Item 8. Financial Statements and Supplementary Data

Combined functional income statements

(In billions) Fiscal Year	2016	2015	2011	2006
Tax revenues	**$ 4,748**	$ 4,700	$ 3,577	$ 3,594
Non-tax revenues	**349**	468	702	446
Total revenue	**5,097**	5,168	4,279	4,040
Transfer payments to individuals other than personnel and subsidies	**2,812**	2,702	2,357	1,627
Compensation for personnel past and present	**1,574**	1,526	1,413	1,168
Payments to others for goods and services	**682**	684	732	612
Capital expenditures	**497**	481	527	435
Net interest paid	**313**	295	297	252
Other income	**(26)**	(30)	(31)	(12)
Total expenditures	**5,852**	5,658	5,295	4,082
Net deficit	**$ (755)**	$ (490)	$ (1,016)	$ (42)

Combined segment income statements

(In billions) Fiscal Year	2016	2015	2011	2006
Tax revenues	**$ 4,748**	$ 4,700	$ 3,577	$ 3,594
Non-tax revenues	**349**	468	702	446
Total revenues	**5,097**	5,168	4,279	4,040
Establish justice and ensure domestic tranquility expenditures	**425**	406	380	353
Provide for the common defense expenditures	**828**	811	893	629
Promote the general welfare expenditures	**1,358**	1,327	1,245	854
Secure the blessings of liberty to ourselves and our posterity expenditures	**3,097**	2,972	2,633	2,109
General government and other expenditures	**144**	142	144	137
Total expenditures	**5,852**	5,658	5,295	4,082
Net deficit	**$ (755)**	$ (490)	$ (1,016)	$ (42)

See accompanying notes.

Combined balance sheets

(In billions)	2016	2015
Assets		
Cash and other monetary assets (Note 2)	**$ 1,201**	$ 1,022
Accounts and taxes receivable, net (Note 3)	**463**	434
Loans receivable, net (Note 4)	**1,503**	1,437
Inventories and related property, net (Note 5)	**314**	321
Property, plant, and equipment, net (Note 6)	**11,340**	11,031
Debt and equity securities (Note 7)	**4,531**	4,597
Investments in government-sponsored enterprises (Note 8)	**109**	106
Other assets (Note 9)	**144**	167
Total assets	**$ 19,605**	$ 19,115
Stewardship land and heritage assets (Note 22)		
Liabilities and equity		
Accounts payable (Note 10)	**$ 948**	$ 912
Debt securities held by the public and accrued interest (Note 11)	**16,411**	15,396
Employee and veteran benefits payable (Note 12)	**15,099**	14,369
Environmental and disposal liabilities (Note 13)	**447**	412
Benefits due and payable (Note 14)	**218**	214
Insurance and guarantee program liabilities (Note 15)	**187**	170
Loan guarantee liabilities (Note 4)	**18**	36
Other liabilities (Note 16)	**469**	660
Total liabilities	**33,797**	32,169
Contingencies (Note 18) and commitments (Note 19)		
Accumulated deficit	**(14,192)**	(13,054)
Total liabilities and accumulated deficit	**$ 19,605**	$ 19,115

See accompanying notes.

Notes to financial statements

General note on sources

Federal government

Federal government amounts and the related text within Notes 2 through 22 below were copied from the 2016 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* with in 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 2017 US Treasury *Financial Report of the United States* (the *2017 Financial Report*) and noted that the Treasury had adjusted certain 2016 figures after releasing the *Financial Report*. These adjustments reflected changes in the consolidation of the Pension Benefit Guaranty Corporation (PBGC) into the federal financial statements and in the presentation of Federal Housing Administration's (FHA) Loan guarantee liabilities. We made corresponding adjustments in this report, resulting in increases to: Restricted cash (*Note 2 – Cash and other monetary assets)*; FHA Loans – HUD liabilities (*Note 4 – Loans receivable and loan guarantee liabilities, net*); various investments classified as Trading Securities (*Note 7 – Debt and equity securities)*; Other assets (*Note 9 – Other assets)*; Pension Benefit Guaranty Corporation – Benefits Pension Plans liabilities (*Note 15 – Insurance and guarantee program liabilities)*; and Other miscellaneous liabilities (*Note 16 – Other liabilities)*. See the *2017 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)	**2016**	**2015**
Federal	$ 468	$ 305
State and local	733	717
Total cash and other monetary assets	$ 1,201	$ 1,022

Federal government

(In billions)	**2016**	**2015**
Unrestricted cash		
Cash held by Treasury for federal government-wide operations	$ 347	$ 193
Other	11	6
Restricted cash	26	26
Total cash	384	225
International monetary assets	60	59
Other monetary assets	24	21
Total cash and other monetary assets	$ 468	$ 305

Unrestricted cash includes cash held by Treasury for governmentwide operations (Operating Cash) and all other unrestricted cash held by the federal agencies. Operating Cash represents balances from tax collections, other revenue, federal debt receipts, and other various receipts net of cash outflows for budget outlays and other payments. Treasury checks outstanding are netted against Operating Cash until they are cleared by the Federal Reserve System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by agencies, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, and imprest funds. Operating Cash held by the Treasury increased by $154 billion (an increase of approximately 80%) in fiscal year 2016 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 Defense Security Cooperation Agency (DSCA). The Foreign Military Sales Program - DSCA included $21 billion and $24 billion as of September 30, 2016, and 2015, 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 $106 billion and $50 billion as of September 30, 2016, and 2015 respectively. The increase in fiscal year 2016 is due to Congress passing the *Consolidated Appropriations Act of 2016* (Public Law [P.L.] 114-113) which authorized and funded a SDR $41 billion (approximately $57 billion) increase in the US quota in the IMF. The US reserve position in the IMF had a US dollar equivalent of $10 billion and $9 billion as of September 30, 2016, and 2015, 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 $50 billion as of both September 30, 2016 and 2015.

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, 2016, and 2015, and are included in *Note 16—Other liabilities*.

As of September 30, 2016, and 2015, 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 United States in allocations. The United States has received no SDR allocations since 2009.

State and local government

(In billions)	2016	2015
Non-pension		
Time and savings deposits	$ 371	$ 360
Security repurchase agreements	149	145
Money market fund shares	19	15
Checkable deposits and currency	96	98
Total non-pension cash and other monetary assets	$ 635	$ 618
Pension		
Money market fund shares	$ 52	$ 51
Other	46	48
Total pension cash and other monetary assets	98	99
Total cash and other monetary assets	$ 733	$ 717

Note 3 – Accounts and taxes receivable, net

(In billions)	2016	2015
Federal	$ 133	$ 118
State and local	330	316
Total accounts and taxes receivable, net	$ 463	$ 434

Federal government

(In billions)	2016	2015
Accounts receivable		
Gross accounts receivable	$ 110	$ 101
Allowance for uncollectible amounts	(30)	(27)
Accounts receivable, net	80	74
Taxes receivable		
Gross taxes receivable	185	177
Allowance for uncollectible amounts	(132)	(133)
Taxes receivable, net	$ 53	$ 44
Total accounts and taxes receivable, net	$ 133	$ 118

Gross accounts receivable include related interest receivable of $3 billion and $4 billion as of September 30, 2016, and 2015, respectively.

Treasury comprises approximately 38% of the federal government's reported accounts and taxes receivable, net, as of September 30, 2016. Refer to the financial statements of the Department of the Treasury, the Department of Health and Human Services, the Social Security Administration, the Department of Defense, the Department of Homeland Security, the Pension Benefit Guaranty Corporation, the Department of Energy, the Federal Deposit Insurance Corporation, the Department of Veterans Affairs, the Department of Agriculture, the Department of the Interior, the Office of Personnel Management, the National Credit Union Administration, the Tennessee Valley Authority, and the Department of Labor for details on gross accounts and taxes receivable and the related allowance for uncollectible amounts. These agencies comprise 96% of the federal government's accounts and taxes receivable, net, of $133 billion as of September 30, 2016.

State and local government

(In billions)	2016	2015
Accounts receivable, net	$ 191	$ 186
Taxes receivable, net	139	130
Total accounts and taxes receivable, net	$ 330	$ 316

Note 4 – Loans receivable and loan guarantee liabilities, net

Loans receivable

(In billions)	2016	2015
Federal	$ 1,261	$ 1,199
State and local	242	238
Total loans receivable	$1,503	$1,437

Loan guarantee liabilities

(In billions)	2016	2015
Federal	$ 18	$ 36
State and local	—	—
Total loan guarantee liabilities	$ 18	$ 36

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

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

	Face Value of Loans Outstanding		Long-term Cost of (Income from) Direct Loans and Defaulted Guaranteed Loans Outstanding		Loans Receivable, Net		Subsidy Expense (Income) for the Fiscal Year	
(In billions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Federal Direct Student Loans – Education	$ 954	$ 845	$ (5)	$ (36)	$ 959	$ 881	$ 16	$ (1)
Federal Family Education Loans – Education	128	132	13	(3)	115	135	4	—
All other programs	215	216	28	33	187	183	(2)	(1)
Total direct loans and defaulted guaranteed loans	$ 1,297	$ 1,193	$ 36	$ (6)	$ 1,261	$ 1,199	$ 18	$ (2)

	Principal Amount of Loans Under Guarantee		Principal Amount Guaranteed by the US		Loan Guarantee Liabilities		Subsidy Expense (Income) for the Fiscal Year	
(In billions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Federal Housing Administration Loans – HUD	$ 1,339	$ 1,292	$ 1,216	$ 1,178	$ (1)	$ 16	$ (18)	$ (14)
Veterans Housing Benefit Programs – VA	517	454	133	117	10	10	(1)	1
Federal Family Education Loans – Education	197	220	193	215	1	—	7	(4)
All other guaranteed loan programs	348	348	311	313	8	10	(3)	—
Total loan guarantees	$ 2,401	$ 2,314	$ 1,853	$ 1,823	$ 18	$ 36	$ (15)	$ (17)

Loan programs

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

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965* (HEA). The first program is the William D. Ford Federal Direct Loan Program, (referred to as the Direct Loan Program) that was established in fiscal year 1994. The Direct Loan Program offers four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the 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 $141 billion in Direct Loans to eligible borrowers in fiscal year 2016 and approximately $142 billion in fiscal year 2015. The second program is the Federal Family Education Loan (FFEL) Program. This program was established in fiscal year 1965, and is a guaranteed loan program. Like the Direct Loan Program, it offers four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. The *Student Aid and Fiscal Responsibility Act* (SAFRA), which was enacted as part of the *Health Care Education and Reconciliation Act of 2010* (P.L. 111-152), eliminated the authority to guarantee new FFEL after June 30, 2010. During fiscal year 2016, Education net loans receivable increased by $58.8 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: Vocational Rehabilitation and Employment, Home Loans, and Insurance. The VA Home Loans program is the largest of the VA loan programs. The Home Loans program provides loan guarantees and direct loans to veterans, service members, qualifying dependents, and limited non-veterans to purchase homes and retain homeownership with favorable market terms. During fiscal year 2016, the VA principal amount of loans under guarantee increased by $63 billion. This increase was primarily due to new loans under guarantee with a principal totaling $152 billion, partially offset by guaranteed loan terminations with a principal amount of $89 billion.

State and local government

(In billions)	2016	2015
Loans (mortgages)	$ 233	$ 229
Loans (mortgages) – pensions	9	9
Total loans receivable	$ 242	$ 238

Note 5 – Inventories and related property, net

(In billions)	2016	2015
Federal	$ 314	$ 321
State and local	—	—
Total inventories and related property, net	$ 314	$ 321

Federal government

	2016			2015		
(In billions)	Defense	All Others	Total	Defense	All Others	Total
Operating materials and supplies held for use	$ 105	$ 4	$ 109	$ 122	$ 4	$ 126
Inventory and operating material and supplies held for repair	88	1	89	80	2	82
Inventory purchased for resale	62	1	63	61	—	61
Stockpile materials	1	47	48	—	53	53
Other inventories and related property	5	7	12	5	1	6
Allowance for loss	(6)	(1)	(7)	(6)	(1)	(7)
Total inventories and related property, net	$ 255	$ 59	$ 314	$ 262	$ 59	$ 321

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 are 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, 2016, 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. The LAC method is used because DOD’s legacy inventory systems do not maintain historical cost data. DOD improved its capability to distinguish between held for use and held for repair for operating materials and supplies which resulted in an increase for inventory and operating material and supplies held for repair, and a decrease for operating materials and supplies held for use for fiscal year 2016. Please refer to the individual financial statements of DOD for significant detailed information regarding 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, as well as stockpile materials that are authorized to be sold. FASAB issued SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* which permits a reporting entity to apply an alternative evaluation method in establishing opening balances. During fiscal year 2016, select DOD components adopted this standard for stockpile materials. The majority of the stockpile materials held for sale and 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)	2016	2015
Federal	$ 980	$ 925
State and local	10,360	10,106
Total property, plant, and equipment, net	$ 11,340	$ 11,031

Federal government

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions)	Defense	All Others	Defense	All Others	Defense	All Others
2016						
Furniture, fixtures, and equipment	$ 1,055	$ 173	$ 640	$ 113	$ 415	$ 60
Buildings, structures, and facilities	384	275	230	151	154	124
Construction in progress	118	47	—	—	118	47
Other property, plant, and equipment	32	71	6	35	26	36
Subtotal	1,589	566	876	299	713	267
Total property, plant, and equipment, net		$ 2,155		$ 1,175		$ 980

	Cost		Accumulated Depreciation/ Amortization		Net	
(In billions)	Defense	All Others	Defense	All Others	Defense	All Others
2015						
Furniture, fixtures, and equipment	$ 1,011	$ 170	$ 584	$ 110	$ 427	$ 60
Buildings, structures, and facilities	283	268	137	144	146	124
Construction in progress	73	43	—	—	73	43
Other property, plant, and equipment	24	69	8	33	16	36
Subtotal	1,391	550	729	287	662	263
Total property, plant, and equipment, net		$ 1,941		$ 1,016		$ 925

DOD comprises approximately 73% of the federal government's reported property, plant, and equipment, net, as of September 30, 2016. During fiscal year 2016, DOD reclassified other assets, relating to outstanding contract financing payments, to property, plant and equipment-construction in progress in accordance with internal guidance. FASAB issued 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. During fiscal year 2016, select DOD components implemented this standard.

Refer to the financial statements of DOD, DOE, the Tennessee Valley Authority (TVA), GSA, VA, the Department of the Interior (DOI), DHS, the Department of State (DOS), the United States Postal Service (USPS), and the Department of Transportation (DOT) for detailed information on the useful lives and related capitalization thresholds for property, plant, and equipment. These agencies comprise 95% of the federal government's reported property, plant, and equipment net of $980 billion as of September 30, 2016.

State and local government

(In billions)	2016	2015
Structures	$ 9,990	$ 9,741
Equipment	247	246
Intellectual property	123	119
Total property, plant, and equipment, net	$10,360	$ 10,106

Note 7 – Debt and equity securities

(In billions)	2016	2015
Federal	$ 108	$ 104
State and local	4,423	4,493
Total debt and equity securities	$ 4,531	$ 4,597

Federal government

	By Category									
	Held-to-Maturity			Available-for-Sale			Trading Securities			
(In billions)	Cost Basis	Unamortized Premium/ Discount	Net Investment	Cost Basis	Unrealized Gain/(Loss)	Fair Value	Cost Basis	Unrealized Gain/(Loss)	Fair Value	Total
2016										
Debt Securities										
Non-US Government	$ —	$ —	$ —	$ 10	$ —	$ 10	$ 11	$ 1	$ 12	$ 22
Corporate and other bonds	—	—	—	—	—	—	12	1	13	13
All other debt securities	—	—	—	—	—	—	6	—	6	6
Equity Securities										
Unit trust	—	—	—	—	—	—	19	5	24	24
All other	13	—	13	—	—	—	6	—	6	19
Total debt and securities categorized as held-to-maturity, available-for-sale or trading	$ 13	$ —	$ 13	$ 10	$ —	$ 10	$ 54	$ 7	$ 61	$ 84
Total RRB debt and equity securities										24
Total debt and equity securities										$ 108

	By Category									
	Held-to-Maturity			Available-for-Sale			Trading Securities			
(In billions)	Cost Basis	Unamortized Premium/ Discount	Net Investment	Cost Basis	Unrealized Gain/(Loss)	Fair Value	Cost Basis	Unrealized Gain/(Loss)	Fair Value	Total
2015										
Debt Securities										
Non-US Government	$ —	$ —	$ —	$ 12	$ —	$ 12	$ 11	$ (1)	$ 10	$ 22
Corporate and other bonds	—	—	—	—	—	—	11	—	11	11
All other debt securities	—	—	—	—	—	—	8	—	8	8
Equity Securities										
Unit trust	—	—	—	—	—	—	17	4	21	21
All other	2	—	2	—	—	—	15	1	16	18
Total debt and securities categorized as held-to-maturity, available-for-sale or trading	$ 2	$ —	$ 2	$ 12	$ —	$ 12	$ 62	$ 4	$ 66	$ 80
Total RRB debt and equity securities										24
Total debt and equity securities										$ 104

Debt and equity securities by agency

(In billions)	2016	2015
Pension Benefit Guaranty Corporation (PBGC)	$ 60	$ 56
Railroad Retirement Board (RRB)	24	24
Department of the Treasury (Treasury)	10	12
Tennessee Valley Authority (TVA)	10	9
All other	4	3
Total securities and investments	$ 108	$ 104

These debt and equity securities do not include nonmarketable Treasury securities, which have been eliminated in consolidation. Held to-maturity debt and equity securities are reported at amortized cost, net of unamortized discounts and premiums. Available for-sale debt and equity securities are reported at fair value. Trading debt and equity securities are reported at fair value. PBGC and TVA invest primarily in fixed maturity and equity securities, classified as trading. PBGC reported gains related to trading securities held as of September 30, 2016, and 2015, of $2 billion and $4 billion, respectively. TVA reported gains related to trading securities still held as of September 30, 2016 and 2015 of $0.3 billion and $0.2 billion, respectively. Treasury invests primarily in fixed maturity and equity securities, classified as available-for-sale securities. Treasury's Exchange Stabilization Fund invests primarily in foreign fixed maturity debt, with a fair value of $10 billion and $12 billion as of September 30, 2016, and 2015, respectively. The National Railroad Retirement Investment Trust (NRRIT), on behalf of the RRB, manages and invests railroad retirement assets that are to be used to pay retirement benefits to the Nation's railroad workers under the Railroad Retirement Program. As an investment company, NRRIT is subject to different accounting standards that do not require the classifications presented above. Please refer to NRRIT's financial statements for more detailed information concerning this specific investment. The TVA balance includes $7 billion as of both September 30, 2016, and 2015, for the Tennessee Valley Authority Retirement System (TVARS). TVARS includes unrealized gains of $0.5 billion and $0.1 billion as of September 30, 2016 and 2015, respectively. The Department of the Defense reflects majority of all other total securities and investments. NRRIT, Treasury 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, DOD, NRRIT, Treasury, and TVA for more detailed information related to debt and equity securities. These agencies comprise 99%[43] of the total reported debt and equity securities of $108 billion as of September 30, 2016.

State and local government

(In billions)	2016	2015
Pension		
Corporate equities	$ 2,243	$ 2,339
Corporate and foreign bonds	564	561
Mutual fund shares	213	189
Other	282	263
Total pension debt and equity securities	$ 3,302	$ 3,352
Non-pension		
Agency and GSE-backed securities	$ 442	$ 470
Other	679	671
Total non-pension debt and equity securities	$ 1,121	$ 1,141
Total debt and equity securities	$ 4,423	$ 4,493

Note 8 – Investments in government-sponsored enterprises

(In billions)	2016	2015
Federal	$ 109	$ 106
State and local	—	—
Total investments in government-sponsored enterprises	$ 109	$ 106

Federal government

(In billions) 2016	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	$ 117	$ (59)	$ 58
Freddie Mac senior preferred stock	72	(32)	40
Fannie Mae warrants common stock	3	4	7
Freddie Mac warrants common stock	2	2	4
Total investments in GSEs	$ 194	$ (85)	$ 109

(In billions) 2015	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	$ 117	$ (62)	$ 55
Freddie Mac senior preferred stock	72	(35)	37
Fannie Mae warrants common stock	3	6	9
Freddie Mac warrants common stock	2	3	5
Total investments in GSEs	$ 194	$ (88)	$ 106

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 HERA (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. Per SFFAC No. 2, *Entity and Display*, these entities meet the criteria of "bailed out" entities. Accordingly, the federal government has not consolidated them into the financial statements, but included disclosure of the relationship(s) with the bailed out entities and any actual or potential material costs or liabilities in the consolidated financial statements.

Senior preferred stock purchase agreements

Under the SPSPAs, Treasury initially received from each GSE: 1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share and 2) a non-transferable warrant for the purchase, at a nominal cost, of 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 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, declines by $600 million at the beginning of each calendar year thereafter until it reaches zero by calendar year 2018. On January 1, 2016, and 2015, the capital reserve amount had declined to $1 billion and $2 billion for calendar years 2016 and 2015, respectively. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Cash dividends of $12 billion and $21 billion were received during fiscal years ended September 30, 2016, and 2015, respectively.

The SPSPAs, which have no expiration date, provide that Treasury will disburse funds to the GSEs if at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. 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 $189 billion as of September 30, 2016 and 2015. There were no payments to the GSEs for the fiscal years ended September 30, 2016 and 2015.

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, 2016 when compared to September 30, 2015, primarily reflecting a lower discount rate which was driven by a lower long-term Treasury rate (or risk-free rate), as well as a reduction in the market value of the GSEs' other equity securities that comprise their total equity.

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 2016, when compared to 2015, 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 2041 and 2040 in assessing if a contingent liability was required as of September 30, 2016 and 2015, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, Treasury will estimate and accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that could be received, as the dividends, if any, would be owed directly to the General Fund. Such recorded accruals will be adjusted in subsequent years as new information develops or circumstances change.

Based on the annual assessment, Treasury estimated there was no probable future funding draws as of September 30, 2016 and 2015, and thereby accrued no contingent liability. However, as of September 30, 2016, it is reasonably possible that volatility in interest rates and fair value losses could potentially cause the GSEs to generate quarterly losses and, therefore, result in future funding draws against our funding commitment. Due to challenges quantifying future volatility in interest rates and fair value losses, Treasury could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2016. At September 30, 2016 and 2015, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $258 billion. 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, 2016 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when the GSEs would cease 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 the GSEs' retained mortgage portfolio was initially set at $650 billion as of December 31, 2012, and the amended SPSPAs requires that GSEs 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 foreclosure prevention activities and credit availability to foster liquid, efficient, competitive, and resilient national housing finance markets; (2) reduce taxpayer risk through increasing the role of private capital in the mortgage market, and (3) build a new single-family securitization infrastructure.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (TPTCCA) was funded by an increase of 10-basis points in the GSEs' guarantee fees (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 2016 and 2015, the GSEs remitted to Treasury the incremental fees totaling $3 billion and $2 billion, respectively.

Fannie Mae balance sheet

	As of December 31,	
(In billions)	**2016**	**2015**
Assets		
Cash and cash equivalents	$ 56	$ 42
Restricted cash	37	31
Investments in securities [1]	49	60
Mortgage loans:		
Of Fannie Mae	207	238
Of consolidated trusts	2,896	2,809
Allowance for loan losses	(23)	(28)
Mortgage loans, net of allowance for loan losses	3,080	3,019
Deferred tax assets, net	34	37
Other assets	32	33
Total assets	$ 3,288	$ 3,222
Liabilities and equity		
Debt:		
Of Fannie Mae	$ 327	$ 386
Of consolidated trusts	2,935	2,812
Other liabilities	20	20
Total liabilities	3,282	3,218
Senior preferred stock	117	117
Other [2]	(111)	(113)
Total equity	6	4
Total liabilities and equity	$ 3,288	$ 3,222

1 *Includes $32 billion as of December 31, 2016 and $30 billion as of December 31, 2015 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, 2016	2015
Assets		
Cash and cash equivalents	$ 12	$ 6
Restricted cash	10	15
Federal funds sold and securities purchased under agreements to resell	52	64
Investments in securities:		
Available-for-sale, at fair value	67	75
Trading, at fair value	45	39
Total investments in securities	112	114
Mortgage loans:		
Held-for-investment, at amortized cost: By consolidated trusts	1,690	1,625
Held-for-investment, at amortized cost: Unsecuritized	95	104
Held-for-sale, at lower-of-cost-or-fair-value	18	25
Total mortgage loans, net	1,803	1,754
Other assets	35	33
Total assets	$ 2,024	$ 1,986
Liabilities and equity		
Accrued interest payable	$ 6	$ 6
Debt, net:		
Debt securities of consolidated trusts held by third parties	1,650	1,557
Other debt	353	414
Total debt, net	2,003	1,971
Other liabilities	10	6
Total liabilities	2,019	1,983
Total equity	5	3
Total liabilities and equity	$ 2,024	$ 1,986

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)	2016	2015
Federal	$ 144	$ 167
State and local	—	—
Total other assets	$ 144	$ 167

Federal government

(In billions)	2016	2015
Advances and prepayments	$ 93	$ 108
Regulatory assets	22	22
FDIC receivable from resolution activity	9	14
Other	20	23
Total other assets	$ 144	$ 167

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.

During fiscal year 2016, DOD reclassified other assets, relating to outstanding contract financing payments, to Property, plant, and equipment - construction in progress in accordance with internal guidance. With regard to regulatory assets, the DOE's Power Marketing Administrations (PMAs) and the TVA record certain amounts as assets in accordance with

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

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

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)	2016	2015
Federal	$ 62	$ 68
State and local	886	844
Total accounts payable	$ 948	$ 912

Federal government

(In billions)	2016	2015
Department of Defense	$ 18	$ 19
Department of Veterans Affairs	5	11
Department of Justice	6	6
Department of the Treasury	4	4
Department of Education	4	4
All other	25	24
Total accounts payable	$ 62	$ 68

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

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)	2016	2015
Federal	$13,326	$12,329
State and local	3,085	3,067
Total debt securities held by the public and accrued interest	$ 16,411	$15,396

Federal government

(In billions)	Balance 2015	Net Change during Fiscal Year 2016	Balance 2016	Average Interest Rate 2016	Average Interest Rate 2015
Treasury securities (public)					
Marketable securities:					
Treasury bills [1]	$ 1,355	$ 290	$ 1,645	0.4%	0.1%
Treasury notes [2]	7,522	207	7,729	1.8%	1.8%
Treasury bonds [3]	1,688	137	1,825	4.4%	4.7%
Treasury inflation-protected securities (TIPS) [4]	1,135	74	1,209	0.8%	0.8%
Treasury floating rate notes (FRN) [5]	287	47	334	0.4%	0.1%
Total marketable Treasury securities	11,987	755	12,742		
Nonmarketable securities	292	243	535	2.0%	2.5%
Net unamortized discounts	(31)	(2)	(33)		
Total Treasury securities, net (public)	12,248	996	13,244		
Agency securities					
Tennessee Valley Authority	24	—	24		
All other agencies	—	—	—		
Total agency securities, net of unamortized premiums and discounts	24	—	24		
Accrued interest payable	57	1	58		
Total debt securities held by the public and accrued interest	$ 12,329	$ 997	$ 13,326		

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 entities outside the federal government. The above table details Government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized premiums and discounts including accrued interest.

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

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

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

Gross federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President first enacted a statutory dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (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.

When delays in raising or suspending the debt limit occur, as they did during both fiscal years 2015 and 2016, Treasury implements “extraordinary actions,” on a temporary basis. Many of the extraordinary actions taken by Treasury during the period of March 16, 2015 through October 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. During these periods, extraordinary measures taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts. As a result of Treasury securities not being issued to the federal government Securities Investment Fund (G Fund) of the Thrift Savings Plan (TSP) of the Federal Retirement Thrift Investment Board (FRTIB) as of September 30, 2015, Treasury reported miscellaneous liabilities in the amount of $205 billion that represent uninvested principal of and related interest for the G Fund that would have been reported as Federal Debt Securities Held by the Public and Accrued Interest had there not been a delay in raising the statutory debt limit as of

September 30, 2015, and had the Treasury securities been issued. On Monday, November 2, 2015, The *Bipartisan Budget Act of 2015* (P.L. 114-74) was enacted suspending the statutory debt limit through March 15, 2017. Treasury subsequently restored the uninvested principal and related interest to the G Fund, resulting in an increase in federal debt securities held by the public from 2015 to 2016. See *Note 16—Other liabilities* and *Note 21—Fiduciary activities* for more information.

As of September 30, 2016, and 2015, debt subject to the statutory debt limit was $19,539 billion and $18,113 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 following table). As noted above, a delay in raising the statutory debt limit existed as of September 30, 2015. Extraordinary measures taken by Treasury during the period of March 16, 2015 through September 30, 2015 resulted in federal debt securities not being issued to certain federal government accounts. See *Note 16—Other liabilities* and *Note 21—Fiduciary activities*.

State and local government

(In billions)	2016	2015
Municipal securities	$ 3,083	$ 3,065
Municipal securities – pensions	2	2
Total debt securities held by the public	$ 3,085	$ 3,067

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)	2016	2015
Federal	$ 7,209	$ 6,772
State and local	7,890	7,597
Total employee and veteran benefits payable	$15,099	$14,369

Federal government

	Civilian		Military		Total	
(In billions)	2016	2015	2016	2015	2016	2015
Pension and accrued benefits	$ 1,911	$ 1,945	$ 1,491	$ 1,563	$ 3,402	$ 3,508
Veterans compensation and burial benefits	na	na	2,496	2,019	2,496	2,019
Post-retirement health and accrued benefits	352	364	800	731	1,152	1,095
Liability for other benefits	82	79	77	71	159	150
Total federal employee and veteran benefits payable	$ 2,345	$ 2,388	$ 4,864	$ 4,384	$ 7,209	$ 6,772

na *An "na" reference in the table means the data is not available.*

Change in pension and accrued benefits

	Civilian		Military		Total	
(In billions)	2016	2015	2016	2015	2016	2015
Actuarial accrued pension liability, beginning of fiscal year	$ 1,945	$ 1,905	$ 1,563	$ 1,565	$ 3,508	$ 3,470
Pension expense						
Prior (and past) service costs from plan amendments or new plans	(1)	—	(19)	—	(20)	—
Normal costs	39	38	27	31	66	69
Interest on liability	74	76	63	67	137	143
Actuarial (gains)/losses (from experience)	(27)	(1)	(26)	(34)	(53)	(35)
Actuarial (gains)/losses (from assumption changes)	(33)	13	(59)	(9)	(92)	4
Total pension expense	52	126	(14)	55	38	181
Less benefits paid	(86)	(86)	(58)	(57)	(144)	(143)
Actuarial accrued pension liability, end of fiscal year	$ 1,911	$ 1,945	$ 1,491	$ 1,563	$ 3,402	$ 3,508

Change in post-retirement health and accrued benefits

(In billions)	Civilian 2016	Civilian 2015	Military 2016	Military 2015	Total 2016	Total 2015
Actuarial accrued post-retirement health benefits liability, beginning of fiscal year	$ 364	$ 337	$ 731	$ 761	$ 1,095	$ 1,098
Post-Retirement health benefits expense						
Prior (and past) service costs from plan amendments or new plans	—	—	(6)	(21)	(6)	(21)
Normal costs	14	12	19	20	33	32
Interest on liability	15	14	30	33	45	47
Actuarial (gains)/losses (from experience)	(11)	8	41	(23)	30	(15)
Actuarial (gains)/losses (from assumption changes)	(15)	8	5	(19)	(10)	(11)
Total post-retirement health benefits expense	3	42	89	(10)	92	32
Less claims paid	(15)	(15)	(20)	(20)	(35)	(35)
Actuarial accrued post-retirement health benefits liability, end of fiscal year	$ 352	$ 364	$ 800	$ 731	$ 1,152	$ 1,095

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 accrued benefits payable include those of the Coast Guard (DHS), Foreign Service (Department of State), TVA, and HHS's Public Health Service Commissioned Corps Retirement System. Please refer to the financial statements of the agencies listed for further details regarding their pension plans and other benefits.

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

	Civilian 2016 FERS	Civilian 2016 CSFS	Civilian 2015 FERS	Civilian 2015 CSFS	Military 2016	Military 2015
Rate of interest	4.0%	3.5%	4.1%	3.7%	3.9%	4.1%
Rate of inflation	1.9%	1.9%	2.3%	2.3%	1.7%	2.1%
Projected salary increases	1.5%	1.5%	1.7%	1.7%	2.1%	2.3%
Cost of living adjustment	1.6%	1.9%	1.8%	2.3%	—%	—%

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

	Civilian 2016	Civilian 2015	Military 2016	Military 2015
Rate of interest	4.0%	4.1%	4.0%	4.1%
Single equivalent medical trend rate	5.0%	5.3%	4.6%	4.6%
Ultimate medical trend rate	3.5%	3.9%	4.5%	4.9%

In accordance with SFFAS No. 33, *Pension, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, agencies are required to separately present gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, 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 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 agencies, 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, agency contributions, payments from the General Fund, and interest on investments in Treasury securities.

The Federal Retirement Thrift Investment Board administers the 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 $221 billion and $0.0 billion in nonmarketable Treasury securities as of September 30, 2016, and 2015, respectively. The increase in nonmarketable Treasury securities held in the G Fund relates to the delay in raising the debt limit that was ongoing as of September 30, 2015. The Secretary of the Treasury has authority to take extraordinary actions to stay within the statutory debt limit imposed by Congress. One such action involves the suspension of the issuance of securities to the G Fund if the issuance cannot be made without causing the debt limit to be exceeded. Please see *Note 16— Other liabilities* for additional information.

The liability for civilian pension and accrued benefits payable decreased $34 billion. The $34 billion decrease is largely attributable to assumption changes and experience. The experience gain is primarily driven by the actual annuitant cost-of-living adjustment (COLA) increase for 2016 (0.0% for both CSRS and FERS) being lower than previously assumed (2.3% for CSRS and 1.8% for FERS). The assumption gain results primarily from decreases to the assumed future long-term rate of annuitant COLA and assumed rate of general salary increase.

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 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 requires 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 requires 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: $11 billion for fiscal year 2012, and $6 billion for each fiscal years 2013 through 2016. As of September 30, 2016, USPS has not indicated its intention regarding payment of the total $34 billion due. 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 post-retirement civilian health benefit liability decreased $12 billion. The $12 billion decrease is primarily attributable to assumption changes and experience. The experience gain is due to a lower medical cost increase compared to the prior year's assumed trend. The assumption gain results mainly from decreases to the assumed future long-term medical trend rates.

Military employees (including veterans)

Pensions

The military retirement system consists of a funded, noncontributory, defined benefit plan. It applies to military personnel (Departments of Army, Navy, Air Force, and the Marine Corps). This system includes non-disability retired pay, disability retired pay; survivor annuity programs, and Combat-Related Special Compensation. The Service Secretaries may approve immediate non-disability retired pay at any age with credit of at least 20 years of active duty service. Reserve retirees must be at least 60 years old and have at least 20 qualifying years of service before retired pay commences; however, in some cases, the age can be less than 60 if the reservist performs certain types of active service. P.L. 110-181 provides for a 90-day reduction in the reserve retirement age from age 60 for every 3 months of certain active duty service served within a fiscal year for service after January 28, 2008 (not below age 50). There is no vesting of benefits before non-disabled retirement. There are distinct non-disability benefit formulas related to four populations within the Military Retirement System: Final Pay, High-3, Career Status Bonus/Redux, and the Blended Retirement System (BRS) enacted in the *National Defense Authorization Act for Fiscal Year 2016*, effective January 1, 2018. The date an individual enters the military determines which retirement system they would fall under and if they have the option to pick their retirement system. For more information on these benefits, see DOD's Office of Military Compensation website http://militarypay.defense.gov.

The DOD Military Retirement Fund was established by P.L. 98-94 (currently Chapter 74 of Title 10, U.S.C.) and accumulates funds to finance, on an accrual basis, the liabilities of DOD military retirement and survivor benefit programs. This Fund receives income from three sources: monthly normal cost payments from the Services and Treasury to pay for the current years' service cost; annual payments from the Treasury to amortize the unfunded liability and pay for the increase in the normal cost attributable to Concurrent Receipt per P.L. 108-136; and investment income.

The $72 billion decrease in the Military Retirement Pension liability is attributable to experience gains, assumption changes, and a plan amendment gain reflecting the new Blended Retirement System statutory provisions, which together offset the liability growth generated by benefit accruals (normal cost) and interest on the outstanding liability. Liabilities in the future will depend on expected changes due to interest and benefit accruals, future benefit changes, assumption changes, and actuarial experience.

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 $477 billion in fiscal year 2016. The $477 billion increase is primarily attributable to assumption changes and experience. The major actuarial assumption changes and experience impacts include growth in compensation counts, new mortality rates, changes in the discount rate, and an increase in beneficiary counts.

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

The veterans' compensation and burial benefits liability is developed on an actuarial basis. It is impacted by interest on the liability balance, 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)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Actuarial accrued liability beginning of fiscal year	$ 2,014	$ 2,003	$ 5	$ 5	$ 2,019	$ 2,008
Current year expenses						
Interest on the liability balance	82	86	—	—	82	86
Actuarial (gain)/losses (from experience)	92	9	—	—	92	9
Actuarial (gain)/losses (from assumption changes)	377	(13)	—	—	377	(13)
Total current year expense	551	82	—	—	551	82
Less benefits paid	(74)	(71)	—	—	(74)	(71)
Actuarial accrued liability, end of fiscal year	$ 2,491	$ 2,014	$ 5	$ 5	$ 2,496	$ 2,019

Significant economic assumptions used in determining veterans compensation and burial benefits

	2016	2015
Rate of interest	3.93%	4.08%
Rate of inflation	2.30%	2.44%

Post-retirement health benefits

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

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

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

Military post-retirement health and accrued benefits payable decreased $29 billion. The $29 billion decrease in military post-retirement health and accrued benefits was due primarily to the combined effect of plan changes -- including those associated with the *2015 National Defense Authorization Act*, lower than expected historical costs, and a reduction in future assumed rates of healthcare cost increases.

In addition to the healthcare benefits for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36 (c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of such future benefits cannot be reasonably made. Accordingly, VA recognizes the medical care expenses in the period the medical care services are provided. For the fiscal years 2011 through 2015, the average medical care cost per year was $44 billion.

Pension benefits

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. VA pension benefits are recognized as a non- exchange transaction due to the nature of the VA pension plan. Therefore, the actuarial present value of these future benefits is not required to be recorded on the Balance Sheet. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2016, and 2015, was $87 billion and $94 billion, respectively.

State and local government

(In billions)	**2016**	**2015**
Unfunded pension entitlements	$ 4,159	$ 3,797
Other pension liabilities	3,731	3,800
Total employee and veteran benefits payable	$ 7,890	$ 7,597

Note 13 – Environmental and disposal liabilities

(In billions)	**2016**	**2015**
Federal	$ 447	$ 412
State and local	—	—
Total environmental and disposal liabilities	$ 447	$ 412

Federal government

(In billions)	**2016**	**2015**
Department of Energy		
Environmental and disposal liabilities	$ 372	$ 340
Department of Defense		
Environmental restoration	27	27
Disposal of weapon systems program	22	22
All other Department of Defense	14	11
Total Department of Defense	63	60
All other agencies	12	12
Total environmental and disposal liabilities	$ 447	$ 412

Department of Energy

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

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

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

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

DOE's environmental and disposal liabilities estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

DOE's environmental and disposal liabilities 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 2091 in fiscal year 2016 and through 2090 in fiscal year 2015. While some post-cleanup monitoring and other long-term stewardship activities post-2091 are included in the liability, there are others the Department expects to continue beyond 2091 for which the costs cannot reasonably be estimated.

A portion of DOE's environmental and disposal liabilities at various field sites includes anticipated costs for facilities managed by DOE's ongoing program operations which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model. Site specific estimates are used in lieu of the cost-estimating model, when available. Cost estimates for ongoing program facilities are updated each year. For facilities newly contaminated since fiscal year 1997, cleanup costs allocated to future periods and not included in environmental and disposal liabilities amounted to $0.7 billion for both fiscal years 2016 and 2015.

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

Department of Defense

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

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

DOD 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 property, plant, and equipment at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general property, plant, and equipment placed into service before October 1, 1997, except for costs intended to be recovered through user charges; for those costs, DOD has expensed cleanup costs associated with that portion of the asset life that has passed since it was placed into service. DOD systematically recognizes the remaining cost over the remaining life of the asset. The unrecognized portion of the cleanup cost associated with general property, plant, and equipment is $3 billion for both fiscal years 2016 and 2015. Not all components of DOD are able to compile the necessary information for this disclosure, thus the amount reported may not accurately reflect DOD's total unrecognized costs associated with general property, plant, and equipment. DOD is implementing procedures to address these deficiencies.

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

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

In addition, in accordance with Technical Bulletin 2006-1, agencies recorded an environmental and disposal liability for asbestos-related cleanup costs totaling $5 billion and $4 billion as of September 30, 2016, and 2015, respectively.

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)	2016	2015
Federal	$ 218	$ 214
State and local	—	—
Total benefits due and payable	$ 218	$ 214

Federal government

(In billions)	2016	2015
Federal Old-Age and Survivors Insurance	$ 69	$ 66
Federal Supplementary Medical Insurance (Medicare Parts B and D)	36	38
Grants to States for Medicaid	35	37
Federal Hospital Insurance (Medicare Part A)	28	28
Federal Disability Insurance	28	27
All other benefits programs	22	18
Total benefits due and payable	$ 218	$ 214

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. HHS and the SSA administer the majority of the medical service programs and the DOL administers the Unemployment Insurance program. For a description of the programs, see in *the 2016 Financial Report, Note 22 – Social Insurance* and the *Unaudited Required Supplementary Information – 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)	2016	2015
Federal	$ 187	$ 170
State and local	—	—
Total insurance and guarantee program liabilities	$ 187	$ 170

Federal government

(In billions)	2016	2015
Pension Benefit Guaranty Corporation – Benefit Pension Plans	$ 175	$ 161
All other insurance and guarantee programs	12	9
Total insurance and guarantee program liabilities	$ 187	$ 170

As of September 30, 2016, and 2015, $175 billion and $161 billion, respectively, pertain to the PBGC single-employer and multiemployer pension plans. PBGC insures pension benefits for participants in covered defined benefit pension plans. Refer to PBGC's financial statements for more information. As a wholly-owned corporation of the federal government, PBGC's financial activity and balances are included in the consolidated federal financial statements.

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)	2016	2015
Federal	$ 469	$ 660
State and local	—	—
Total other liabilities	$ 469	$ 660

Federal government

(In billions)	2016	2015
Unearned revenue and assets held for others		
Unearned fees for nuclear waste disposal (DOE) and other unearned revenue	$ 54	$ 67
Assets held on behalf of others	114	106
Subtotal	168	173
Employee-related liabilities		
Accrued federal employees' wages and benefits	36	38
Selected DOE contractors' and D.C. employees' pension benefits	53	50
Subtotal	89	88
International monetary liabilities and gold certificates		
Exchange Stabilization Fund	55	55
Gold certificates	11	11
Subtotal	66	66
Subsidies and grants	36	24
Miscellaneous liabilities		
Legal and other contingencies	50	47
Liability for restoration of federal debt principal and interest	—	205
Other miscellaneous	60	57
Subtotal	110	309
Total	$ 469	$ 660

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. 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 $39 billion and $37 billion as of September 30, 2016, and 2015, respectively. Other unearned revenue includes USPS income for such things as prepaid postage, outstanding money orders, and prepaid P.O. Box rentals. Assets held on behalf of others include funds collected in advance, and undelivered Defense articles. DSCA holds $81 billion and $78 billion as of September 30, 2016, and 2015, 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* and are reported on another line on the Balance Sheet. The largest liability in the employee-related liabilities category is the amount owed at the end of the fiscal year to federal employees for wages and benefits (including accrued annual leave). In addition, DOE is liable to certain contractors for contractor employee pension and postretirement benefits, which is about $29 billion and $26 billion as of September 30, 2016 and 2015, respectively. Also, the federal government owed about $9 billion as of September 30, 2016, and 2015, 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 to deal in gold, foreign exchange, and other instruments of credit and securities.

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

Gold totaling $11 billion as of September 30, 2016, and 2015, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Treasury may redeem the gold certificates at any time.

Foreign currency is translated into US dollars at the exchange rate at fiscal year-end. The foreign currency is maintained by the ESF and various US federal agencies as well as foreign banks.

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; grants, subsidies, and contributions; and Agricultural Risk Coverage and Price Loss Coverage account for the majority of the subsidies due, about $13 billion and $9 billion as of September 30, 2016 and 2015, respectively.

The federal government awards hundreds of billions of dollars in grants annually. These include project grants that are competitively awarded for agency-specific projects, such as HHS grants to fund projects to "enhance the independence, productivity, integration, and inclusion into the community of people with developmental disabilities." Other grants are formula grants, such as matching grants. Formula grants go to state governments for such things as education and transportation programs. These grants are paid in accordance with distribution formulas that have been provided by law or administrative regulations. Of the total liability reported for grants as of September 30, 2016, and 2015, DOT, Education, and HHS collectively owed their grantees about $17 billion and $13 billion, respectively. Refer to the financial statements and footnotes of the respective agencies for additional information.

Miscellaneous liabilities

Some of the more significant liabilities included in this category are for (1) legal and other contingencies (see *Note 18—Contingencies*), (2) Bonneville Power Administration liability to pay annual budgets of several power projects for its electrical generating capacity, (3) payables due to the purchases of securities, and (4) other liabilities reported by Treasury as a result of the occurrence of a delay in raising the statutory debt limit as of September 30, 2015. When delays in raising the statutory debt limit occur, Treasury often must deviate from its normal debt management operations and take a number of extraordinary actions to meet the federal government's obligations as they come due without exceeding the debt limit. Many extraordinary actions taken by Treasury during the period of March 16, 2015, through October 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. As a result of Treasury securities not being issued to the G Fund of the Thrift Savings Plan (TSP), Treasury reported miscellaneous liabilities in the amount of

$205 billion that represent uninvested principal of and related interest for the TSP's G Fund that would have been reported in *Note 11—Debt securities held by the public and accrued interest* had there not been a delay in raising the statutory debt limit as of September 30, 2015, and had the Treasury securities been issued. On Monday, November 2, 2015, the *Bipartisan Budget Act of 2015* (P.L. 114-74) was enacted suspending the statutory debt limit through March 15, 2017. Treasury subsequently restored the uninvested principal and related interest to the G Fund, resulting in an increase of Federal Debt Securities Held by the Public and Accrued Interest from 2015 to 2016. For further information, see *Note 11—Debt securities held by the public and accrued interest* and *Note 21—Fiduciary activities*.

In addition, many federal agencies 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 2015
Income statements			
Net deficit	$ —	$ (6)	$ (6)
Tax revenues	—	(4)	(4)
Non-tax revenues	—	(4)	(4)
Total revenues	—	(8)	(8)
Total expenditures	—	(2)	(2)
Combined functional income statements			
Transfer payments to individuals other than personnel and subsidies	—	6	6
Compensation for personnel past and present	—	13	13
Payments to others for goods and services	—	(17)	(17)
Capital expenditures	—	(2)	(2)
Net interest paid	—	(2)	(2)
Other income	—	—	—
Combined segment income statements			
Promote the general welfare expenditures	—	4	4
Secure the blessings of liberty to ourselves and our posterity expenditures	—	(6)	(6)
Balance sheets			
Cash and other monetary assets (Note 2)	$ —	$ (143)	$ (143)
Accounts and taxes receivable, net (Note 3)	—	(8)	(8)
Loans receivable, net (Note 4)	—	17	17
Property, plant and equipment, net (Note 6)	—	62	62
Debt and equity securities (Note 7)	—	134	134
Debt securities held by the public and accrued interest (Note 11)	—	33	33
Employee and veteran benefits payable (Note 12)	—	2,238	2,238
Accumulated deficit	$ —	$ (2,209)	$ (2,209)

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 2015) 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. However, they did disclose the cause and nature of the largest restatement for 2015, shown in *Employee and veteran benefits payable* in the table above. Pension entitlements of state and local government employee defined benefit retirement funds amounts for 2015 were changed to be presented on a projected benefit obligation (PBO) basis; previously, they were presented on an accumulated benefit obligation basis. The PBO method is also used to estimate the pension entitlements of federal government employee defined benefit pension plans.

Note 18 – Contingencies

(In billions)	2016	2015
Federal	$ 33	$ 32
State and local	—	—
Total contingencies	$ 33	$ 32

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. Terms used to assess the range for the likelihood of loss are probable, reasonably possible, and remote. Loss contingencies that are assessed as probable and measurable are accrued in the financial statements. Loss contingencies that are assessed 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 following table provides criteria for how federal agencies are to account for loss contingencies, based on the likelihood of the loss and measurability.

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.

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 $244 billion as of September 30, 2016, and $239 billion as of September 30, 2015. The major programs are identified below:

- PBGC reported $243 billion and $238 billion as of September 30, 2016, and 2015, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multiemployer defined benefit pension plans that are classified as a reasonably possible exposure to loss. This increase is primarily due to the growth in the number of companies meeting the reasonably possible criteria for the single-employer program, while the multiemployer program experienced a decrease in liability due to changes in the data and underlying assumptions.
- FDIC reported $1 billion as of both September 30, 2016, and 2015, for identified additional risk in the financial services industry that could result in additional loss to the DIF should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

Deposit insurance

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

- FDIC has estimated insured deposits of $6,823 billion as of September 30, 2016, and $6,420 billion as of September 30, 2015, for the DIF.

- National Credit Union Administration (NCUA) has estimated insured shares of $1,016 billion as of September 30, 2016, and $940 billion as of September 30, 2015, for the National Credit Union Share Insurance Fund.

Legal contingencies

Legal contingencies as of September 30, 2016, and 2015, are summarized in the table below:

	2016			2015		
		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	$ 7	$ 7	$ 8	$ 6	$ 6	$ 7
Reasonably possible	$ —	$ 9	$ 17	$ —	$ 9	$ 14

[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 to various administrative claims and legal actions brought against it, some of which may ultimately result in settlements or decisions against 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 $7 billion and $6 billion as of September 30, 2016, and 2015, 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, is likely to result in additional claims against the Indian Health Service (IHS), which is a component within HHS. As a result of this decision, many tribes have filed claims. Some claims have been settled and others have been asserted but not yet settled.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of potential loss or a range of potential loss. The estimated potential losses for such claims and actions range from $9 billion to $16 billion as of September 30, 2016, and from $9 billion to $14 billion as of September 30, 2015. For example, the Department of the Treasury's *American Recovery and Reinvestment Tax Act of 2009* (ARRA) Related Cases are a number of cases that were filed in the US Court of Federal Claims alleging that the US government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. The Department has determined there is a reasonably possible likelihood of unfavorable outcomes in some of the cases.

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:

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

Environmental and disposal contingencies

Environmental and disposal contingencies as of September 30, 2016, and 2015, are summarized in the table below:

	2016			2015		
		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	$ 26	$ 26	$ 26	$ 26	$ 26	$ 26
Reasonably possible	$ —	$ 1	$ 2	$ —	$ 1	$ 1

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 $26 billion as of both September 30, 2016, and 2015, 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 contracts with more than 45 utilities in return for payment of fees established by the NWPA into the Nuclear Waste Fund. DOE agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because DOE has no facility available to receive SNF under the NWPA, it has been unable to begin disposal of the utilities’ SNF as required by the contracts. Therefore, DOE is subject to SNF litigation for damages suffered by all utilities as a result of the delay in beginning disposal of SNF and also damages for alleged exposure to radioactive and/or toxic substances. Significant claims for partial breach of contract and a large number of class action and/or multiple plaintiff tort suits have been filed with estimated liability amounts of $25 billion and $24 billion as of September 30, 2016, and 2015, respectively.

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 does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. FHWA has pre-authorized $51 billion and $50 billion to the states to establish budgets for its construction projects for fiscal years ending September 30, 2016, and 2015, respectively. Congress has not provided appropriations for these projects and no liability is accrued in the DOT consolidated financial statements.
- Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the states and for reimbursement of state plan amendments. The Medicaid amounts are $10 billion and $8 billion for fiscal years ending September 30, 2016, and 2015, respectively. In all cases, the funds have been returned to HHS. If the appeals are decided in favor of the states, HHS will be required to pay these amounts. In addition, certain amounts for payment have been deferred under the Medicaid program when there is reasonable doubt as to the legitimacy of expenditures claimed by a state. There are also outstanding reviews of the state expenditures in which a final determination has not been made.
- Through an annual process, Treasury assesses the need for an estimated contingent liability that reflects the forecasted equity deficits of the GSEs. While no accrued contingent liability was determined to be needed for fiscal years 2016 and 2015, it is reasonably possible that volatility in interest rates and fair value losses 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 volatility in interest rates and fair value losses, Treasury could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2016. See *Note 8– Investments in government-sponsored enterprises* for further information.

Treaties

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

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)	2016	2015
Federal	$1,561	$1,569
State and local	—	—
Total commitments	$1,561	$1,569

Federal government

(In billions)	2016	2015
General Services Administration	$ 23	$ 24
US Postal Service	7	7
Other operating leases	8	8
Total long-term operating leases	$ 38	$ 39

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. Undelivered orders represent the value of goods and services ordered that have not yet been received.

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

Undelivered orders and other commitments

(In billions)	2016	2015
Undelivered Orders		
Department of Defense	$ 240	$ 236
Department of the Treasury	18	170
Defense Security Cooperation Agency	130	136
Department of Education	123	125
Department of Transportation	106	109
Department of Health and Human Services	96	99
Department of Agriculture	52	40
All other agencies	206	210
Total undelivered orders	$ 971	$1,125
Other Commitments		
GSE Senior Preferred Stock Purchase Agreement	$ 258	$ 258
US Participation in the International Monetary Fund	155	—
Callable Capital Subscriptions for Multilateral Development Banks	120	112
All other commitments	19	35
Total other commitments	$ 552	$ 405

Other commitments and risks

Undelivered orders

The Department of the Treasury reported undelivered orders of $18 billion and $170 billion as of September 30, 2016 and 2015, respectively. This decrease was primarily due to a change in budgetary accounting and reporting policy for transactions related to the United States' participation in International Monetary Fund (IMF). Effective October 1, 2015, in accordance with OMB guidance, Treasury changed its budgetary accounting and reporting policy for transactions related to the United States' participation in the IMF. Under this change in policy for transactions, other than related interest earnings and cost estimates for US quota and New Arrangements to Borrow adjustments, are no longer reported as budgetary resources and used in Treasury's Combined Statement of Budgetary Resources. As a result of this change in budgetary accounting, Treasury adjusted the beginning balances of "Unobligated" and "Unpaid Obligations" on its Combined Statement of Budgetary Resources for fiscal year 2016 to remove those balances associated with IMF programs. This contributed to the significant decline in undelivered orders and the $155 billion increase in other commitments in fiscal year 2016.

Commitments to GSEs

At September 30, 2016 and 2015, the maximum remaining potential commitment to the GSEs for the remaining life of the SPSPAs was $258 billion, which was established on December 31, 2012. Refer to *Note 8-Investments in government-sponsored enterprises* for a full description of the SPSPA agreements, related commitments, and contingent liability, if any, as well as additional information.

Terrorism risk insurance program

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 2016 and 2015, the program trigger amount was $120 million and $100 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 Department of 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, 2016 or 2015.

Social insurance commitments

The largest outlays of the federal government are for the various social insurance programs (e.g. Social Security and Medicare) and grants to the states for Medicaid. Our Government records liabilities for social insurance programs when payments are due and payable to beneficiaries or service providers. These liabilities do not encompass total expected future expenditures.

The Treasury, in its *Financial Report*, provides Statements of Social Insurance (SOSI). The SOSI provide estimates of the potential future obligations for the most significant social insurance programs – Social Security, Medicare, Railroad Retirement, and Black Lung. The estimates represent the actuarial present values of the projected future net expenditures for the programs, generally based on continuation of then-current program provisions and economic and demographic assumptions from the respective programs' trustees over the following 75 years. For some supplemental information on potential future social insurance program obligations, see Exhibits 99.06 and 99.07 of this report. For more information on social insurance commitments, see the *Financial Report*.

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)	**2016**	**2015**
Federal	$ 3,374	$ 3,248
State and local	—	—
Total funds from dedicated collections	$ 3,374	$ 3,248

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)
2016						
Assets						
Cash and other monetary assets	$ —	$ —	$ —	$ —	$ 63	$ 63
Fund balance with Treasury	—	2	—	52	122	176
Investments in Treasury securities, net of unamortized premiums/discounts	2,797	192	46	63	277	3,375
Other federal assets	21	36	—	40	16	113
Non-federal assets	3	8	4	22	116	153
Total assets	$ 2,821	$ 238	$ 50	$ 177	$ 594	$ 3,880
Liabilities and net position						
Due and payable to beneficiaries	$ 69	$ 28	$ 29	$ 36	$ 11	$ 173
Other federal liabilities	6	35	—	45	63	149
Other non-federal liabilities	—	1	—	1	182	184
Total liabilities	75	64	29	82	256	506
Total net position	2,746	174	21	95	338	3,374
Total liabilities and net position	$ 2,821	$ 238	$ 50	$ 177	$ 594	$ 3,880
Change in net position						
Beginning net position	$ 2,720	$ 171	$ 18	$ 76	$ 263	$ 3,248
Prior-period adjustment	—	—	—	—	—	—
Beginning net position, adjusted	2,720	171	18	76	263	3,248
Investment revenue	88	8	1	2	3	102
Individual income taxes	680	250	148	—	—	1,078
Unemployment and excise taxes	—	—	—	—	105	105
Other taxes and receipts	—	1	—	3	42	46
Other changes in fund balance	23	21	(2)	303	64	409
Total financing sources	791	280	147	308	214	1,740
Program gross costs and non-program expenses	765	281	144	366	188	1,744
Less: program revenue	—	(4)	—	(77)	(49)	(130)
Net cost	765	277	144	289	139	1,614
Ending net position	$ 2,746	$ 174	$ 21	$ 95	$ 338	$ 3,374

(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)
2015						
Assets						
Cash and other monetary assets	$ —	$ —	$ —	$ —	$ 59	$ 59
Fund balance with Treasury	—	1	—	43	124	168
Investments in Treasury securities, net of unamortized premiums/discounts	2,767	196	42	66	207	3,278
Other federal assets	22	36	1	52	19	130
Non-federal assets	2	1	4	6	107	120
Total assets	$ 2,791	$ 234	$ 47	$ 167	$ 516	$ 3,755
Liabilities and net position						
Due and payable to beneficiaries	$ 66	$ 28	$ 28	$ 38	$ 7	$ 167
Other federal liabilities	5	34	1	52	67	159
Other non-federal liabilities	—	1	—	1	179	181
Total liabilities	71	63	29	91	253	507
Total net position	2,720	171	18	76	263	3,248
Total liabilities and net position	$ 2,791	$ 234	$ 47	$ 167	$ 516	$ 3,755
Change in net position						
Beginning net position	$ 2,671	$ 180	$ 48	$ 57	$ 242	$ 3,198
Prior-period adjustment	—	—	—	—	—	—
Beginning net position, adjusted	2,671	180	48	57	242	3,198
Investment revenue	92	8	2	2	3	107
Individual income taxes	671	239	114	—	—	1,024
Unemployment and excise taxes	—	—	—	—	107	107
Other taxes and receipts	—	1	—	3	34	38
Other changes in fund balance	23	17	(2)	287	14	339
Total financing sources	786	265	114	292	158	1,615
Program gross costs and non-program expenses	737	278	144	345	199	1,703
Less: program revenue	—	(4)	—	(72)	(62)	(138)
Net cost	737	274	144	273	137	1,565
Ending net position	$ 2,720	$ 171	$ 18	$ 76	$ 263	$ 3,248

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 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 agencies 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 agencies that administer each particular fund. For detailed information regarding these funds from dedicated collections, please refer to the financial statements of the corresponding administering agencies. For information on the benefits due and payable liability associated with certain funds from dedicated collections, see *Note 14—Benefits due and payable*.

Federal Old-Age and Survivors Insurance Trust Fund

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

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

Federal Hospital Insurance Trust Fund (Medicare Part A)

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

The Federal Hospital Insurance Trust Fund is financed primarily by payroll taxes, including those paid by federal agencies. It also receives income from interest earnings on Treasury securities, a portion of income taxes collected on Social Security benefits, 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 Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in form of monetary payments. The SSA administers this fund.

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

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

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

Medicare Part D was created by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (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. The law creating the Medicare prescription drug account within the Federal Supplementary Medical Insurance Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 1395w-116.

All other funds from dedicated collections

The 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. For the years ending September 30, 2016, and 2015, there were approximately 814 and 624 funds from dedicated collections, respectively. The methodology for reporting the number of funds changed in fiscal year 2016. Agencies now report the number of Treasury Account Symbols marked as Dedicated Collections, which is at a lower level of detail than the fiscal year 2015 reporting. The funds from dedicated collections within the "all other" aggregate, along with the agencies that administer them, include the following:

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

Other changes in fund balance line increased from $9.6 billion in fiscal year 2015 to $63.8 billion in fiscal year 2016. On December 4, 2015, the President signed into law the Fixing America's Surface Transportation Act, or "FAST Act" (P.L. 114-94), providing funding for surface transportation through September 30, 2020. An additional $70 billion was transferred to the Highway Trust Fund from the General Fund.

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

Unemployment and excise taxes

Unemployment taxes

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

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

Employer taxes provide the primary funding source for the UTF and constitute the largest portion of unemployment tax revenues attributable to funds from dedicated collections as shown on the consolidated Statement of Operations and Changes in Net Position. However, interest earnings on Treasury securities also provide income to the fund. For the years ending September 30, 2016, and 2015, UTF unemployment tax revenues were $47 billion and $49 billion, respectively. Appropriations have supplemented the fund's income during periods of high and extended unemployment. UTF was established under the authority of Section 904 of the Social Security Act of 1935.

Excise taxes

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

The Highway Trust Fund was established to promote domestic interstate transportation and to move people and goods. The fund provides federal grants to states for highway construction, certain transit programs, and related transportation purposes. The Highway Trust Fund was created by the *Highway Revenue Act of 1956*. Funding sources include designated excise taxes on gasoline and other fuels, the initial sale of heavy trucks, and highway use by commercial motor vehicles. For both years ending September 30, 2016, and 2015, Highway Trust Fund excise tax revenues were $41 billion. 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 fight segments,
- International arrival/departures,
- Cargo waybills, and
- Aviation fuels.

For the years ending September 30, 2016, and 2015, Airport and Airway Trust Fund excise tax revenues were $14 billion for both years.

Miscellaneous earned revenues

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

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)	2016	2015
Federal	$ 482	$ 435
State and local	—	—
Total fiduciary activities	$ 482	$ 435

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. This note also addresses guarantor activities.

(In billions)	2016	2015
FRTIB-Thrift Savings Plan	$ 472	$ 427
All other	10	8
Total fiduciary net assets	$ 482	$ 435

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, 2016, total fiduciary investments in Treasury securities and in non-Treasury securities are $226 billion and $269 billion, respectively. As of September 30, 2015, total fiduciary investments in Treasury securities and in non-Treasury securities were $5 billion and $243 billion, respectively. This increase relates to the delay in raising the statutory debt limit that was ongoing as of September 30, 2015. See the Thrift Savings Fund section below. Refer to *Note 11—Debt securities held by the public and accrued interest* for more information on the Treasury securities.

As of both September 30, 2016, and 2015, the total fiduciary fund balance with Treasury was $1 billion. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in *Note 16 - Other liabilities*.

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

Federal employees, who are participants of FERS, the CSRS, or equivalent retirement systems, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2015, and 2014, there were approximately 4.8 million and 4.8 million participants in the TSP, respectively, with approximately 3.3 and 2.9 million contributing their own money, respectively. For further information about FRTIB and the TSP, please refer to the FRTIB website at http://www.frtib.gov.

As of September 30, 2016, and 2015, the TSF held $472 billion and $427 billion, respectively, in net assets, which included $221 billion and $0.0 billion, respectively, of US Government Securities (amounts are unaudited). When delays in raising or suspending the debt limit occur, as they did during both fiscal years 2015 and 2016, Treasury implements "extraordinary actions" on a temporary basis. Many of the extraordinary actions taken by Treasury during the period of March 16, 2015 through October 30, 2015, resulted in federal debt securities not being issued to certain federal government accounts. As a result of Treasury securities not being issued to the G Fund as of September 30, 2015, Treasury reported miscellaneous liabilities in the amount of $205 billion that represent uninvested principal of and related interest for the G Fund that would have been reported as Federal Debt Securities Held by the Public and Accrued Interest had there not been a delay in raising the statutory debt limit as of September 30, 2015, and had the Treasury securities been issued. On Monday, November 2, 2015, the *Bipartisan Budget Act of 2015* (P.L. 114-74) was enacted suspending the statutory debt limit through March 15, 2017. Treasury subsequently restored the uninvested principal and related interest to the G Fund, resulting in an increase of US Government Securities from 2015 to 2016. The most recent audited financial statements for the TSF are as of December 31, 2015, and 2014. As of December 31, 2015, and 2014, the TSF held $443 billion and $428 billion, respectively, in net assets, which included $207 billion and $191 billion, respectively, of US Government Securities. These unaudited amounts above are included to enhance comparability of the TSF net assets with the remainder of the federal government's fiduciary net assets as of September 30, 2016, and 2015.

DOI – Indian trust funds

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

All other entities with fiduciary activities

The 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, 2016, and 2015, including TSF and DOI, there are a total of 20 and 17 federal entities, respectively, with fiduciary activities at a grand total of 68 and 65 fiduciary funds, respectively. SBA and LOC are the significant agencies relating to the fiduciary activities of the remaining component entities within the "all other" aggregate balance. As of September 30, 2016, "all other" fiduciary net assets were $5 billion, compared to $3 billion as of September 30, 2015.

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

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

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

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

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

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

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

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

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

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

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)	**2016**	**2015**	**2014**
Royalties	$ 5	$ 7	$ 10
Bonus	1	1	2
Other	—	1	—
Total reported revenue	$ 6	$ 9	$ 12

† *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-location/. 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.[44]

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)	2016	2015
Medicaid and CHIP	$ 383	$ 360
Other non-cash programs for aid to the disadvantaged	77	71
Transportation	64	61
Elementary and secondary education	36	36
Other grants	101	96
Grants per the federal government	661	624
Federal non-grant assistance to territories and state and local governments	4	4
Total federal grant and non-grant assistance per the federal government	665	628
Difference between federal and state and local reporting of transfers	21	26
Total federal grant and non-grant assistance per state and local governments	$ 686	$ 654

Federal debt securities held as investments by government accounts

Federal accounts

(In billions)	Balance 2015	Net Change during Fiscal Year 2016	Balance 2016
Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund	$ 2,767	$ 30	$ 2,797
Office of Personnel Management, Civil Service Retirement and Disability Fund	731	156	887
Department of Defense, Military Retirement Fund	531	60	591
All other programs and funds	998	127	1,125
Subtotal	5,027	373	5,400
Total net unamortized premiums/(discounts) for intergovernmental	75	(3)	72
Total intergovernmental debt holdings, net	$ 5,102	$ 370	$ 5,472

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, 2015. On November 2, 2015 Congress enacted the Bipartisan Budget Act of 2015 (P.L. No. 114-74) which temporarily suspended the debt limit through March 15, 2017. Treasury subsequently restored uninvested principal and related interest, resulting in an increase to the Civil Service Retirement and Disability Fund from 2015 to 2016.

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)	2016	2015
Treasury securities – non-pension	$ 710	$ 658
Treasury securities – pension	185	186
Loans from the federal government	(17)	(17)
Net federal assets held by state and local governments	$ 878	$ 827

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.

	2016			2015		
(In billions)	Revenues	Expenditures	Net	Revenues	Expenditures	Net
Employee retirement and disability	$ 138	$ 472	$ 334	$ 132	$ 454	$ 322
Higher education	113	288	175	108	274	166
Transit systems	17	69	52	16	69	53
Public hospitals	151	162	11	143	151	8
Sewerage and waste management	73	80	7	71	76	5
Water utilities	62	62	—	61	60	(1)
Tennessee Valley Authority	45	45	—	44	44	—
US Postal Service	71	70	(1)	74	73	(1)
Gas and electric utilities	86	77	(9)	89	81	(8)
Other key offsetting amounts	133	98	(35)	127	97	(30)
Total offsetting amounts	$ 889	$ 1,423	$ 534	$ 865	$ 1,379	$ 514

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