stock | $ 117 | $ (75) | $ 42 |
| Freddie Mac senior preferred stock | 72 | (39) | 33 |
| Fannie Mae warrants common stock | 3 | 9 | 12 |
| Freddie Mac warrants common stock | 2 | 4 | 6 |
| Total investments in GSEs | $ 194 | $ (101) | $ 93 |

Congress established Fannie Mae and Freddie Mac as government sponsored enterprises (GSEs) to support mortgage lending. A key function of the GSEs is to purchase mortgages, 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. In response Congress passed

*Housing and Economic Recovery Act of 2008* (P.L.110-289) in July 2008. This act created 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 invested in the GSEs by entering 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 purpose of such 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 result in an increased investment in the GSEs as further discussed below. For fiscal year 2018, under SFFAS No. 47 criteria Fannie Mae and Freddie Mac were owned or controlled by the federal government only as a result of (a) regulatory actions (such as organizations in receivership or conservatorship) or (b) other federal government intervention actions. Under the regulatory or other intervention actions, the relationship with the federal government was and is not expected to be permanent. These entities are classified as disclosure entities based on their characteristics as a whole. Accordingly, these entities are not consolidated into the financial statements of the government; however, the value of the investments in these entities, changes in value, and related activity with these entities are included in the consolidated financial statements. This treatment is consistent with how these entities were reported prior to fiscal year 2018 under Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*.

### 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 80% of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10% per annum fixed rate dividend on the total liquidation preference (as discussed below) to an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at $3 billion for calendar year 2013, declined by $600 million at the beginning of each calendar year thereafter, and was scheduled to reach zero by calendar year 2018. On December 21, 2017, Treasury and FHFA agreed to modify the SPSPAs between Treasury and the GSEs to increase the capital reserve amount for each GSE back to $3 billion, effective with the December 2017 dividend payment. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by $3 billion on December 31, 2017. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Cash dividends of $9 billion and $25 billion were received during fiscal years ended September 30, 2018, and 2017, respectively.

The SPSPAs, which have no expiration date, require 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. Draws from Treasury under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement established as of December 31, 2012 (refer to the Contingent liability to GSEs section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, it increases the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $199 billion and $189 billion as of September 30, 2018 and 2017, respectively. Actual payments of $4 billion were made to the GSEs for the fiscal year ended September 30, 2018. There were no payments to the GSEs for the fiscal years ended September 30, 2017 and 2016.

### 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 valuations. Because the instruments are not publicly traded, 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 as of September 30, 2018 when compared to September 30, 2017, reflecting a higher forecasted GSE net income, mainly driven by the reduction in the US corporate tax rate resulting from the December 22, 2017 enactment of the *Tax Cuts and Jobs Act* (PL 115-97), a lower discount rate driven by lower volatility among comparable companies, as well as a reduction in the market value of the GSEs' other equity securities that comprise their total equity value.

Factors impacting the fair value of the warrants include 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 decreased at the end of fiscal year 2018, when compared to 2017, primarily due to decreases 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 years 2043 and 2042 in assessing if a contingent liability was required as of September 30, 2018 and 2017, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and Treasury can reasonably estimate such payment, they will 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. If future payments are reasonably possible, they are disclosed but not recorded as an accrued contingent liability.

Based on the annual forecasts as of September 30, 2018 and 2017, Treasury estimated there was no probable future funding draws. As of September 30, 2018, it is reasonably possible that market volatility or non-recurring events—for instance, changes to accounting policies that impact credit loss provisions—could potentially cause the GSEs to generate quarterly losses and, therefore, result in future funding draws against the funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of non-recurring events, the total amount of this reasonably possible future funding liability could not be estimated as of September 30, 2018. P.L. 115-97 caused each GSE to reduce the value of its deferred tax assets in the quarter in which the legislation was enacted. The reduction of the GSEs deferred tax assets resulted in $4.0 billion in actual payments made to the GSEs to ensure they maintained positive net worth, which reduced the remaining funding commitment. At September 30, 2018 and 2017, the maximum remaining funding commitment to the GSEs for the remaining life of the SPSPAs was $254 billion and $258 billion, respectively. Subsequent funding draws will reduce the remaining commitments. Refer to *Note 19 – Commitments* for a full description of other commitments and risks.

In assessing the need for an estimated contingent liability, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, monthly summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2018 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when the GSEs would cease new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts also assume a continued gradual wind-down of the retained portfolios (and corresponding net interest income) through 2018, as directed under the amended SPSPAs for each GSE to reduce the maximum balance of its retained mortgage portfolio by 15% per annum beginning December 31, 2013. The maximum balance of each GSE's retained mortgage portfolio was initially set at $650 billion as of December 31, 2012, and the amended SPSPAs requires that each GSE reduce this maximum balance to $250 billion by December 31, 2018.

### 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, 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, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages 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 for use by the GSEs and adaptable for the use by other participants in the secondary market in the future.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of 10-basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012, and is effective through October 1, 2021. The incremental fees are to be remitted to Treasury and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For fiscal years 2018 and 2017, the GSEs remitted to Treasury the incremental fees totaling $4 billion and $3 billion, respectively.

### Fannie Mae balance sheet

| | As of December 31, | |
|---|---|---|
| **(In billions)** | **2018** | **2017** |
| **Assets** | | |
| Cash and cash equivalents | $ 58 | $ 52 |
| Restricted cash | 24 | 28 |
| Investments in securities [1] | 45 | 40 |
| Mortgage loans: | | |
| Of Fannie Mae | 121 | 168 |
| Of consolidated trusts | 3,143 | 3,030 |
| Allowance for loan losses | (14) | (19) |
| Mortgage loans, net of allowance for loan losses | 3,250 | 3,179 |
| Deferred tax assets, net | 13 | 17 |
| Other assets | 28 | 30 |
| Total assets | $ 3,418 | $ 3,346 |
| **Liabilities and equity** | | |
| Debt: | | |
| Of Fannie Mae | $ 232 | $ 277 |
| Of consolidated trusts | 3,160 | 3,053 |
| Other liabilities | 20 | 20 |
| Total liabilities | 3,412 | 3,350 |
| Senior preferred stock | 121 | 117 |
| Other [2] | (115) | (121) |
| Total equity | 6 | (4) |
| Total liabilities and equity | $ 3,418 | $ 3,346 |

1 *Includes $36 billion as of December 31, 2018 and $29 billion as of December 31, 2017 of Treasury securities that are included in Fannie Mae's other investment portfolio.*
2 *Consists of preferred stock, common stock, accumulated deficit, accumulated other comprehensive income, Treasury stock and noncontrolling interest.*

### Freddie Mac balance sheet

| (In billions) | As of December 31, 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 7 | $ 7 |
| Restricted cash | 1 | 3 |
| Federal funds sold and securities purchased under agreements to resell | 35 | 56 |
| Investments in securities: | | |
| Available-for-sale, at fair value | 34 | 44 |
| Trading, at fair value | 36 | 41 |
| Total investments in securities | 70 | 85 |
| Mortgage loans: | | |
| Held-for-investment, at amortized cost: By consolidated trusts | 1,843 | 1,774 |
| Held-for-investment, at amortized cost: Unsecuritized | 43 | 62 |
| Held-for-sale, at lower-of-cost-or-fair-value | 42 | 35 |
| Total mortgage loans, net | 1,928 | 1,871 |
| Other assets | 21 | 28 |
| Total assets | $ 2,062 | $ 2,050 |
| **Liabilities and equity** | | |
| Accrued interest payable | $ 7 | $ 6 |
| Debt, net: | | |
| Debt securities of consolidated trusts held by third parties | 1,793 | 1,721 |
| Other debt | 252 | 314 |
| Total debt, net | 2,045 | 2,035 |
| Other liabilities | 6 | 9 |
| Total liabilities | 2,058 | 2,050 |
| Total equity | 4 | — |
| Total liabilities and equity | $ 2,062 | $ 2,050 |

## State and local government

The Federal Reserve does not provide amounts for investments in GSEs at the state and local government level. We do not know if states have these investments, and if they do, we are not aware of another aggregated source for this data.

# Note 9 – Other assets

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 115 | $ 150 |
| State and local | — | — |
| Total other assets | $ 115 | $ 150 |

## Federal government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Advances and prepayments | $ 70 | $ 97 |
| Regulatory assets | 17 | 20 |
| FDIC receivable from resolution activity | 3 | 9 |
| Other | 25 | 24 |
| Total other assets | $ 115 | $ 150 |

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.

With regard to regulatory assets, the DOE's Power Marketing Administrations (PMAs) and 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.

On behalf of the US, Treasury invests in certain Multilateral Development Banks (MDB), through subscriptions to capital, which allows the MDBs to issue loans at market-based rates to middle-income developing countries. These paid-in capital investments are non-marketable equity investments valued at cost.

The 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.

## State and local government

Based on our review of specific state Comprehensive Annual Financial Reports, we know that the state governments do have other assets, however the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source of this data.

# Note 10 – Accounts payable

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 87 | $ 71 |
| State and local | 977 | 931 |
| Total accounts payable | $ 1,064 | $ 1,002 |

## Federal government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Department of Defense | $ 29 | $ 26 |
| Department of Veterans Affairs | 14 | 4 |
| Department of Justice | 5 | 6 |
| All other | 39 | 35 |
| Total accounts payable | $ 87 | $ 71 |

Accounts payable includes amounts due for goods and property ordered and received, services rendered by other than federal employees, cancelled appropriations for which the US government has contractual commitments for payments, and non-debt related interest payable.

## State and local government

The Federal Reserve does not provide additional detailed information on the composition of the state and local government accounts payable balance, and we are not aware of another aggregated source of this data.

# Note 11 – Debt securities held by the public and accrued interest

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 14,721 | $ 13,725 |
| State and local | 3,077 | 3,083 |
| Total debt securities held by the public and accrued interest | $ 17,798 | $ 16,808 |

## Federal government

| (In billions) | Balance 2017 | Net Change during Fiscal Year 2018 | Balance 2018 | Average Interest Rate 2018 | Average Interest Rate 2017 |
|---|---|---|---|---|---|
| **Treasury securities (public)** | | | | | |
| Marketable securities: | | | | | |
| Treasury bills [1] | $ 1,800 | $ 440 | $ 2,240 | 1.1% | 1.1% |
| Treasury notes [2] | 7,800 | 258 | 8,058 | 1.8% | 1.8% |
| Treasury bonds [3] | 1,948 | 167 | 2,115 | 4.2% | 4.2% |
| Treasury inflation-protected securities (TIPS) [4] | 1,286 | 90 | 1,376 | 0.8% | 0.8% |
| Treasury floating rate notes (FRN) [5] | 342 | 27 | 369 | 1.2% | 1.2% |
| Total marketable Treasury securities | 13,176 | 982 | 14,158 | | |
| Nonmarketable securities | 498 | 13 | 511 | 2.3% | 2.3% |
| Net unamortized discounts | (39) | (6) | (45) | | |
| Total Treasury securities, net (public) | 13,635 | 989 | 14,624 | | |
| **Agency securities** | | | | | |
| Tennessee Valley Authority | 24 | (2) | 22 | | |
| All other agencies | — | 1 | 1 | | |
| Total agency securities, net of unamortized premiums and discounts | 24 | (1) | 23 | | |
| **Accrued interest payable** | 66 | 8 | 74 | | |
| Total debt securities held by the public and accrued interest | $ 13,725 | $ 996 | $ 14,721 | | |

[1] *Bills – short-term obligations issued with a term of 1 year or less*

[2] *Notes – medium-term obligations issued with a term of 2-10 years. In creating the combined balance sheets, we eliminated Treasury securities held by state and local governments from the Treasury notes balance amounts. We chose this balance as our location of elimination because it is the largest balance in the table, and because the Federal Reserve does not tell us what comprises the state and local balances. See Note 23 – Intergovernmental transfers for more information. We do not have information about the associated average interest rates and therefore have not adjusted these rates.*
[3] *Bonds – long-term obligations of more than 10 years*
[4] *TIPS – term of more than 5 years*
[5] *FRN – term of 2 years*

Federal debt securities held by the public outside the federal government are held by individuals, corporations, state or local governments, FRBs, foreign governments, and other non-federal entities. 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 fiduciary and certain deposit funds, foreign series, state and local government series, domestic series, and savings bonds).
- Non-interest-bearing marketable and nonmarketable securities (matured and other).

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* (P.L. 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 2018 and 2017, Treasury faced two delays in raising the statutory debt limit that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary actions taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored including lost interest to the affected federal government accounts subsequent to the end of the delay period. The first delay occurred from March 16, 2017 through September 7, 2017. On Friday, September 8, 2017, the *Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (P.L. 115-56) was enacted suspending the statutory debt limit through December 8, 2017. The second delay in raising the statutory debt limit occurred from December 9, 2017 through February 8, 2018. On Friday, February 9, 2018 the *Bipartisan Budget Act (BBA) of 2018* (P.L. 115-123) was enacted suspending the statutory debt limit through March 1, 2019. See *Note 16 – Other liabilities* and *Note 21—Fiduciary activities* for more information.

As of September 30, 2018, and 2017, debt subject to the statutory debt limit was $21,475 billion and $20,209 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 intergovernmental debt holdings (shown in the *Note 23 – Intergovernmental transfers*). See *Note 16 – Other liabilities* and *Note 21 – Fiduciary activities*.

## State and local government

| **(In billions)** | **2018** | **2017** |
|---|---|---|
| Municipal securities | $ 3,073 | $ 3,079 |
| Municipal securities – pensions | 4 | 4 |
| Total debt securities held by the public | $ 3,077 | $ 3,083 |

The Federal Reserve does not provide additional detailed information on the composition of the state and local government debt securities held by the public, and we are not aware of another aggregated source of this data that would indicate whether accrued interest is included in the amounts listed above.

# Note 12 – Employee and veteran benefits payable

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 7,982 | $ 7,700 |
| State and local | 8,449 | 8,179 |
| Total employee and veteran benefits payable | $ 16,431 | $ 15,879 |

## Federal government

| | Civilian | | Military | | Total | |
|---|---|---|---|---|---|---|
| (In billions) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Pension and accrued benefits | $ 2,049 | $ 2,014 | $ 1,621 | $ 1,568 | $ 3,670 | $ 3,582 |
| Veterans compensation and burial benefits | — | — | 2,956 | 2,810 | 2,956 | 2,810 |
| Post-retirement health and accrued benefits | 403 | 376 | 787 | 782 | 1,190 | 1,158 |
| Liability for other benefits | 84 | 83 | 82 | 67 | 166 | 150 |
| Total federal employee and veteran benefits payable | $ 2,536 | $ 2,473 | $ 5,446 | $ 5,227 | $ 7,982 | $ 7,700 |

### Change in pension and accrued benefits

| | Civilian | | Military | | Total | |
|---|---|---|---|---|---|---|
| (In billions) | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Actuarial accrued pension liability, beginning of fiscal year | $ 2,014 | $ 1,911 | $ 1,568 | $ 1,491 | $ 3,582 | $ 3,402 |
| **Pension expense** | | | | | | |
| Prior (and past) service costs from plan amendments or new plans | — | — | 9 | (1) | 9 | (1) |
| Normal costs | 42 | 39 | 34 | 27 | 76 | 66 |
| Interest on liability | 69 | 70 | 58 | 58 | 127 | 128 |
| Actuarial (gains)/losses (from experience) | (2) | (12) | 10 | (2) | 8 | (14) |
| Actuarial (gains)/losses (from assumption changes) | 16 | 94 | 1 | 53 | 17 | 147 |
| Total pension expense | 125 | 191 | 112 | 135 | 237 | 326 |
| Less benefits paid | (90) | (88) | (59) | (58) | (149) | (146) |
| Actuarial accrued pension liability, end of fiscal year | $ 2,049 | $ 2,014 | $ 1,621 | $ 1,568 | $ 3,670 | $ 3,582 |

## Change in post-retirement health and accrued benefits

| (In billions) | Civilian 2018 | Civilian 2017 | Military 2018 | Military 2017 | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|
| Actuarial accrued post-retirement health benefits liability, beginning of fiscal year | $ 376 | $ 352 | $ 782 | $ 800 | $ 1,158 | $ 1,152 |
| **Post-retirement health benefits expense** | | | | | | |
| Prior (and past) service costs from plan amendments or new plans | — | — | (21) | — | (21) | — |
| Normal costs | 16 | 13 | 21 | 21 | 37 | 34 |
| Interest on liability | 14 | 14 | 30 | 32 | 44 | 46 |
| Actuarial (gains)/losses (from experience) | 1 | 5 | (17) | (21) | (16) | (16) |
| Actuarial (gains)/losses (from assumption changes) | 12 | 8 | 14 | (28) | 26 | (20) |
| Total post-retirement health benefits expense | 43 | 40 | 27 | 4 | 70 | 44 |
| Less claims paid | (16) | (16) | (22) | (22) | (38) | (38) |
| Actuarial accrued post-retirement health benefits liability, end of fiscal year | $ 403 | $ 376 | $ 787 | $ 782 | $ 1,190 | $ 1,158 |

The federal 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 healthcare 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 administer the largest military plans. Other significant pension plans with more than $10 billion in actuarial accrued liability 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 entities listed for further details regarding their pension plans and other benefits.

## Significant long-term economic assumptions used in determining pension liability and the related expense

| | Civilian 2018 FERS | Civilian 2018 CSFS | Civilian 2017 FERS | Civilian 2017 CSFS | Military 2018 | Military 2017 |
|---|---|---|---|---|---|---|
| Rate of interest | 3.6% | 3.0% | 3.8% | 3.2% | 3.5% | 3.7% |
| Rate of inflation | 1.6% | 1.6% | 1.8% | 1.8% | 1.5% | 1.7% |
| Projected salary increases | 1.3% | 1.3% | 1.5% | 1.5% | 2.0% | 2.1% |
| Cost of living adjustment | 1.4% | 1.6% | 1.4% | 1.8% | —% | —% |

## Significant long-term economic assumptions used in determining post-retirement health benefits and the related expense

| | Civilian 2018 | Civilian 2017 | Military 2018 | Military 2017 |
|---|---|---|---|---|
| Rate of interest | 3.6% | 3.8% | 3.6% | 3.8% |
| Single equivalent medical trend rate | 4.5% | 4.8% | 4.2% | 4.1% |
| Ultimate medical trend rate | 3.2% | 3.4% | 4.0% | 4.2% |

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*, entities are required to separately present gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (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. The SFFAS No. 33 standard for selecting the 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. 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.

To provide a sustainable, justifiable data resource for the affected entities, Treasury developed a new model and methodology for developing these interest rates in fiscal year 2014. The new method that was developed is based on methodology used to produce the High Quality Market (HQM) Yield Curve pursuant to the *Pension Protection Act of 2006*. As of July 2014, Treasury began releasing interest rate yield curve data using this new US 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.

## 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, federal entity contributions, payments from the General Fund, and interest on investments in Treasury securities. As of September 30, 2018, USPS has accrued, but not paid OPM, $6 billion in CSRS and FERS retirement benefit expenses since 2014.

The Federal Retirement Thrift Investment Board (FRTIB) administers the Thrift Savings Plan (TSP). The TSP 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 $246 billion and $218 billion in nonmarketable Treasury securities as of September 30, 2018, and 2017, respectively.

The liability for civilian pension and accrued benefits payable increased $35 billion. This increase is partly attributable to changes in actuarial assumptions. The assumption loss results primarily from decreases to the assumed rates of interest, which was partly offset by a modest gain from changes in demographic assumptions.

### Post-retirement health benefits

The post-retirement civilian health benefit liability is an estimate of the federal government's future cost of providing postretirement 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 and demographic assumptions to historical cost information to estimate the liability.

The *Postal Accountability and Enhancement Act of 2006* (Postal Act of 2006) (P.L. 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 Postal Service Retiree Health Benefits (PSRHB) Fund. Various legislation required the USPS to make scheduled payments to the PSRHB Fund ranging from $5 billion to $6 billion per year from fiscal year 2007 through fiscal year 2016. Thereafter, the law required USPS to make annual payments in the amount of the normal cost plus or minus an amount to amortize the unfunded liability or surplus. USPS currently owes the PSRHB Fund a total of $42 billion consisting of: $38 billion for fiscal years 2011 through 2017 and $4 billion for fiscal year 2018. As of September 30, 2018, USPS has indicated payment of the total $42 billion due will remain open. At this time, Congress has not taken further action on these payments due to the PSRHB Fund from USPS. The cost for each year's payment, including any defaulted payment, along with all other benefit program costs, are included in USPS' net cost for that year in the consolidated Statements of Net Cost. The liability is not included on the balance sheet due to the USPS liability being eliminated with the OPM receivable.

The post-retirement civilian health benefit liability increased $28 billion. This increase is due to the accruing cost of benefits, interest on the existing liability and an actuarial loss primarily attributable to updated demographic assumptions used in the fiscal year 2018 calculation.

## Military employees (including veterans)

### Pensions

The military retirement system consists of a funded, noncontributory, defined benefit plan for military personnel (Services of Army, Navy, Air Force, and the Marine Corps) with an entry date prior to January 1, 2018 and the Blended Retirement System (BRS), generally for military personnel with an entry date on or after January 1, 2018. The defined benefit plan 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 defined 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 the BRS enacted in the *National Defense Authorization Act for Fiscal Year 2016*, effective January 1, 2018. The BRS is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the TSP. The date an individual enters the military generally determines which retirement system they would fall under and if they have the option to select, via a one-time irrevocable election, their retirement system. Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 were grandfathered under the prior retirement system, Active Duty, National Guard and Reserve personnel meeting established criteria may opt into BRS during calendar year 2018. Under the BRS, retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. For more information on these benefits, see DOD’s Office of Military Compensation website https://militarypay.defense.gov.

The DOD Military Retirement Fund was established by P.L. 98-94 (currently Chapter 74 of Title 10, United States Code (U.S.C.)) and accumulates funds to finance, on an accrual basis, the liabilities of DOD military retirement and survivor benefit programs. This Fund receives income from three sources: monthly normal cost payments from the Services to pay for DOD’s portion of the current year’s 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 (certain beneficiaries with combat-related injuries who are receiving payments from the VA) per P.L. 108-136; and investment income.

The $53 billion increase in the Military Retirement Pension liability is attributable to the increase from expected normal and interest costs offset by benefit payments, with additional impacts due to assumption and benefit changes and actuarial experience. Liabilities in the future will depend on interest costs and benefit accruals, future benefit changes, assumption changes, and actuarial experience.

### Veterans compensation and burial benefits

The federal 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 $146 billion in fiscal year 2018. The $146 billion increase is primarily attributable to assumption changes and experience. The major impact from experience changes was from veterans who first became eligible for benefits during fiscal year 2018. The major assumption change impacts were from a decrease in the discount rate.

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 are expected to be future veterans. 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, experience gains or losses, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance.

Change in veterans compensation and burial benefits

| | Compensation | | Burial | | Total | |
|---|---|---|---|---|---|---|
| **(In billions)** | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Actuarial accrued liability beginning of fiscal year | $ 2,805 | $ 2,491 | $ 5 | $ 5 | $ 2,810 | $ 2,496 |
| **Current year expenses** | | | | | | |
| Interest on the liability balance | 102 | 98 | — | — | 102 | 98 |
| Prior (and past) service costs from program amendments or new programs during the period | 14 | — | — | — | 14 | — |
| Actuarial (gain)/losses (from experience) | 46 | 51 | — | — | 46 | 51 |
| Actuarial (gain)/losses (from assumption changes) | 67 | 244 | 2 | — | 69 | 244 |
| Total current year expense | 229 | 393 | 2 | — | 231 | 393 |
| Less benefits paid | (85) | (79) | — | — | (85) | (79) |
| Actuarial accrued liability, end of fiscal year | $ 2,949 | $ 2,805 | $ 7 | $ 5 | $ 2,956 | $ 2,810 |

Significant economic assumptions used in determining veterans compensation and burial benefits

| | 2018 | 2017 |
|---|---|---|
| Rate of interest | 3.52% | 3.66% |
| Rate of inflation | 2.28% | 2.28% |

### Post-retirement health benefits

Military retirees who are not yet eligible for Medicare (and their eligible non-Medicare eligible dependents) are eligible for post-retirement medical coverage provided by DOD. Depending on the benefit plan selected, retirees and their eligible dependents may receive care from military treatment facilities (MTFs) on a space-available basis or from civilian providers. This TRICARE coverage is available as Select (a preferred provider organization – a health plan that contracts with medical providers to create a network of participating providers; member cost-shares are typically higher for services received out-of network) and PRIME (a health maintenance organization – a health plan that limits services to a specific network of medical personnel and facilities and usually by requiring referral by a primary-care physician for specialty care; coverage is also available for non-referred and out-of-network care, subject to higher cost-sharing). These postretirement medical benefits are paid by the Defense Health Agency on a pay-as-you-go basis.

Since fiscal year 2002, DOD has provided medical coverage to Medicare-eligible retirees (and their eligible Medicare eligible dependents). This coverage, called TRICARE for Life (TFL), is a Medicare Supplement plan which includes inpatient, outpatient and pharmacy coverage. Enrollment in Medicare Part B is required to maintain eligibility in TFL. Retirees with TFL coverage can obtain care from MTFs on a space-available basis or from civilian providers.

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 and accumulate funds for the health benefit costs of Medicare-eligible military retirees, and 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 MERHCF Board) approves the methods and assumptions used in actuarial valuations of the MERHCF for the purpose of calculating the per capita normal cost rates (to fund the annual accrued benefits) and determining the unfunded liability amortization payment (the US Treasury contribution). The Secretary of Defense directs the Secretary of Treasury to make DOD's normal cost payments. The MERHCF pays for medical costs incurred by Medicare-eligible beneficiaries at MTFs and civilian providers (including payments to U.S. Family Health Plans for grandfathered beneficiaries), plus the costs associated with claims administration. DOD's actuaries calculate the actuarial liabilities annually using assumptions and experience (e.g., mortality and retirement rates, health care costs, medical trend rates, and the discount rate). Actuarial liabilities are calculated for all DOD retiree medical benefits, including both the benefits funded through the MERHCF as well as the benefits for pre-Medicare retirees who are paid on a pay-as-you-go basis.

Military post-retirement health and accrued benefits payable increased $5 billion. This increase is due primarily to changes in actuarial assumptions and expected normal and interest costs, offset by changes due to plan amendments and favorable recent claims experience. The $21 billion reduction in the liability due to plan amendments reflects the estimated savings resulting from change to pharmacy copays enacted in the *National Defense Authorization Act for Fiscal Year 2018*, effective February 1, 2018.

In addition to the healthcare benefits the federal government provides 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 2013 through 2017, the average medical care cost per year was $58 billion.

### Pension benefits

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews. The pension program for veterans is not accounted for as a “federal employee pension plan” under SFFAS No. 5 due to differences between its eligibility conditions and those of federal employee pensions. Therefore, a future liability for pension benefits is not recorded. VA pension liabilities are recognized when due and payable. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2018, and 2017, was $105 billion and $88 billion, respectively.

## State and local government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Unfunded pension entitlements | $ 4,114 | $ 4,151 |
| Other pension liabilities | 4,335 | 4,028 |
| Total employee and veteran benefits payable | $ 8,449 | $ 8,179 |

# Note 13 – Environmental and disposal liabilities

| (In billions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Federal | $ | 577 | $ | 465 |
| State and local | | — | | — |
| Total environmental and disposal liabilities | $ | 577 | $ | 465 |

## Federal government

| (In billions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Department of Energy | $ | 494 | $ | 384 |
| Department of Defense | | 70 | | 68 |
| All other entities | | 13 | | 13 |
| Total environmental and disposal liabilities | $ | 577 | $ | 465 |

### Department of Energy

During World War II and the Cold War, DOE (or predecessor entities) 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. 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 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 2093 in fiscal year 2018 and through 2092 in fiscal year 2017. While some post-cleanup monitoring and other long-term stewardship activities post-2093 are included in the liability, there are others DOE expects to continue beyond 2093 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 $0.9 billion for both fiscal years 2018 and 2017.

The predominant change in the DOE's environmental liabilities estimates in fiscal year 2018 resulted from Waste Treatment and Immobilization Plant (WTP) construction and operating costs, and the updated tank farm retrieval and closure cost. Other changes resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope, including additional contamination; updated estimates of projected waste volumes; changes in the DOE's allocable percentage share of future costs; legal and regulatory changes; and cleanup activities performed.

On October 9, 2018, the US Court of Appeals for the Fourth Circuit lifted the Preliminary Injunction, allowing DOE to move forward with termination of construction of the Mixed Oxide (MOX) facility. With termination of the MOX facility, which was the fiscal year 2018 approach for plutonium disposition, DOE will pursue a Dilute and Dispose approach in fiscal year 2019. The lower cost of the Dilute and Dispose approach is expected to reduce the program liability. DOE remains committed to disposing of 34 metric tons of plutonium.

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

### Department of Defense

Beginning in fiscal year 2018, DOD’s individual amounts are reported together as a single line total for its portion of Environmental and disposal liabilities. DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as DOD 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 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 entities, 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 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. DOD expenses the full cost to clean up contamination for stewardship PP&E at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general PP&E 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 estimated total cleanup costs associated with disposal of general PP&E as of September 30, 2018 was $5 billion; this amount was unknown as of September 30, 2017.

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 DOD 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 DOD for further information regarding DOD's environmental and disposal liabilities, including cleanup costs.

### State and local government

The Federal Reserve does not provide amounts for environmental and disposal liabilities at the state and local government level. We do not know if states have these liabilities, and if they do, we are not aware of another aggregated source for this data.

## Note 14 – Benefits due and payable

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 211 | $ 219 |
| State and local | — | — |
| Total benefits due and payable | $ 211 | $ 219 |

### Federal government

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal Old-Age and Survivors Insurance | $ 75 | $ 71 |
| Grants to States for Medicaid | 36 | 34 |
| Federal Supplementary Medical Insurance (Medicare Parts B and D) | 31 | 31 |
| Federal Hospital Insurance (Medicare Part A) | 32 | 30 |
| Federal Disability Insurance | 25 | 27 |
| All other benefits programs | 12 | 26 |
| Total benefits due and payable | $ 211 | $ 219 |

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. Most of the benefits due and payable relate to programs administered by HHS and SSA. For a description of the programs, see in the Financial Report, *Note 22 – Social Insurance* and the *Unaudited Required Supplementary Information (RSI) – Social Insurance* section.

### State and local government

Based on our understanding of the state and local government, we expect there to be amounts for benefits due and payable, however, the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source of this data.

# Note 15 – Insurance and guarantee program liabilities

| (In billions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Federal | $ | 170 | $ | 203 |
| State and local | | — | | — |
| Total insurance and guarantee program liabilities | $ | 170 | $ | 203 |

## Federal government

| (In billions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Pension Benefit Guaranty Corporation – Benefit Pension Plans | $ | 158 | $ | 179 |
| All other insurance and guarantee programs | | 12 | | 24 |
| Total insurance and guarantee program liabilities | $ | 170 | $ | 203 |

Insurance and guarantee program liabilities are recognized for known losses and contingent losses to the extent that the underlying contingency is deemed probable and a loss amount is reasonably measurable. Please see *Note 18 - Contingencies* for discussion on the meaning of "probable" depending on the accounting framework used by each significant consolidation entity.

As of September 30, 2018, and 2017, $158 billion and $179 billion, respectively, pertain to the PBGC single-employer and multiemployer pension plans. PBGC insures pension benefits for participants in covered defined benefit pension plans. The total decrease of $21 billion in PBGC's liability for insured pension plans includes decreases of $10 billion and $11 billion for single-employer and multiemployer plans, respectively. For both single-employer and multiemployer plans, the decreases were primarily driven by changes in actuarial assumptions related to changes in interest factors. As of September 30, 2018, and 2017, PBGC had total liabilities of $164 billion and $184 billion, and its total liabilities exceeded its total assets by $51 billion and $76 billion, respectively. Refer to PBGC's financial statements for more information.

## State and local government

The Federal Reserve does not provide amounts for insurance and guarantee program liabilities. We do not know if states have these liabilities, and if they do, we are not aware of another aggregated source for this data.

# Note 16 – Other liabilities

| (In billions) | | 2018 | | 2017 |
|---|---|---|---|---|
| Federal | $ | 479 | $ | 473 |
| State and local | | — | | — |
| Total other liabilities | $ | 479 | $ | 473 |

## Federal government

| (In billions) | 2018 | 2017 |
|---|---|---|
| **Unearned revenue and assets held for others** | | |
| Unearned fees for nuclear waste disposal (DOE) and other unearned revenue | $ 60 | $ 60 |
| Assets held on behalf of others | 117 | 111 |
| Subtotal | 177 | 171 |
| **Employee-related liabilities** | | |
| Accrued federal employees' wages and benefits | 42 | 37 |
| Selected DOE contractors' and D.C. employees' pension benefits | 54 | 52 |
| Subtotal | 96 | 89 |
| **International monetary liabilities and gold certificates** | | |
| Exchange Stabilization Fund | 55 | 55 |
| Gold certificates | 11 | 11 |
| Subtotal | 66 | 66 |
| **Subsidies and grants** | 30 | 35 |
| **Miscellaneous liabilities** | | |
| Legal and other contingencies | 52 | 57 |
| Other miscellaneous | 58 | 55 |
| Subtotal | 110 | 112 |
| Total | $ 479 | $ 473 |

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 federal government recognizes a liability when it receives money in advance of providing goods and services or assumes custody of money belonging to others. Advances and prepayments include USPS customer deposits used for future mailings. The federal government's unearned revenue from fees DOE has collected from utility companies for the future cost of managing the disposal of nuclear waste and interest income received is about $42 billion and $40 billion as of September 30, 2018, and 2017, respectively. Other unearned revenue includes USPS income for prepaid postage and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance for such things as outstanding postal money orders and undelivered Defense articles. SAA holds $89 billion and $86 billion as of September 30, 2018, and 2017, 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 – Employee and veteran benefits payable*. 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 $21 billion and $23 billion as of September 30, 2018 and 2017, respectively. Also, the federal government owed about $8 billion and $9 billion as of September 30, 2018, and 2017, respectively, for estimated future pension benefits of the District of Columbia's judges, police, firefighters, and teachers.

### International monetary liabilities and gold certificates

Consistent with US 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 (ESF) to deal in gold, foreign exchange, and other instruments of credit and securities. As of September 30, 2018, and 2017, other liabilities includes $49 billion and $50 billion, respectively, of interest-bearing liability to the IMF for SDR allocations.

Gold certificates are issued in nondefinitive or book-entry form to the Federal Reserve Bank of New York (FRBNY). The federal government's liability incurred by issuing the gold certificates, as reported on the Balance Sheet, is limited to the gold being held by 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 US Government. All of the Treasury certificates issued are payable to the FRBNY. Gold certificates were valued at $11 billion as of both September 30, 2018 and 2017.

### Subsidies and grants

The federal 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, and Agricultural Risk Coverage and Price Loss Coverage account for the majority of the subsidies due, about $5 billion and $9 billion as of September 30, 2018 and 2017, respectively.

The federal government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for entity-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, 2018, and 2017, DOT, Education, HHS and USDA collectively owed their grantees about $20 billion and $21 billion, respectively. Refer to the financial statements of the respective entities for additional information.

### Miscellaneous liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see *Note 18 – Contingencies*), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, and (3) payables upon return of securities loaned and (4) September 11$^{th}$ Victim Compensation Fund.

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

## State and local government

Based on our review of specific state Comprehensive Annual Financial Reports, we know that the state governments do have other liabilities, however the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source of this data.

# Note 17 – Prior-period adjustments

This note summarizes the restatements that our Government has made of their prior period figures. The effects of these restatements were increases (decreases) in the previously reported values, as follows:

| (In billions) | Federal | State and Local | Combined 2017 |
|---|---|---|---|
| **Income statements** | | | |
| Net deficit | $ — | $ 3 | $ 3 |
| Tax revenues | — | 4 | 4 |
| Non-tax revenues | — | (2) | (2) |
| Total revenues | — | 2 | 2 |
| Total expenditures | — | (1) | (1) |
| *Combined functional income statements* | | | |
| Transfer payments to individuals other than personnel and subsidies | — | 3 | 3 |
| Payments to others for goods and services | — | (3) | (3) |
| Other income | — | (1) | (1) |
| *Combined segment income statements* | | | |
| Establish justice and ensure domestic tranquility expenditures | — | (1) | (1) |
| Promote the general welfare | — | 2 | 2 |
| Secure the blessings of liberty to ourselves and our posterity expenditures | — | 2 | 2 |
| General government and other expenditures | — | (4) | (4) |
| **Balance sheets** | | | |
| Cash and other monetary assets (Note 2) | — | 33 | 33 |
| Accounts and taxes receivable (Note 3) | — | (1) | (1) |
| Loans receivable, net (Note 4) | — | (1) | (1) |
| Property, plant, and equipment, net (Note 6) | — | 6 | 6 |
| Debt and equity securities (Note 7) | — | (194) | (194) |
| Debt securities held by the public and accrued interest (Note 11) | — | 10 | 10 |
| Other liabilities (Note 16) | — | 1 | 1 |
| Accumulated deficit | $ — | $ (168) | $ (168) |

## Federal government

Because of our process of using the most recent *Financial Report of the United States* to develop our federal balance sheets, as described in *General note on sources* above, we will generally not be required to restate our previously reported federal balance sheet disclosures. However, the OMB infrequently restates federal income statement data. Should this occur, we will restate the related federal income statement and footnote figures in our report. We noted no material federal balance sheet or income statement restatements for the periods presented.

## State and local government

The Census and the Federal Reserve restated certain prior year (fiscal year 2017) figures we reported in the state and local financial statements and accompanying footnote disclosures. Generally, the Census and the Federal Reserve do not describe the cause and nature of their restatements.

# Note 18 – Contingencies

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 41 | $ 35 |
| State and local | — | — |
| Total contingencies | $ 41 | $ 35 |

## Federal government

### Financial treatment of loss contingencies

Loss contingencies are existing conditions, situations, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. 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. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. SFFAS No. 5, *Accounting for liabilities of the federal government*, identifies the probability classifications used to assess the range for the likelihood of loss as probable, reasonably possible, and remote. Loss contingencies where a past event or exchange transaction has occurred, and where a future outflow or other sacrifice of resources is assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note and loss contingencies that are assessed as remote are not reported in the financial statements, nor disclosed in the notes.

The federal 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.

Certain significant consolidation entities apply financial accounting and reporting standards issued by FASB, and such entities, as permitted by SFFAS No. 47, are consolidated into the federal government's consolidated financial statements without conversion to financial and reporting standards issued by FASAB. Generally, under FASAB standards, a contingency is considered "probable" if the future event or events are more likely than not to occur. Under FASB standards, a contingency is considered "probable" if the future event or events are likely to occur. "Likely to occur" is considered to be more certain than "more likely than not to occur." Under both accounting frameworks, a contingency is considered "reasonably possible" if occurrence of the future event or events is more likely than remote, but less likely than "probable" ("probable" as defined within each corresponding accounting framework).

### 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 federal government has insurance contingencies that are reasonably possible in the amount of $185 billion as of September 30, 2018, and $253 billion as of September 30, 2017. The major programs are identified below:

- PBGC reported $185 billion and $252 billion as of September 30, 2018, and 2017, 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. The decrease in single-employer program contingencies is primarily due to the decline in the number of companies with lower than investment grade bond ratings and/or credit scores, while the primary reason for the decrease in multiemployer program contingencies is due to 14 plans that are no longer classified as reasonably possible. Of these 14 plans, 12 were removed due to improvements in the plans' financial conditions, and the 2 remaining plans were reclassified to other categories. Please refer to the PBGC financial statements for further details.
- FDIC reported $0.3 billion and $0.6 billion as of September 30, 2018, and 2017, respectively, for identified additional risk in the financial services industry that could result in additional loss to the Deposit Insurance Fund (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 deposits received at insured financial institutions, including deposits in checking accounts, negotiable order of withdrawal accounts, savings accounts, money market deposit accounts, time deposits such as certificates of deposit , and official items issued by banks, such as cashier's checks or money orders. The insurance covers the balance of depositors' accounts, dollar-for-dollar, including principal and any accrued interest through the date of the insured financial institution's closing, up to the insurance limit. As a result, the federal government has the following exposure from federally-insured financial institutions:

- FDIC has estimated insured deposits of $7,377 billion as of September 30, 2018, and $7,092 billion as of September 30, 2017, for the DIF.
- National Credit Union Administration (NCUA) has estimated insured shares of $1,133 billion as of September 30, 2018, and $1,081 billion as of September 30, 2017, for the National Credit Union Share Insurance Fund.

## Legal contingencies

Legal contingencies as of September 30, 2018, and 2017, are summarized in the table below:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | | Estimated Range of Loss for Certain Cases [2] | | | Estimated Range of Loss for Certain Cases [2] | |
| **(In billions)** | **Accrued Liabilities [1]** | **Lower End** | **Upper End** | **Accrued Liabilities [1]** | **Lower End** | **Upper End** |
| Probable | $ 11 | $ 11 | $ 12 | $ 7 | $ 7 | $ 9 |
| Reasonably possible | $ — | $ 8 | $ 28 | $ — | $ 3 | $ 13 |

[1] *Accrued liabilities are recorded and presented in the related line items of the Combined balance sheets.*
[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 federal government is party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government.

Management and legal counsel have determined that it is "probable" that some of these actions will result in a loss to the federal government and the loss amounts are reasonably measurable. The estimated liabilities for "probable" cases against the federal government are $11 billion and $7 billion as of September 30, 2018, and 2017, respectively, and are included in Other liabilities on the Combined balance sheet. For example, the US Supreme Court decision in Salazar v. Ramah Navajo Chapter, dated June 18, 2012, and subsequent cases related to contract support costs have resulted in increased 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 paid and others have been asserted but not yet settled. It is expected that some tribes will file additional claims for prior years.

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 reported for such claims and actions range from $7 billion to $26 billion as of September 30, 2018, and from $3 billion to $13 billion as of September 30, 2017. For example, as of September 30, 2018, EPA has received approximately 403 total claims under the Federal Tort Claims Act from individuals and businesses situated on or near waterways affected by acid mine water released by Colorado's Gold King Mine in August of 2015. The claims allege lost wages, loss of business income, agricultural and livestock losses, property damage, diminished property value, and personal injury. In addition, EPA has received claims from individuals under the Federal Tort Claims Act for alleged injuries and property damages caused by EPA's alleged negligence related to the water health crisis in Flint, Michigan. The estimated losses related to the Gold King Mine and the water health crisis are $2 billion and $3 billion, respectively. EPA has determined there is a reasonably possible likelihood of unfavorable outcome for these cases.

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 US government's financial position or operating results. An example of a specific case is summarized below:

- A number of plaintiffs filed claims in the US Court of Federal Claims requesting that Treasury redeem matured savings bonds not possessed by the applicable states, but which have registered owners with last known addresses in those states. Treasury informed the applicable states it would not redeem these savings bonds since those states are not registered owners of the bonds. On August 20, 2015, the US Court of Federal Claims partially dismissed one claim and denied the US government's motion to dismiss with respect to other claims. On August 8, 2017, the court ruled in favor of two states, and the U.S. government has appealed. At this time, the government is unable to determine the likelihood of an unfavorable outcome or make an estimate of potential loss.

## Environmental and disposal contingencies

Environmental and disposal contingencies as of September 30, 2018, and 2017, are summarized in the table below:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | | Estimated Range of Loss for Certain Cases [2] | | | Estimated Range of Loss for Certain Cases [2] | |
| (In billions) | Accrued Liabilities [1] | Lower End | Upper End | Accrued Liabilities [1] | Lower End | Upper End |
| Probable | $ 30 | $ 30 | $ 31 | $ 28 | $ 28 | $ 30 |
| Reasonably possible | $ — | $ 1 | $ 1 | $ — | $ 1 | $ 2 |

[1] *Accrued liabilities are recorded and presented in the related line items of the Combined balance sheets.*
[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 federal 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 federal government and the loss amounts are reasonably measurable. The estimated liabilities for these cases are $30 billion and $28 billion as of September 30, 2018, and 2017, respectively, and are included in Other liabilities on the Combined balance sheet.

In accordance with the *Nuclear Waste Policy Act of 1982* (NWPA), DOE entered into more than 68 standard contracts with utilities in which, in return for payment of fees 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 significant SNF litigation claiming damages for partial breach of contract as a result of the delay. Based on settlement estimates, the total liability estimate as of September 30, 2018 is $36 billing. After deducting the cumulative amount paid of $7 billion as of September 30, 2018 under settlements, and as a result of final judgments, the remaining liability is estimated to be approximately $28 billion, compared to approximately $27 billion as of September 30, 2017. In addition to its SNF litigation, a number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of DOE's nuclear facilities. Collectively, damages in excess of $1 billion are currently being sought in these cases.

### Other contingencies

DOT, HHS, and Treasury 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, accordingly, 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. As of September 30, 2018 and 2017, FHWA has pre-authorized $61 billion and $55 billion, respectively, under these arrangements. Congress has not provided appropriations for these projects and no liability is accrued in the DOT consolidated financial statements.
- Contingent liabilities have been established as a result of Medicaid audit and program disallowances that are currently being appealed by the states. The Medicaid amounts are $6 billion and $12 billion for fiscal years ending September 30, 2018, and 2017, respectively. The states could return the funds through payments to HHS, or HHS could recoup the funds by reducing future grant awards to the states. Conversely, 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.
- As part of an annual process, Treasury assesses the need to estimate and accrue a contingent liability the forecasted equity deficits of the GSEs. Based on this assessment, it was estimated there were no probable future funding draws as of September 30, 2018 and 2017, and therefore no contingent liability was accrued. However, as of September 30, 2018, it is reasonably possible that market volatility or non-recurring events – for instance, changes to accounting policies that impact credit loss provisions – could potentially cause the GSEs to generate quarterly losses and, therefore, result in future funding draws against Treasury's funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of non-recurring events, an estimate of the total amount of this reasonably possible future funding liability could not be made as of September 30, 2018. See *Note 8 – Investments in government-sponsored enterprises* for further information.

### Treaties

The US Government is a party to treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and law enforcement that may involve financial obligations or give rise to possible exposure to losses. When a contingency originates from the US federal government's involvement in a treaty or other international agreement, the responsible reporting entity must establish a contingent liability, include a required note disclosure to its financial statements, or both, in accordance with SFFAS No. 5, as amended. A review of potential contingent liabilities arising from litigation related to treaties and other international agreements has been conducted by US federal government entities. This entity-level review, along with any resulting relevant information, is captured and reported in the annual legal representation letter process and, if applicable, disclosed in the legal contingencies section of this note.

## State and local government

Based on our review of specific state Comprehensive Annual Financial Reports, we know that the state governments do have contingencies, however, the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source of this data.

# Note 19 – Commitments

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 1,796 | $ 1,681 |
| State and local | — | — |
| Total commitments | $ 1,796 | $ 1,681 |

## Federal government

The federal 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.

### Long-term operating leases

| (In billions) | 2018 | 2017 |
|---|---|---|
| General Services Administration | $ 22 | $ 22 |
| US Postal Service | 4 | 8 |
| Other operating leases | 11 | 7 |
| Total long-term operating leases | $ 37 | $ 37 |

### Undelivered orders and other commitments and risks

| (In billions) | 2018 | 2017 |
|---|---|---|
| **Undelivered Orders** | | |
| Department of Defense | $ 320 | $ 264 |
| Defense Security Cooperation Agency | 168 | 141 |
| Department of Education | 133 | 128 |
| Department of Transportation | 111 | 104 |
| Department of Health and Human Services | 123 | 114 |
| Department of Agriculture | 58 | 62 |
| All other agencies | 286 | 265 |
| Total undelivered orders | $ 1,199 | $ 1,078 |
| **Other Commitments** | | |
| GSE Senior Preferred Stock Purchase Agreement | $ 254 | $ 258 |
| US participation in the International Monetary Fund | 155 | 157 |
| Callable capital subscriptions for Multilateral Development Banks | 121 | 121 |
| All other commitments | 30 | 30 |
| Total other commitments | $ 560 | $ 566 |

#### Undelivered orders

Undelivered orders represent the value of goods and services ordered that have not yet been received. As of September 30, 2018, and 2017, DOD reported undelivered orders of $320 billion and $264 billion, respectively. The $56 billion increase primarily resulted in an increase in activity (available budgetary resources) and continued refinement of estimation methods used in the classification of non-federal undelivered orders.

### GSE Senior Preferred Stock Purchase Agreements

At September 30, 2018 and 2017, the maximum remaining potential commitment to the GSEs for the remaining life of the SPSPAs was $254 billion and $258 billion, respectively, which was established on December 31, 2012. Refer to *Note 8 – Investments in government-sponsored enterprises* for a full description of the SPSPAs related commitments and contingent liability, if any, as well as additional information.

### US participation in the International Monetary Fund

The federal government participates in the IMF through a quota subscription and certain borrowing arrangements that supplement IMF resources. As of September 30, 2018, and 2017, the financial commitment under the US quota and borrowing arrangements was $155 billion and $157 billion, respectively. Refer to *Note 2 - Cash and other monetary assets* for more information regarding the US participation in the IMF.

### Capital callable subscriptions for Multilateral Development Banks

The federal government has callable subscriptions in certain MDBs, which are international financial institutions that finance economic and social development projects in developing countries. Callable capital in the MDBs serves 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 is anticipated. As of September 30, 2018, and 2017, the capital commitment to MDBs was $121 billion.

### Terrorism Risk Insurance Program

Congress originally enacted the *Terrorism Risk Insurance Act* (TRIA) in November 2002 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 (TRIP) until December 31, 2020. The TRIP 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 TRIP Program is activated when the Secretary of the Treasury (in consultation with the Secretary of the US Department of Homeland Security and the US Attorney General) certifies an "act of terrorism." In the event of certification of an "act of terrorism" insurers may be eligible to receive reimbursement from the US government for associated insured losses assuming an aggregate insured loss threshold ("program trigger") has been reached once a particular insurer has satisfied its designated deductible amount. For calendar years 2018 and 2017, the program trigger amount was $160 million and $140 million, respectively. This amount will increase by $20 million annually through calendar year 2020. Insured losses above insurer deductibles will be shared between insurance companies and the US government. The TRIP includes both mandatory and discretionary authority for the Treasury to recoup federal payments made under the TRIP 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 the TRIP as of September 30, 2018 or 2017.

### US Contributions to International Organizations

The US government enters into agreements to pay future contributions to international organizations in which it participates as a member. These contributions may include financial and in-kind support, including assessed contributions, voluntary contributions, grants, and other assistance to international organizations. Following are examples of international organizations and their underlying missions which are supported by US contributions:

- *Office of the United Nations High Commissioner for Refugees*, which supports annual and supplementary appeals for Africa, East Asia, Europe, Near East, South Asia, and the Western Hemisphere, as well as protection activities, refugee resettlement, and the global HIV/AIDS initiative;

- *International Committee of the Red Cross*, which aids in annual emergency and budget extension appeals for Africa, East Asia, Europe, Near East, South Asia, and the Western Hemisphere to support protection and assistance for conflict-affected populations;
- *International Organization for Migration*, which supports migration programs and the US Refugee Assistance Program;
- *North Atlantic Treaty Organization*, which promotes conflict prevention and peaceful resolution of disputes;
- *United Nations*, which enables the world's nations to work together toward freedom, democracy, peace, and human rights;
- *World Food Program*, which provides emergency nutrition programming;
- *Global Environment Facility*, which is a multilateral trust fund that provides grants for global environmental projects;
- *Green Climate Fund*, established to support the efforts of developing countries to respond to the challenge of climate change;
- *United Nations Children's Fund*, which promotes humanitarian and developmental assistance to children and mothers in developing countries; and
- *World Health Organization*, which provides support for collaborative efforts in a wide range of health-related activities, including infectious diseases, maternal and child health, family planning, safe motherhood, newborn health, reproductive health, environmental health, and HIV/AIDS.

### State and local government

Based on our review of specific state Comprehensive Annual Financial Reports, we know that the state governments do have commitments, however, the Federal Reserve does not provide information on the balances, and we are not aware of another aggregated source for this data.

## Note 20 – Funds from dedicated collections

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 3,481 | $ 3,420 |
| State and local | — | — |
| Total funds from dedicated collections | $ 3,481 | $ 3,420 |

## Federal government

| (In billions) | 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) |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| **Assets** | | | | | | |
| Cash and other monetary assets | $ — | $ — | $ — | $ — | $ 66 | $ 66 |
| Fund balance with Treasury | — | 2 | — | 26 | 149 | 177 |
| Investments in Treasury securities, net of unamortized premiums/discounts | 2,801 | 203 | 93 | 98 | 273 | 3,468 |
| Other federal assets | 20 | 39 | 1 | 36 | 24 | 120 |
| Non-federal assets | 3 | — | 5 | 17 | 289 * | 314 |
| Total assets | $ 2,824 | $ 244 | $ 99 | $ 177 | $ 801 * | $ 4,145 |
| **Liabilities and net position** | | | | | | |
| Due and payable to beneficiaries | $ 75 | $ 32 | $ 25 | $ 31 | $ 2 | $ 165 |
| Other federal liabilities | 6 | 40 | 1 | 43 | 65 | 155 |
| Other non-federal liabilities | — | — | — | — | 344 * | 344 |
| Total liabilities | 81 | 72 | 26 | 74 | 411 | 664 |
| Total net position | 2,743 | 172 | 73 | 103 | 390 * | 3,481 |
| Total liabilities and net position | $ 2,824 | $ 244 | $ 99 | $ 177 | $ 801 * | $ 4,145 |
| **Change in net position** | | | | | | |
| Beginning net position | $ 2,767 | $ 178 | $ 46 | $ 99 | $ 330 | $ 3,420 |
| Prior-period adjustment | — | — | — | — | 22 | 22 |
| Beginning net position, adjusted | 2,767 | $ 178 | $ 46 | $ 99 | $ 352 | $ 3,442 |
| Investment revenue | 81 | 7 | 2 | 2 | 7 | 99 |
| Individual income taxes | 706 | 265 | 166 | — | 1 | 1,138 |
| Other taxes and receipts | — | 1 | — | 4 | 146 | 151 |
| Other changes in fund balance | 27 | 23 | — | 313 | 6 | 369 |
| Total financing sources | 814 | 296 | 168 | 319 | 160 | 1,757 |
| Program gross costs and non-program expenses | 838 | 306 | 141 | 411 | 176 | 1,872 |
| Less: program revenue | — | (4) | — | (96) | (54) | (154) |
| Net cost | 838 | 302 | 141 | 315 | 122 | 1,718 |
| Ending net position | $ 2,743 | $ 172 | $ 73 | $ 103 | $ 390 | $ 3,481 |

| (In billions) | 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) |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Assets** | | | | | | |
| Cash and other monetary assets | $ — | $ — | $ — | $ — | $ 65 | $ 65 |
| Fund balance with Treasury | — | 1 | — | 28 | 139 | 168 |
| Investments in Treasury securities, net of unamortized premiums/discounts | 2,820 | 198 | 70 | 71 | 272 | 3,431 |
| Other federal assets | 20 | 37 | — | 35 | 18 | 110 |
| Non-federal assets | 3 | 12 | 5 | 39 | 112 | 171 |
| Total assets | $ 2,843 | $ 248 | $ 75 | $ 173 | $ 606 | $ 3,945 |
| **Liabilities and net position** | | | | | | |
| Due and payable to beneficiaries | $ 71 | $ 30 | $ 27 | $ 31 | $ 15 | $ 174 |
| Other federal liabilities | 5 | 39 | 1 | 43 | 73 | 161 |
| Other non-federal liabilities | — | 1 | 1 | — | 188 | 190 |
| Total liabilities | 76 | 70 | 29 | 74 | 276 | 525 |
| Total net position | 2,767 | 178 | 46 | 99 | 330 | 3,420 |
| Total liabilities and net position | $ 2,843 | $ 248 | $ 75 | $ 173 | $ 606 | $ 3,945 |
| **Change in net position** | | | | | | |
| Beginning net position | $ 2,746 | $ 174 | $ 21 | $ 95 | $ 338 | $ 3,374 |
| Prior-period adjustment | — | — | — | — | — | — |
| Beginning net position, adjusted | 2,746 | 174 | 21 | 95 | 338 | 3,374 |
| Investment revenue | 84 | 7 | 2 | 2 | 4 | 99 |
| Individual income taxes | 702 | 260 | 166 | — | — | 1,128 |
| Other taxes and receipts | — | 1 | — | 4 | 142 | 147 |
| Other changes in fund balance | 29 | 23 | (2) | 278 | — | 328 |
| Total financing sources | 815 | 291 | 166 | 284 | 146 | 1,702 |
| Program gross costs and non-program expenses | 794 | 291 | 141 | 366 | 205 | 1,797 |
| Less: program revenue | — | (4) | — | (86) | (51) | (141) |
| Net cost | 794 | 287 | 141 | 280 | 154 | 1,656 |
| Ending net position | $ 2,767 | $ 178 | $ 46 | $ 99 | $ 330 | $ 3,420 |

Generally, funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, provided to the federal 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 federal 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 benefits, 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 21 – 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 federal government (for example, monies received by one entity of the federal government from another entity of the federal government).

The intergovernmental 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 federal government.

Most of the assets within funds from dedicated collections are invested in intergovernmental debt holdings. The federal 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 entities as evidence of its receipts. Treasury securities are an asset to the federal agencies and a liability to the US 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 federal 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 – 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 federal government entities that administer each particular fund. For detailed information regarding these funds from dedicated collections, please refer to the financial statements of the corresponding administering entities. 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 (OASI) 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 OASI Trust Fund. Interest earnings on Treasury securities, federal entities' 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 OASI 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 (HI) 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 individuals younger than age 65 with certain disabilities.

The HI Trust Fund is financed primarily by payroll taxes, including those paid by federal entities. It also receives income from interest earnings on Treasury securities, a portion of income taxes collected on Social Security benefits, premiums paid by, or on behalf of, aged uninsured beneficiaries, 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 (DI) Trust Fund, administered by the SSA, provides assistance and protection against the loss of earnings due to a wage earner's disability in form of monetary payments.

Like the OASI Trust Fund, payroll taxes primarily fund the DI Trust Fund. The fund also receives income from interest earnings on Treasury securities, federal entities' 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 (SMI) Trust Fund, administered by HHS, finances the SMI 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. The Medicare SMI Trust Fund was established by Section 1841 of the *Social Security Act*.

Medicare Part D was created by the *Medicare Modernization Act of 2003* (P.L. 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.

### All other funds from dedicated collections

The federal 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 federal 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*. The funds from dedicated collections within the "all other" aggregate, along with the entities that administer them, include the following:

- Highway Trust Fund and Airport and Airway Trust Fund – administered by DOT.
- Unemployment Trust Fund (UTF) and Black Lung Disability Trust Fund (BLDTF) – administered by DOL.
- Land and Water Conservation Fund, Reclamation Fund, and Water and Related Resources Fund – administered by DOI.
- Exchange Stabilization Fund – administered by Treasury.
- National Flood Insurance Program – administered by DHS.
- Railroad Retirement Trust Fund – administered by RRB.
- Uranium Enrichment Decontamination and Decommissioning Fund – administered by DOE.

- Government National Mortgage Association – administered by HUD.
- 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 postemployment benefits to civilian or military personnel are excluded from the reporting requirements related to funds from dedicated collections.

Smithsonian Institution comprised the $3 billion adjustment to beginning net position for fiscal year 2018. Gulf Coast Ecosystem Restoration Council and HUD contributed to the $0.2 billion in adjustments to beginning net position for fiscal year 2017.

### *Other taxes and miscellaneous earned income*

#### 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.

The 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, 2018, and 2017, UTF unemployment tax revenues were $43 billion and $44 billion, respectively. Appropriations have supplemented the fund's income during periods of high and extended unemployment. The UTF was established under the authority of Section 904 of the *Social Security Act* of 1935.

#### Excise taxes

There are 9 funds from dedicated collections within the "all other" aggregate that represent 94% 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 96% of the "all other" 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, 2018, and 2017, Highway Trust Fund excise tax revenues were $43 billion and $41 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 aviation-related excise tax collections from:

- Passenger tickets,

- Passenger flight segments,
- International arrival/departures,
- Cargo waybills, and
- Aviation fuels.

For the years ending September 30, 2018, and 2017, Airport and Airway Trust Fund excise tax revenues were $16 billion and $15 billion, respectively.

#### Miscellaneous earned revenues

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

### State and local government

The Federal Reserve does not provide amounts for funds from dedicated collections. We do not know if states have these activities, and if they do, we are not aware of another aggregated source for this data.

## Note 21 – Fiduciary activities

| (In billions) | 2018 | 2017 |
|---|---|---|
| Federal | $ 599 | $ 543 |
| State and local | — | — |
| Total fiduciary net assets | $ 599 | $ 543 |

### Federal government

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

| (In billions) | 2018 | 2017 |
|---|---|---|
| Thrift Savings Fund | $ 589 | $ 532 |
| All other | 10 | 11 |
| Total fiduciary net assets | $ 599 | $ 543 |

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, 2018, total fiduciary investments in Treasury securities and in non-Treasury securities are $250 billion and $363 billion, respectively. As of September 30, 2017, total fiduciary investments in Treasury securities and in non-Treasury securities were $224 billion and $318 billion, respectively. Refer to *Note 11 – Debt securities held by the public and accrued interest* for more information on the Treasury securities.

As of September 30, 2018, and 2017, the total fiduciary fund balance with Treasury was $2 billion and $1 billion, respectively. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in *Note 16 – Other liabilities*.

As of both September 30, 2018, and 2017, collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all Government entities represent $7 billion of unrestricted cash included within cash held by Treasury for federal government-wide operations shown in *Note 2 – Cash and other monetary assets*.

### Thrift Savings Fund

The Thrift Savings Fund (TSF) maintains and holds in trust the assets of the TSP. The TSP is administered by an independent Government entity, the FRTIB, which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries.

The TSP is a retirement savings and investment plan for federal employees and members of the uniformed services. It was authorized by the US 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.

As of September 30, 2018, and 2017, the TSP held $589 billion and $532 billion, respectively, in net assets, which included $246 billion and $218 billion, respectively, of Treasury securities. The TSF combines the net assets of the TSP and the FRTIB in its financial statements. Only the TSP net assets of the TSF financial statements are disclosed in this note. The most recent audited financial statements for the TSF are as of December 31, 2017, and 2016. For further information about FRTIB and the TSP, please refer to the FRTIB website at https://www.frtib.gov/.

### DOI – Indian trust funds

As stated above, DOI has responsibility for the assets held in trust on behalf of American Indian Tribes and individuals. DOI maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund and Individual Indian Monies (IIM) 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 are prepared using a cash or modified cash basis of accounting, a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The independent auditors' reports on the Tribal and Other Trust Funds were qualified as it was not practical to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances. The IIM Trust Funds received an unmodified opinion from the auditors. As of both September 30, 2018 and 2017, the DOI held $5 billion in net assets. For further information related to these assets, please refer to the DOI website at https://www.doi.gov/.

### All other entities with fiduciary activities

The federal 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 federal 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, 2018, and 2017, including TSP and DOI, there are a total of 19 and 20 federal entities, respectively, with fiduciary activities at a grand total of 65 and 68 fiduciary funds, respectively. SBA and Library of Congress (LOC) are the significant entities relating to the fiduciary activities of the remaining component entities within the "all other" aggregate balance. As of September 30, 2018, "all other" fiduciary net assets were $5 billion, compared to $7 billion as of September 30, 2017.

## State and local government

The Federal Reserve does not provide amounts for fiduciary activities. We do not know if states have these activities, and if they do, we are not aware of another aggregated source for this data.

# Note 22 – Stewardship land and heritage assets

## Federal government

Stewardship PP&E consists of items whose physical properties resemble those of general PP&E traditionally capitalized in financial statements. However, stewardship PP&E differs from general PP&E in that their values may be indeterminable or may have little meaning (for example, museum collections, monuments, assets acquired in the formation of the nation) or that allocating the cost of such assets to accounting periods that benefit from the ownership of such assets is meaningless. Stewardship PP&E includes stewardship land (land not acquired for or in connection with general property, plant, and equipment) and heritage assets (for example, federal monuments and memorials and historically or culturally significant property). The majority of stewardship land was acquired by the government during the first century of the nation's existence.

Investments in stewardship land are reported on a non-financial basis. For example, measurement may be based on physical units, such as acres of land. National forests, parks, and historic sites are examples of stewardship land.

Additional detailed information concerning stewardship land, such as entity stewardship policies, physical units by major categories, and the condition of stewardship land, can be obtained from the financial statements of DOI, DOD, 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; or
- Significant architectural characteristics.

Like stewardship land, heritage assets are also reported on a non-financial basis. Measurement may be reported by the total units, such as the total number of National Parks reported by DOI. The public entrusts the federal government with these assets and holds it accountable for their preservation. Examples of heritage assets include the Declaration of Independence, the US Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as the Washington Monument, the Lincoln Memorial, and the LOC. Many other sites such as battlefields, historic structures, and national historic landmarks are placed in this category, as well.

Heritage assets are classified into two categories: collection and non-collection. Collection type heritage assets include objects gathered and maintained for exhibition, for example museum collections, art collections, and library collections. Non-collection type heritage assets include parks, memorials, monuments, and buildings. In some cases, heritage assets may serve two purposes: a heritage function and general government operations. In those cases, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building used as an office building). The cost of acquisition, improvement, reconstruction, or renovation of multiuse heritage assets should be capitalized as general PP&E and depreciated over its estimated useful life.

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

### Supplemental data – reported revenue from resource extraction on federal lands

The following data is not from the *Financial Report*. We are providing this information as even though the federal government reports that it does not expect to use stewardship land to meet its obligations, the land is used to generate revenues for the federal government. The following are revenues generated from federal lands, including those that are stewardship lands, and are included as offsets to expenditures in our combined income statements. These revenues are generated when companies that extract resources on federal land pay bonuses, rents, royalties, fees, taxes, or other revenues to the federal government.

| (In billions) | 2018 | 2017 | 2016 |
|---|---|---|---|
| Royalties | $ 8 | $ 6 | $ 5 |
| Bonus | 1 | 1 | 1 |
| Other | — | — | — |
| Total reported revenue | $ 9 | $ 7 | $ 6 |

† *Derived from monthly revenue reports that payors (i.e. companies) submit to the Office of National Resources Revenue to explain their revenue payments. See the data at. https://revenuedata.doi.gov/downloads/federal-revenue-by-company/. Includes American Indian, federal offshore, and federal onshore resources.*

The Government Accountability Office has identified challenges in the Department of the Interior's (DOI) management of oil and gas on leased federal lands and waters, finding that the DOI lacked reasonable assurance that it was collecting its share of revenue from oil and gas produced on federal lands and waters.[55]

## State and local government

The Federal Reserve does not provide amounts for stewardship land and heritage assets at the state and local government level. We do not know if states have these assets, and if they do, we are not aware of another aggregated source for this data.

# Note 23 – Intergovernmental transfers

We eliminated certain intergovernmental transfers between agencies, departments, or funds within and between the federal government and state and local governments when we prepared the combined financial statements. Intergovernmental activity we eliminated is shown below.

## Federal grant and non-grant assistance to territories and state and local governments

| (In billions) | 2018 | 2017 |
|---|---|---|
| Medicaid and CHIP | $ 407 | $ 391 |
| Other non-cash programs for aid to the disadvantaged | 83 | 81 |
| Transportation | 65 | 65 |
| Elementary and secondary education | 36 | 37 |
| Other grants | 105 | 100 |
| Grants per the federal government | 696 | 674 |
| Federal non-grant assistance to territories and state and local governments | 4 | 4 |
| Total federal grant and non-grant assistance per the federal government | 700 | 678 |
| Difference between federal and state and local reporting of transfers | 36 | 29 |
| Total federal grant and non-grant assistance per state and local governments | $ 736 | $ 707 |

## Federal debt securities held as investments by government accounts

### Federal accounts

| (In billions) | Balance 2017 | Net Change during Fiscal Year 2018 | Balance 2018 |
|---|---|---|---|
| Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund | $ 2,821 | $ (19) | $ 2,802 |
| Office of Personnel Management, Civil Service Retirement and Disability Fund | 905 | 18 | 923 |
| Department of Defense, Military Retirement Fund | 661 | 82 | 743 |
| All other programs and funds | 1,185 | 103 | 1,288 |
| Subtotal | 5,572 | 184 | 5,756 |
| Total net unamortized premiums/(discounts) for intergovernmental | 71 | (2) | 69 |
| Total intergovernmental debt holdings, net | $ 5,643 | $ 182 | $ 5,825 |

Intergovernmental debt holdings represent the portion of the gross federal debt held as investments by federal government entities such as trust funds, revolving funds, and special funds. As noted in *Note 11 – Debt securities held by the public and accrued interest*, the delay in raising the debt limit still existed as of September 30, 2018. On February 8, 2018, the *Bipartisan Budget Act of 2018* (P.L. No. 115-123) was enacted which suspended the debt limit through March 1, 2019.

Federal 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 20 – Funds from dedicated collections*. These intergovernmental debt holdings are eliminated in the consolidation of the federal financial statements in the *Financial Report*.

### State accounts

| (In billions) | 2018 | 2017 |
|---|---|---|
| Treasury securities – non-pension | $ 784 | $ 735 |
| Treasury securities – pension | 307 | 263 |
| Loans from the federal government | (19) | (19) |
| Net federal assets held by state and local governments | $ 1,072 | $ 979 |

Federal assets and liabilities held by state and local governments, as shown in the table above, were included in our Federal Reserve source data for state and local governments. In preparing combined balance sheets for our Government, we eliminated these intergovernmental holdings, both in the combined balance sheets and in the accompanying footnotes.

## Note 24 – Offsetting amounts

Within our income statements, we have offset certain amounts and reported them as either net revenues or expenditures rather than showing the gross revenues and expenditures. Key offsetting amounts are shown in the table below.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **(In billions)** | **Revenues** | **Expenditures** | **Net** | **Revenues** | **Expenditures** | **Net** |
| Employee retirement and disability | $ 144 | $ 499 | $ 355 | $ 143 | $ 485 | $ 342 |
| Higher education | 122 | 302 | 180 | 119 | 297 | 178 |
| Transit systems | 17 | 78 | 61 | 17 | 76 | 59 |
| Public hospitals | 168 | 179 | 11 | 161 | 171 | 10 |
| Sewerage and waste management | 80 | 85 | 5 | 77 | 82 | 5 |
| US Postal Service | 71 | 70 | (1) | 69 | 67 | (2) |
| Tennessee Valley Authority | 48 | 46 | (2) | 46 | 46 | — |
| Water utilities | 69 | 65 | (4) | 65 | 63 | (2) |
| Gas and electric utilities | 87 | 80 | (7) | 86 | 77 | (9) |
| Other key offsetting amounts | 142 | 118 | (24) | 133 | 106 | (27) |
| Total offsetting amounts | $ 948 | $ 1,522 | $ 574 | $ 916 | $ 1,470 | $ 554 |

See descriptions of our Government-run business that are presented above (e.g. Tennessee Valley Authority) at Exhibit 99.04.

## Note 25 - Disclosure entities and related parties

SFFAS No. 47, *Reporting Entity* provides criteria for identifying organizations that are consolidation entities, disclosure entities and related parties, and how such organizations are reported within this annual report. For consolidation entities, the assets, liabilities, results of operations, and related activity are consolidated into the financial statements. For disclosure entities and related parties, balances and transactions with such entities are included in the financial statements and certain information about their relationship with our Government is disclosed in the notes to financial statements. Disclosure entities and related parties are important to this annual report but are not consolidated into the financial statements.

### Disclosure Entities

Disclosure entities are organizations similar to consolidation entities in that they are either (a) in the budget, (b) majority owned by our Government, (c) controlled by our Government, or (d) would be misleading to exclude. Disclosure entities have a greater degree of autonomy with our Government than consolidation entities. In addition, organizations may be owned or controlled by our Government as a result of (a) regulatory actions (such as organizations in receivership or conservatorship) or (b) other Government intervention actions. Under such regulatory or other intervention actions, if the relationship with our Government is not expected to be permanent, such entities generally would be classified as disclosure entities based on their characteristics taken as a whole. Based on the criteria in GAAP for federal entities, the disclosure entities in this annual report are FR System, Fannie Mae, Freddie Mac, and National Railroad Passenger Corporation (more commonly referred to as Amtrak). In addition, there are additional disclosure entities reported by component reporting entities that do not meet the qualitative or quantitative criteria in SFFAS No. 47 to be reported in this annual report.

#### Federal Reserve System

Congress, under the *Federal Reserve Act of 1913* (*Federal Reserve Act*), created the Federal Reserve (FR) System (FR System). The FR System includes the Federal Reserve Board of Governors (Board), the Federal Reserve Boards (FRBs), and Federal Open Market Committee (FOMC). 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 payment systems (including large-dollar transfers of funds, Automated Clearing House (ACH) operations, and check collections), providing certain financial services to federal entities and fiscal principals, and serving as our 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 considered an independent central bank, and the executive branch of our Government does not ratify its decisions.

The 12 FRBs are chartered under the *Federal Reserve Act*, which requires each member bank to own the capital stock of its FRB. Each FRB has a board of directors that exercises supervision and control of each FRB, with three members appointed by the Board, and six board members elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distributing currency and coin, and serving as our Government's fiscal agent, as well as the fiscal agent for other federal entities and fiscal principals. Fiscal principals, generally speaking, relate to banks, credit unions, savings and loans institutions. 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 crucial circumstances when approved by the Board and the Secretary of the Treasury.

Our Government interacts with FRBs in a variety of ways, including the following:

- The FRBs serve as our Government's fiscal agent and depositary, executing banking and other financial transactions on our Government's behalf. Our Government reimburses the FRBs for these services;
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy (see *Note 11 - Debt securities held by the public and accrued interest*);
- The FRBs hold gold certificates issued by our Government in which the certificates are collateralized by gold (see *Note 2 - Cash and other monetary assets*);
- The FRBs hold SDR certificates issued by our 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 our Government.

### 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 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 our Government, and other federal entities. 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 Secretary of the Treasury.

### Federal Reserve Monetary Policy Action

During fiscal year 2018, the Federal Reserve FOMC gradually raised its target range for the federal funds rate and gradually reduced its securities in the SOMA. The Federal Reserve raised its target range for the federal funds rate from

1.0% – 1.25% in September 2017, to 2.0% – 2.25% in September 2018. The Federal Reserve reduced its US Treasury and federal agency and government-sponsored enterprise mortgage-backed securities in the SOMA on its balance sheet from approximately $4.4 trillion as of September 30, 2017, to approximately $4.1 trillion as of September 30, 2018.

### Federal Reserve System Assets, Liabilities, Revenues, Expenses, Gains, and Losses

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. As of September 30, 2018, Treasury securities held by the FRBs totaled $1,783 billion, which excludes $532 billion in Treasury Securities used in overnight reverse repurchase transactions. As of September 30, 2017, Treasury securities held by the FRBs totaled $1,965 billion, which excludes $502 billion in Treasury securities used in overnight reverse repurchase transactions. Such securities are included in federal debt securities held by the public and accrued interest (see *Note 11 - Debt securities held by the public and accrued interest*). For fiscal years ended September 30, 2018, and 2017, Treasury incurred interest cost relating to the FRB's US Treasury holdings amounting to $64 billion at both dates. Unrestricted Cash held on deposit at the FRBs as of September 30, 2018, and 2017, was $379 billion and $153 billion, respectively, and are included in cash and other monetary assets. In addition, restricted cash as of September 30, 2018, and 2017, was $32 billion and $26 billion, respectively; a significant portion is held on deposit at the FRBs (see *Note 2 - Cash and other monetary assets*).

Treasury securities are generally subject to the same market (principally interest-rate) and credit risks as other financial instruments. In the open market, the FRBs purchase and sell Treasury securities as a mechanism for controlling the money supply.

Financial and other information concerning the FR System, including financial statements for the Board and the FRBs, may be obtained at [https://federalreserve.gov](https://federalreserve.gov).

### FRB Residual Earnings Transferred to the Government

FRBs generate income from interest earned on securities, reimbursable services provided to federal entities, 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 our Government its residual (or excess) earnings, after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of $7.5 billion for all FRBs. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. If an FRB's earnings for the year are not sufficient to provide for the cost of operations, payment of dividends, or allocated portion of $7.5 billion aggregate surplus funds limitation, an FRB will suspend its payments to our Government until such earnings become sufficient. These funds are part of restricted cash at the Federal Reserve (see *Note 2 - Cash and other monetary assets*). The FRB residual earnings were $71 billion and $81 billion for fiscal years ended September 30, 2018, and 2017, respectively. 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, 2018, and 2017, accounts receivable on FRB's residual earnings are $0.4 billion and $0.3 billion, respectively (see *Note 3 - Accounts and taxes receivables, net)*.

## Fannie Mae and Freddie Mac

In 2008, during the financial crisis, our Government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. For fiscal year 2018, these entities meet the criteria in SFFAS No. 47, for disclosure entities as both (a) "receiverships and conservatorships," and, (b) as entities wherein "federal government intervention actions resulted in control or ownership" with intervention actions not expected to be permanent. Accordingly, these entities are not consolidated into the financial statements. This treatment is consistent with the reporting for these entities in fiscal year 2017 under SFFAC No. 2, *Entity and Display* (see *Note 8 - Investments in government-sponsored enterprises* for additional information).

### Amtrak

Amtrak was incorporated in 1971 pursuant to the Rail Passenger Service Act of 1970 and is authorized to operate a nationwide system of passenger rail transportation. Amtrak is a private, for-profit corporation under 49 U.S.C. § 24301 and District of Columbia law. It is not a department, entity, or instrumentality of our Government. Amtrak's classification as a disclosure entity is attributed to (a) being listed in the budget, (b) is financed mostly by sources other than taxes, and (c) governed by an independent Board of Directors comprised of 10 directors. The Secretary of Transportation (Secretary), who is a director by statute, and eight of the other Amtrak directors, are appointed by the President with the advice and consent of the US Senate. The 10th board member, appointed by the board, is the President and Chief Executive Officer of Amtrak. Amtrak does not take actions on behalf of our Government but benefits the national economy by providing a transportation option in 46 states and the District of Columbia. Our Government (through the DOT) owns 100% of Amtrak's preferred stock (109,396,994 shares of $100 par value). Each share of preferred stock is convertible into ten shares of common stock. The common stockholders have voting rights for "amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events." Although Section 4.02(g) of the Amtrak Articles of Incorporation allow for the conversion of preferred stock to common stock, our Government would not convert its holdings without Congressional authorization. Our Government does not recognize 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 addition to the purchase/ownership of the Amtrak preferred stock, our Government has provided funding to Amtrak, since 1972, primarily through grants and loans. Amtrak receives grants from our Government that cover a portion of the corporation's annual operating expenses and capital investments. Funding provided to Amtrak through grant agreements are included in our Government's annual budget. Amtrak has a history of recurring operating losses and is dependent on subsidies from our Government to operate. Amtrak's ability to continue operating in its current form is dependent upon the continued receipt of subsidies from our Government. Our Government has possession of two long-term notes with Amtrak. The first note is for $4.0 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. Our Government does not recognize the long-term notes in its financial statements since the notes, with maturity dates of 2975 and 2082, are considered fully uncollectible due to the lengthy terms, Amtrak's history of operating losses, and ability to generate funds for repayment. Financial and other information concerning Amtrak including financial statements may be obtained at https://www.amtrak.com/reports-documents.

## Related Parties

Related parties exist if the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the party's policy decisions. Related parties do not meet the principles for inclusion, but are reported in this annual report if they maintain relationships of such significance that it would be misleading to exclude.

Based on the criteria in SFFAS No. 47, the related parties reported in this annual report are Federal Home Loan Banks (FHLBanks), IMF, Multilateral Banks, and Private Export Funding Corporation (PEFCO). In addition, there are additional related parties reported by component reporting entities that do not meet the criteria to be reported in this annual report.

### Federal Home Loan Banks

Our Government is empowered with supervisory and regulatory oversight of the 11 FHLBanks. Our Government is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out its housing and community development finance missions. Each FHLBank operates as a separate federally chartered corporation with its own board of directors, management, and employees. The FHLBanks were organized under the Federal Home Loan Bank Act of 1932 and are GSEs. The FHLBanks are Government entities and do not receive financial support from taxpayers. Our Government does not guarantee, directly or indirectly, the debt securities or other obligations of FHLBanks. The FHLBanks are regulated by the FHFA, an independent federal entity.

By law, in the event of certain adverse circumstances, Treasury is authorized to purchase up to $4 billion of obligations of the FHLBanks. Treasury has not used such authority. Also, in accordance with the *Government Corporations Control Act*, Treasury prescribes certain terms concerning the FHLBanks issuance of obligation to the public. Financial and other information concerning FHLBanks including financial statements may be obtained at http://www.fhlbanks.com/.

### International Monetary Fund and Multilateral Development Banks

Our Government currently maintains related party relationships with the IMF and the MDBs. The IMF is an international organization of 189 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. Our Government holds the largest quota subscription of any member. Our Government's quota subscription serves as the key determinant for our Government's 16.5% share of voting rights in various IMF decisions for which our Government has a substantial voice. Since certain key IMF determinations require approval by at least 85% of the total voting power, our Government (represented by the Secretary of the Treasury) exercises significant influence via its 16.5% voting share. Our Government's holdings in the IMF are in the form of highly liquid and interest-bearing instruments. Our Government has a liability due to the IMF, as well as an additional commitment (see *Note 16 - Other Liabilities* and *Note 19 - Commitments* for additional information). Historically, our Government has not experienced a loss of value on its IMF holdings and management does not believe it is likely that our Government will experience future losses on its holdings or as a result of its additional commitments.

Additionally, our Government invests in and provides funding to the MDBs to support poverty reduction and promote sustainable economic growth in developing countries. The MDBs provide financial and technical support to foster economic growth and entrepreneurship, strengthen institutions, address the root causes of instability in fragile and conflict-affected countries, and respond to global crisis. Our Government's participation in the MDBs is in the form of financial contributions used to ensure the effectiveness and impact of the MDBs' global development agenda. The US has voting power in each of the MDBs to which it contributes, ranging from approximately 6% to 50% (see *Note 19 - Commitments* for additional information).

### Private Export Funding Corporation

The financial statements reflect the results of agreements with PEFCO. PEFCO, which is owned by a consortium of private-sector banks, industrial companies and financial services institutions, makes and purchases from private sector lenders, medium-term and long-term fixed-rate and variable-rate loans guaranteed by the Export-Import (EXIM) Bank to foreign borrowers to purchase US made equipment "export loans."

EXIM Bank's credit and guarantee agreement with PEFCO provides that EXIM Bank will guarantee the due and punctual payment of interest on PEFCO's secured debt obligations which EXIM Bank has approved, and grants to EXIM Bank a broad measure of supervision over PEFCO's major financial management decisions, including the right to have representatives be present in all meetings of PEFCO's board of directors, advisory board, and exporters' council, and to review PEFCO's financials and other records. However, EXIM Bank does not have voting rights and does not influence normal operations. This agreement extends through December 31, 2020.

In addition, PEFCO has an agreement with EXIM Bank which provides that EXIM Bank will generally provide PEFCO with an unconditional guarantee covering the due and punctual payment of principal and interest on export loans PEFCO makes and purchases. PEFCO's guarantees on the export loans plus the guarantees on the secured debt obligations aggregating to $5,197 million at September 30, 2018 and $6,120 million at September 30, 2017, are included by EXIM Bank in the total for guarantee, insurance and undisbursed loans and the allowance related to these transactions.

EXIM Bank received fees totaling $41 million in fiscal year 2018 and $61 million in fiscal year 2017 for the agreements.

## Note 26 – Subsequent event

The Centers for Disease Control is responding to a worldwide pandemic of respiratory disease spreading from person-to-person caused by a novel (new) coronavirus. The disease has been named "coronavirus disease 2019" (abbreviated

"COVID-19"). On March 11, 2020, the COVID-19 outbreak was characterized as a pandemic by the World Health Organization. As of May 7, 2021, there have been 577,041 related deaths and 32,403,159 confirmed cases of COVID-19 in the US, which means nearly 10% of our population has been infected. For current data visit the USAFacts.org website.

Rigorous and increased compliance with public health mitigation strategies, such as vaccination, physical distancing, use of masks, hand hygiene, and isolation and quarantine, is essential to limit the spread of the virus that causes COVID-19 and protect public health. There are currently three COVID-19 vaccines approved for use in the US. As of May 7, 2021, 254,779,333 doses of these vaccines have been administered, which is 78% of the supply distributed. Approximately 45% of the US population has been administered at least one dose of vaccine, while 33% of the population has been fully vaccinated.

The pandemic and our responses to it have had a significant negative impact on the health and well-being of the US population, as well as on the US economy. Despite mitigation and relief efforts, in 2020:

- 341,508 people died from causes associated with COVID-19, making COVID-19 the third leading cause of death in 2020, after heart disease and cancer.
- 19,852,553 people were diagnosed with COVID-19.
- GDP decreased 3.5%, the lowest growth rate since 1946.
- Monthly unemployment reached a high of 14.8% in April, after a 50-year low in February.
- The economy lost 9.4 million jobs, a 6.2% decrease from 2019, which was larger than the 8.6 million job drop from 2007 to 2009 during the Great Recession.

As a result of the pandemic, revenues may decrease and expenditures may increase, certain assets disclosed in this report may become impaired, and liabilities may increase. It is too early for us to be able to estimate the full impact of the pandemic on our Government's financial statements. Please see further discussion in *Item 1A – Risk Factors* within this annual report, and for ongoing analysis of the impact of COVID-19, please see USAFacts' Coronavirus hub at https://usafacts.org/issues/coronavirus/.