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GAO

Report to the Congress

September 1987

FINANCIAL AUDIT

Examination of GSA's Financial Statements for Fiscal Years 1986 and 1985

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-222974

September 30, 1987

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our examinations of the U.S. General Services Administration's (GSA) consolidated financial statements for the fiscal years ended September 30, 1986 and 1985.

Our opinion on GSA's fiscal year 1985 financial statements related only to the balance sheet and was qualified due to restrictions on the scope of our examination, which were largely the result of it being an initial audit. This year, we were able to perform auditing procedures which were sufficient to remove the qualifications on the property and equipment and National Defense Stockpile assets as they appeared on the 1985 balance sheet. Unlike fiscal year 1985, our opinion on GSA's fiscal year 1986 financial statements covers each of the statements but is qualified due to start-up problems in GSA's new automated Fleet Management accounting system, which precluded us from determining whether the accounts in the Fleet Management operations were fairly stated.

This report contains separate reports on GSA's system of internal accounting controls and on its compliance with laws and regulations. We identified two internal accounting control weaknesses which, if uncorrected, could have a material impact on GSA's consolidated financial statements. These were GSA's not reconciling cash balances with Treasury in a timely manner and the start-up problems with the new automated accounting system in Fleet Management operations. GSA complied with the provisions of laws and regulations for the transactions we tested which could have materially affected its financial statements.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Administrator of General Services.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

Contents

Abbreviations

GAO	General Accounting Office
GSA	General Services Administration
SIBAC	Simplified Intragovernmental Billing and Collection System
TIRES	Transportation Interface and Reporting System

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Washington, D.C. 20548

Comptroller General
of the United States

To the Administrator,
General Services Administration

We have examined the consolidated balance sheets of the U.S. General Services Administration (GSA) as of September 30, 1986 and 1985, and the related consolidated statements of revenues and expenses, of changes in financial position, and of reconciliation to budget reports for the fiscal years then ended. Except as described in the second and fifth paragraphs of this report, our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In addition to this opinion, we are also reporting to you on our study and evaluation of internal accounting controls and compliance with laws and regulations.

Our examination of GSA's consolidated financial statements for fiscal year 1985 (GAO/AFMD-86-55) was the first year such statements had been audited in accordance with generally accepted government auditing standards. Because our examination did not commence until January 1985, it was not practical to perform various auditing procedures with respect to determining whether, as of October 1, 1984, the beginning of the 1985 fiscal year, amounts of accounts receivable, inventories held for sale, accounts payable, and related amounts of revenues and expenses were recorded in the proper accounting period. These amounts were material to the determination of consolidated revenues and expenses, consolidated sources and applications of funds, and adjustments entering into the reconciliation to budget reports. Accordingly, we do not express an opinion on the accompanying consolidated statements of revenues and expenses, of changes in financial position, and of reconciliation to budget reports for the fiscal year ended September 30, 1985. Although conditions existed in the Automatic Data Processing Fund and in the Federal Telecommunications Fund during fiscal year 1985 that precluded us from determining whether certain amounts of revenues and expenses were properly stated during our fiscal year 1985 audit, we were able to satisfy ourselves with regard to the fair presentation of these accounts during our fiscal year 1986 audit.

Our March 31, 1986, opinion on the fiscal year 1985 consolidated balance sheet was qualified because documents supporting the original cost of property and equipment and National Defense Stockpile assets, acquired by or transferred to GSA over periods dating back to its establishment in 1949, were not readily obtainable and, thus, as part of our fiscal year 1985 examination, it was not practical for us to perform, nor did we perform, any auditing procedures with respect to the cost of property and equipment or of National Defense Stockpile assets acquired prior to October 1, 1984. As part of our fiscal year 1986 examination, however, we were able to perform auditing procedures which were sufficient to satisfy ourselves regarding the cost of property and equipment and National Defense Stockpile assets. Accordingly, our present opinion on the fiscal year 1985 consolidated balance sheet, as presented herein, is different from that expressed in our previous report.

Effective for fiscal year 1985, GSA adopted various revised generally accepted accounting principles for federal agencies as promulgated by the U.S. General Accounting Office in November 1984. As discussed in note 3, the principles adopted included preparing a consolidated statement of reconciliation to budget reports for fiscal year 1985, recording an allowance for estimated uncollectible federal accounts receivable, establishing a provision for contingent liabilities resulting from various legal actions, and capitalizing certain leases. The cumulative effect of adopting these revised generally accepted accounting principles for federal agencies has been included in the consolidated statement of revenues and expenses for the fiscal year ended September 30, 1985.

During fiscal year 1986, GSA implemented a new automated system to account for the activities of managing the interagency motor vehicle fleet, which are included in the General Supply Fund. GSA reported that Fleet Management's total assets were $527 million and total revenues were $322 million (50 and 14 percent of the General Supply Fund's total assets and revenues, respectively). However, numerous automated accounting systems development and implementation problems related to the Fleet Management operations prevented GSA from producing reliable data on accruals, depreciation, inventory, and accounts receivable for fiscal year 1986. Because this system did not operate properly until January 1987 and final fiscal year 1986 billings have not yet been computed and issued, it was not practical for us to perform, nor did we perform, any auditing procedures with respect to the Fleet Management operations.

In our opinion, except for the effect of any adjustments on the 1986 consolidated financial statements that might have been necessary, as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly the financial position of the General Services Administration at September 30, 1986 and 1985, and the results of its operations, the changes in its financial position, and the reconciliation to budget reports for the fiscal year ended September 30, 1986, in conformity with generally accepted accounting principles for federal agencies consistently applied during the period subsequent to the adoption of the revised principles as discussed in the fourth paragraph of this report.

Our examination was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules by fund type for 1986 are presented for purposes of additional analysis rather than to present financial position, results of operations, changes in financial position, and reconciliation to budget reports of the individual fund types. The supplemental schedules have been subjected to the auditing procedures applied in the examination of the basic consolidated financial statements and, in our opinion, except for the effect of such adjustments, if any, as might have been necessary had we been able to perform the necessary auditing procedures to resolve the matters discussed in the fifth paragraph of this report, are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Charles A. Bowsher

Charles A. Bowsher
Comptroller General
of the United States

April 20, 1987

Report on Internal Accounting Controls

We have examined the consolidated financial statements of the U.S. General Services Administration (GSA) for the fiscal years ended September 30, 1986 and 1985, and have issued our report thereon dated April 20, 1987. This report pertains only to our study and evaluation of the system of internal accounting controls for the fiscal year ended September 30, 1986. Our report on our study and evaluation of the system of internal accounting controls for the fiscal year ended September 30, 1985, is presented in GAO/AFMD-86-55, dated June 11, 1986.

As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on GSA's consolidated financial statements. For purposes of this report, we have classified the significant internal accounting controls in the following categories:

- Automatic Data Processing Services operations,
- Cash and Treasury interface,
- Federal Telecommunications Services operations,
- Financial Reporting,
- Fleet Management operations,
- General Supply operations,
- Public Buildings operations, and
- Strategic Stockpile operations.

Our study included all of the control categories listed above except for Cash and Treasury interface, Financial Reporting, and Fleet Management operations. For Cash and Treasury interface and Financial Reporting, we found it more efficient to expand the scope of our substantive audit tests. For Fleet Management operations, as we noted in our opinion, we were unable to perform any auditing procedures due to problems in the new automated accounting system. In addition, we reviewed GSA's report issued pursuant to section 2 of the Federal Managers' Financial Integrity Act of 1982 to identify and determine the status of internal control weaknesses relevant to financial matters.

GSA's management is responsible for establishing and maintaining a system of internal accounting controls in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over agency assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the second paragraph, would not necessarily disclose all weaknesses in the system. Accordingly, we do not express an opinion on GSA's system of internal accounting controls taken as a whole or on the categories of controls identified in the second paragraph. However, our study and evaluation disclosed two conditions which we believe could result in errors or irregularities in amounts material in relation to GSA's consolidated financial statements, which may not be promptly detected. These were not reconciling cash balances with Treasury in a timely manner and start-up problems in the automated accounting system in Fleet Management operations.

Our fiscal year 1985 study and evaluation of internal accounting controls, made as a part of our examination of GSA's consolidated financial statements (GAO/AFMD-86-55) disclosed four conditions which we believed could result in errors or irregularities in amounts material in relation to GSA's consolidated financial statements, which may not be promptly detected. These were (1) not verifying general ledger balances, (2) not ensuring revenues were recorded and billings rendered in the Automatic Data Processing fund, (3) not reconciling cash balances with Treasury, and (4) not recording all costs of telephone services.

During fiscal year 1986, GSA improved its controls and procedures in three of these areas, and, as a result, we no longer consider them to be material internal accounting control weaknesses. However, the cash reconciliation problem continued, and we identified a new material weakness in internal accounting controls in Fleet Management operations in developing and implementing a new automated accounting system.

GSA's Cash Balances With Treasury Not Reconciled in a Timely Manner

In fiscal year 1986, GSA continued not to reconcile cash balances with Treasury in a timely manner, as required by the Department of the Treasury. At year-end, GSA adjusted its cash balance downward by $36 million for unaccounted differences from Treasury's records to agree with the cash balance reported by Treasury.

Treasury maintains several subaccounts which, in the aggregate, comprise the balance of GSA's funds with the U.S. Treasury. These subaccounts identify cash transactions by general type of activity, such as collection and disbursement transactions, unresolved differences between GSA and Treasury accounts (suspense subaccount), and Simplified Intragovernmental Billing and Collection System (SIBAC) chargebacks. Under the SIBAC system, collections for services provided to other federal agencies are automatically processed by Treasury for intragovernmental billings. SIBAC chargebacks are reversals of previous SIBAC collections due to billing disputes.

The Department of the Treasury's Treasury Financial Manual and related bulletins require that the analysis and adjustment of all discrepancies between its fund balance and agencies' own cash balance records be completed within 90 days after notification of such discrepancies. Further, this manual requires that any differences recorded in the suspense subaccount which affect prior fiscal years be resolved by the end of the current fiscal year. The manual also requires that all chargebacks be recorded in GSA's and Treasury's accounting systems and that they be promptly resolved.

At the end of fiscal year 1986, GSA's accounting records compared to Treasury's showed cash overstated by approximately $36 million. Because GSA did not reconcile its cash balances in a timely manner as required by Treasury, GSA was unable to satisfactorily determine why such a large discrepancy existed. Further, differences in the suspense subaccounts from prior fiscal years were not resolved. In addition, the Federal Buildings Fund recorded almost $21 million in chargebacks during 1986 which were not posted at Treasury, while Treasury recorded over $15 million in chargebacks for this fund which had not been posted by GSA. By not promptly accounting for all chargebacks at both Treasury and GSA, a greater potential exists that those chargebacks not recorded by GSA will have to be written off, as information needed for resolution becomes increasingly difficult to locate with the passage of time, and that those not recorded at Treasury will be incorrectly rebilled by GSA, resulting in duplicate billings to customer agencies.

GSA officials advised us that the cash balances were not promptly reconciled with Treasury chiefly because the responsibility for reconciling cash differences had been divided among the GSA regional finance offices. Although the cash reconciliation responsibility was consolidated into two regional offices (Fort Worth and Kansas City) during fiscal year 1986, the reconciliations were not completed. GSA officials believe that the regional offices will have the reconciliations done in accordance with Treasury requirements during fiscal year 1987.

Fleet Management Operations' Financial Reports Are Not Reliable

The GSA Motor Pool Fund did not have an adequate accounting system in place during fiscal year 1986 to account for Fleet Management operations, which resulted in untimely and unreliable financial reports. This situation occurred when GSA discontinued its existing system and converted to a new system before assuring itself that the new system was operating adequately. The head of each agency is responsible for establishing and maintaining adequate systems of accounting and internal controls. Also, our experience in reviewing systems development projects has shown that an agency should not attempt to place any new system in operation until all significant problems identified by testing have been corrected (GAO's Critical Factors in Developing Automated Accounting and Financial Management Systems, January 1987).

The Fleet Management portion of the General Supply Fund was converted to a new automated accounting subsystem in October 1985. The new system, Transportation Interface and Reporting System (TIRES), was designed to handle all transactions of the Fleet Management program (such as acquiring vehicles, computing depreciation, and issuing bills), interface with the general ledger automated system, and produce financial and management reports. However, for fiscal year 1986, TIRES was unable to generate timely and reliable financial reports for the Fleet Management program. Problems arose when GSA decided to discontinue operating its prior system before GSA had assurance TIRES would produce reliable financial information. For example, the programming contained errors which made the system abort when GSA first tried to run it. In addition to programming problems, GSA encountered interface problems when programs that were supposed to be ready to convert data from another system for processing by TIRES were not ready, so manual input was necessary. Also, data problems existed in that the system could not read conversion data because they were not in the correct location. Furthermore, while attempting to identify and correct the problems with TIRES, GSA continued processing 1986 transactions through the system, which caused input data to become indistinguishable from system-computed data.

The lack of timely and reliable financial reports throughout fiscal year 1986 hampered analysis of the financial operations to ensure that management control objectives were being achieved in several areas including vehicle inventory, billed accounts receivable, depreciation, and service station accruals. Coupled with known customer billing problems, this added to a service credibility problem for Fleet Management operations among customers and GSA field personnel, resulting in numerous customer complaints.

GSA's finance office actively worked on solving the TIRES problems throughout fiscal year 1986 and the first several months of 1987. Although it believes it has solved the system problems in TIRES, it concluded that the 1986 TIRES data were not salvageable and instead used data from the Federal Supply Service, which has similar information, to send delayed 1986 billings to customers in June 1987. Given the magnitude of the problems with TIRES, we did not review the system as part of our 1986 financial statement audit.

In the absence of an accounting system which could generate reliable financial data on Fleet Management operations, it was not practical to determine whether the Fleet Management portion of the General Supply Fund was fairly stated, and, as a result, we qualified our opinion on GSA's consolidated financial statements for fiscal year 1986.

Conclusions

As a result of the above conditions, the possibility exists that material errors in GSA's financial records could occur and not be promptly detected. With the passage of time it becomes increasingly difficult to identify sources of discrepancies between GSA and Treasury cash balances. GSA has assigned responsibility for the cash reconciliations to the Kansas City and Fort Worth regional finance offices and needs to assure itself that these offices devote sufficient attention to completing the reconciliations to meet Treasury's requirements. In addition, GSA has been working to resolve the problems with TIRES and will need to continue to actively monitor the system's operations and data to ensure reliability. Also, since GSA has other ongoing automated system development projects, it needs to assure itself that new systems produce reliable data before implementing them and terminating any existing systems.

Recommendations

Accordingly, we recommend that the Administrator of General Services direct the Comptroller to

- ensure that GSA's cash balances (including SIBAC chargebacks) are reconciled with Treasury's balances within the Treasury-established time frames and
- require that new accounting systems be thoroughly tested before discontinuing the systems being replaced.

Except for the weaknesses discussed above, our study and evaluation disclosed no other conditions which we considered to be material in relation to the consolidated financial statements taken as a whole. We considered the above conditions in determining the nature, timing, and extent of the audit tests to be applied in our examination of GSA's consolidated financial statements for the fiscal year ended September 30, 1986. Except for the lack of an adequate accounting system for Fleet Management operations, which caused us to qualify our opinion on GSA's consolidated financial statements, the weaknesses in the system of internal accounting controls do not affect that opinion.

Other Opportunities for Improvement

During the course of our examination, we identified a number of other weaknesses in internal accounting controls and procedures. Although we did not consider these weaknesses to be material to the consolidated financial statements, they nonetheless merit corrective action to strengthen GSA's internal accounting controls. Consequently, we are reporting these separately to the Administrator of General Services.

Agency Comments

We did not request official written comments on this report. However, we did provide a draft of the report to appropriate GSA officials and have incorporated their comments. The Deputy Comptroller for Finance agreed that cash balances should be reconciled in accordance with Treasury's requirements and commented that GSA has reconciled its cash balances with Treasury for some funds and has made progress in reconciling current transactions for other funds. He also agreed with the need to thoroughly test new accounting systems and will more closely monitor conversions of future systems to ensure the reliability of new systems before discontinuing the old systems they replace.

Report on Compliance With Laws and Regulations

We have examined the consolidated financial statements of the U.S. General Services Administration (GSA) for the fiscal years ended September 30, 1986 and 1985, and have issued our report thereon dated April 20, 1987. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the fiscal year ended September 30, 1986. Our report on compliance with laws and regulations for the fiscal year ended September 30, 1985, is presented in GAO/AFMD-86-55, dated June 11, 1986.

In our opinion, GSA complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

In connection with our examination, nothing came to our attention that caused us to believe that GSA was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Financial Statements

Consolidated Statement of Revenues and Expenses

For the Fiscal Years Ended September 30, 1986 and 1985
(Dollars in Thousands)

	1986		1985 (restated)	
Revenues: (Note 1-A)	**Amount**	**Percent**	**Amount**	**Percent**
Operating:				
Building Rents and Services (Note 1-B)	$ 2,510,923	41.7	$ 2,531,455	40.7
Sale of Supplies	1,723,857	28.6	1,969,025	31.6
Telecommunications Services	706,935	11.7	641,390	10.3
Data Processing Services	231,109	3.8	210,069	3.4
Motor Vehicle Services	316,256	5.2	257,559	4.1
Stockpile Sales (Note 19)	59,383	1.0	72,782	1.2
Reimbursements (Note 1-C)	12,660	0.2	17,046	0.3
Proprietary Receipts (Note 1-G)	35,603	0.6	44,544	0.7
Other (Note 17)	58,570	1.0	101,952	1.6
Total Operating Revenues	5,655,296	93.8	5,845,822	93.9
Appropriations Expended (Note 18)	372,268	6.2	379,737	6.1
Total Revenues	6,027,564	100.0	6,225,559	100.0
Expenses: (Note 1-A)				
Cost of Sales (Note 16)	1,774,116	29.4	1,978,123	31.8
Personnel Salaries and Benefits	764,542	12.7	778,111	12.5
Rent	913,089	15.1	770,629	12.4
Telecommunications	617,728	10.3	601,121	9.7
Data Processing	217,689	3.6	196,691	3.1
Contracted Services	718,438	11.9	721,513	11.6
Depreciation and Amortization	307,083	5.1	295,989	4.8
Utilities	249,118	4.1	249,209	4.0
Operating Supplies	165,977	2.8	154,968	2.5
Interest	92,858	1.5	123,028	2.0
Real Estate Taxes	15,240	0.3	21,198	0.3
Travel and Transportation	12,204	0.2	12,680	0.2
Miscellaneous	40,101	0.7	40,759	0.7
Total Expenses	5,888,183	97.7	5,944,019	95.6
Excess of Revenues Over Expenses Before the Cumulative Effect of Changes in Accounting Principles	139,381	2.3	281,540	4.4
Cumulative Effect on Prior Years of Changes in Accounting Principles (Note 3)	--	--	(32,852)	(0.5)
Excess of Revenues Over Expenses	$ 139,381	2.3	$ 248,688	3.9

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheet

As of September 30, 1986 and 1985 (Dollars in Thousands) Assets:	1986	1985 (restated)
Current Assets:		
Funds with U.S. Treasury (Note 1-D)	$ 2,412,121	$ 2,408,139
Accounts Receivable: (Note 12)		
From Other Federal Agencies	595,477	479,099
From Individuals	3,937	4,522
From Corporations	30,877	7,319
Notes Receivable	2,777	7,071
Inventories: (Note 1-E)		
Operating Supplies	14,902	7,850
For Sale to Federal Agencies	224,835	242,277
For Sale to the Public	1,265	1,262
Reimbursable Repairs and Alterations in Process (Note 1-B)	444,227	337,824
Advances:		
To Other Federal Agencies	1,660	994
To the Public	1,774	2,737
Prepaid Expenses	39,406	13,650
Total Current Assets	3,773,258	3,512,744
Property and Equipment: (Notes 1-F, 4, 13)		
Buildings	4,584,186	4,492,548
Leasehold Improvements	9,382	9,767
Telecommunications Equipment	71,407	76,498
Automated Data Processing Equipment	85,141	84,911
Motor Vehicles	896,559	779,073
Other Equipment	112,159	110,170
Less: Accumulated Depreciation and Amortization	(2,237,266)	(2,019,845)
	3,521,568	3,533,122
Land	463,720	449,103
Construction in Process	412,989	298,626
Total Property and Equipment	4,398,277	4,280,851
Other Assets:		
National Defense Stockpile (Note 19)	3,691,754	3,690,843
Defense Production Act Stockpile	56,932	56,932
Notes Receivable (Note 12)	7,332	29,633
Other Noncurrent Assets (Note 14)	57,374	60,305
Total Other Assets	3,813,392	3,837,713
Total Assets	$11,984,927	$11,631,308

The accompanying notes are an integral part of these statements.

Liabilities:	1986	1985 (restated)
Current Liabilities:		
Accounts Payable:		
To Other Federal Agencies	$ 55,323	$ 47,962
To the Public	645,637	685,340
Earnings Payable to U.S. Treasury (Note 15)	4,392	2,830
Deposit Fund Liability	96,899	71,453
Advances: (Note 1-I)		
From Other Federal Agencies	197,789	201,839
From the Public	9,871	4,869
Deferred Revenue	605,525	514,131
Total Current Liabilities	1,615,436	1,528,424
Long-term Liabilities:		
Annual Leave Liability (Note 1-H)	52,633	50,594
Purchase Contract Debt (Note 5)	1,055,419	1,087,056
Obligations under Capital Leases (Note 4)	36,735	41,925
Other Long-term Liabilities	18,889	11,253
Total Long-term Liabilities	1,163,676	1,190,828
Total Liabilities	2,779,112	2,719,252
Equity of U.S. Government:		
Invested Capital (Note 8)	8,864,201	8,633,964
Cumulative Results of Operations (Note 8)	293,169	227,015
Unexpended Appropriations: (Note 18)		
Unobligated Balances	930	2,916
Undelivered Orders	44,107	44,933
Reserve for Asset Replacement Cost (Note 6)	3,408	3,228
Total Equity of U.S. Government	9,205,815	8,912,056
Total Liabilities and Equity of U.S. Government	$ 11,984,927	$ 11,631,308

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Financial Position

For the Fiscal Years Ended September 30, 1986 and 1985 (Dollars in Thousands) Source of Funds:	1986	1985 (restated)
Operations:		
Excess of Revenues Over Expenses Before the Cumulative Effect of Changes in Accounting Principles	$ 139,381	$ 281,540
Items Not Affecting Funds:		
Depreciation and Amortization (Notes 1-F, 13)	266,141	256,481
Asset Replacement Cost Expense (Notes 1-F, 13)	40,800	39,000
Amortization of Participation Certificate Discount	142	146
Accrued Annual Leave Expense (Note 1-H)	2,111	303
Adjustments and Write-off of Capital Assets	(4,043)	11,533
Gain on Retirement of Participation Certificates	(819)	(2,174)
Other	5,406	2,097
Total Funds Provided by Operations Before the Cumulative Effect of Changes in Accounting Principles	449,119	588,926
Cumulative Effect on Prior Years of Changes in Accounting Principles (Note 3)	-	(32,852)
Total Funds Provided by Operations	449,119	556,074
Disposition of Stockpile, book value	14,941	41,980
Disposition of Property and Equipment, book value (Notes 1-G, 13)	23,024	25,045
Capitalized Lease Obligations (Note 4)	-	69,746
Reduction in Non-Current Receivables	22,389	16,206
Increase in Other Long-term Liabilities	7,636	1,758
Increase (Decrease) in Unexpended Appropriations	(2,812)	5,701
Additional Appropriated Capital:		
Appropriated Funds	2,667	1,099
Revolving Funds	29,219	348
Receipts Transferred In (Note 19)	181,273	297,414
•Decrease (Increase) in Working Capital Items	(169,520)	103,177
Total Source of Funds	$ 557,936	$ 1,118,548

The accompanying notes are an integral part of these statements.

Application of Funds:	1986	1985 (restated)
Purchases of Property and Equipment (Notes 1-F, 4, 13)		
Land	$ 16,481	$ 27,019
Buildings	7,485	16,852
Leasehold Improvements	--	116
Construction in Process	162,505	103,583
Telecommunications Equipment	4,645	36,882
ADP Equipment	230	4
Motor Vehicles	154,951	172,596
Other Equipment	14,962	11,613
Total Purchases of Property and Equipment	361,259	368,665
Purchases of Stockpile	20,517	143,763
Reduction of Purchase Contract Debt	31,637	18,717
Reduction of Obligations under Capital Leases	5,190	37,983
Increase (Decrease) in Deferred Charges (Note 14)	(3,462)	208
Receipts Transferred Out (Note 1-G)	63,224	220,000
Receipts Appropriated (Note 1-G)	15,082	1,091
Sequestration/Congressional Rescission (Note 11)	35,572	34,683
Earnings Payable to U.S. Treasury	3,183	2,830
Other	21,752	198
Total Application of Funds	553,954	828,138
Funds with U.S. Treasury:		
Net Increase	3,982	290,410
Beginning Balance	2,408,139	2,117,729
Ending Balance	$ 2,412,121	$ 2,408,139
*Analysis of Working Capital Items (Excluding Funds with U.S. Treasury)		
Accounts Receivable	$ 139,351	$ 32,762
Notes Receivable	(4,294)	(958)
Inventories	96,016	(2,014)
Advances to Others	(297)	641
Prepaid Expenses	25,756	(4,146)
Accounts Payable	32,342	(60,319)
Earnings Payable to U.S. Treasury	(1,562)	61,417
Deposit Fund Liability	(25,446)	(11,091)
Advances from Others	(952)	1,879
Deferred Revenue	(91,394)	(121,348)
Net Increase (Decrease) in Working Capital Items	$ 169,520	$ (103,177)

The accompanying notes are an integral part of these statements.

Consolidated Statement of Reconciliation to Budget Reports

For the Fiscal Years Ended September 30, 1986 and 1985 (Dollars in Thousands)	1986	1985 (restated)
Increases (Decreases) to Outlays (Note 10):		
Excess of Revenues Over Expenses	$ (139,381)	$ (248,688)
Adjustments for:		
Increase in Assets	349,637	184,083
Increase in Liabilities	(58,298)	(207,747)
Appropriations Expended	372,268	379,737
Donations/Nonreciprocal Transfers	6,353	8,693
Asset Replacement Cost Amortization	(40,800)	(39,000)
Funds Transactions included in Outlays	(253,376)	(290,563)
Outlays (Excess of Reimbursements over Gross Expenditures)	$ 236,403	$ (213,485)
Relation of Obligations to Outlays		
Obligations Incurred	$ 6,249,766	$ 6,479,076
Offsetting Collections	(6,525,727)	(6,481,593)
Obligations Incurred, Net	(275,961)	(2,517)
Obligated Funds Balance-beginning of year	983,106	843,785
Less:		
Obligated Funds Balance-end of year	(402,168)	(983,106)
Adjustments to Unexpired Accounts	(68,574)	(71,647)
Outlays (Excess of Reimbursements over Gross Expenditures)	$ 236,403	$ (213,485)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

1. Significant Accounting Policies

A. Basis of Consolidation

The accompanying consolidated financial statements of the U.S. General Services Administration include the accounts of all funds under GSA control which have been established and maintained to account for resources entrusted to GSA management. A discussion of these funds is included in the remarks immediately preceding the supplemental schedules.

All significant intra-agency balances and transactions have been eliminated in consolidation. Revenue and expense eliminations for the fiscal years ended September 30, 1986 and 1985, consist of the following:

(Dollars in Thousands)	1986	1985
Building rents and services	$ 64,726	$ 73,673
Sales/Purchase of supplies	171,831	41,977
Motor vehicle services	6,034	6,624
Telecommunications services	19,245	23,891
Printing and reproduction services	10,011	10,467
Data processing services	8,985	7,370
Administrative equipment services	9,980	6,376
Reimbursements	40,359	38,964
Total Eliminations	$331,171	$209,342

B. Revenue Recognition and Expended Appropriations

Generally, revolving fund revenue is recognized when goods have been delivered or services rendered. However, revenue under nonrecurring reimbursable repair and alteration projects is not recognized until completion. Prior to completion, recognition of revenue from interim billings and of cost from direct material and direct labor incurred to date is deferred and recorded on the consolidated balance sheet as deferred revenue and repairs and alterations in process, respectively.

Appropriations for general fund activities are recorded as a financing source when expended. Unexpended appropriations are recorded as equity of the U.S. Government.

C. Reimbursements (General Funds)

Certain work performed for other Federal agencies and entities is initially financed through general funds and subsequently reimbursed by such customers. Reimbursements are recognized as revenues as related expenses are incurred. In fiscal 1986 and 1985 reimbursable services amounted to $12.7 million and $17 million, respectively, which included major efforts such as federal employee training and accounting and various professional services.

D. Funds with U.S. Treasury

This total represents all unexpended balances on GSA's accounts with the U.S. Treasury.

E. Inventories

Operating supplies, which are consumed in operations, are valued at the lower of cost, determined principally on the first-in, first-out method, or market.

Inventories held for sale to other Federal agencies consists of General Supply Fund inventories which are valued at the lower of cost, generally determined on a moving average basis, or market. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical accounting plan.

F. Property and Equipment

Property and Equipment purchases and additions are valued at cost. Property and Equipment transferred to GSA from other Federal agencies, either at the date GSA was established or subsequent thereto, is stated at the transfer value which, GSA believes, approximates cost. Expenditures for major additions, replacements and alterations are capitalized. Normal repairs and maintenance costs are expensed as incurred. The cost of repair and alteration and of leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA's financial statements as such amounts are transferred to other agencies upon completion of the project.

Depreciation and amortization of property and equipment, exclusive of that acquired under capital leases, is calculated on the straight-line basis over their initial or remaining useful lives. Buildings capitalized by the Federal Buildings Fund at its inception in 1974 were assigned remaining useful lives of 30 years. Prior thereto no depreciation was recorded by GSA. Upon completion, construction in process costs are capitalized in the building account.

Telecommunications and other equipment, exclusive of that acquired under capital leases, is depreciated over periods generally ranging from 5-10 years. Substantially all automated data processing equipment was fully depreciated (but still in use) at September 30, 1986 and 1985. Motor vehicles, exclusive of those under capital leases, are depreciated over the lesser of 72 months or 60,000 miles. Leasehold improvements are depreciated over the unexpired lease term.

Telecommunications equipment and motor vehicles under capital leases are depreciated over their estimated useful life, which approximates ten years, and the lease term, which approximates 4 years, respectively. The depreciable lives assigned to these assets are based upon the capitalization criteria contained in the leases.

G. Receipts from Disposal of Property and Equipment

GSA acts as a disposal agent for surplus Federally-owned real and related personal property. In some cases, public law entitles the owning agency to the sale proceeds, net of disposal expenses incurred by GSA. For the vast majority of sales, however, the gross proceeds are deposited in GSA's special fund receipt accounts. A portion of these proceeds is subsequently transferred to general or special funds to finance expenses incurred in disposing of surplus property. The remainder is recorded as a proprietary receipt in the statement of revenues and expenses and periodically, accumulated amounts are transferred to the Land and Water Conservation Fund, administered by the Department of the Interior. Transfers in fiscal years 1986 and 1985 were $63 million and $220 million, respectively.

Proceeds from the disposal of equipment are generally retained by GSA to purchase replacement or more modern equipment. Also retained by GSA are proceeds from the disposal of inventories held by the National Defense Stockpile Transaction Fund.

H. Annual, Sick and Other Types of Leave

Annual leave is accrued as it is earned and the accrual is relieved as leave is taken. At least once per year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned, but not taken. Sick leave and other types of leave are expensed as taken.

I. Advance from Others

Advances from others comprise funds received in advance of goods being shipped or services performed.

2. Accounting for Intergovernmental Activities

GSA is an agency of the Federal government and in this capacity performs many services on behalf of other Federal agencies including procurement and management of property, supplies, and other common services such as telecommunications and automated data processing. To finance these services, GSA obtains funds through interagency billings and records revenue and sources of funds as goods are shipped or services rendered.

Conversely, other Federal agencies make financial decisions and report certain financial matters on behalf of the Federal government as a whole, including matters to which individual agencies may be an indirect party in interest. This concept of having Federal agencies record or report only those government-wide financial matters for which they are directly responsible is consistent with generally accepted accounting principles for Federal agencies which seek to identify financial matters to the departments or agencies that have been granted budget authority and resources to manage them.

The following summarizes financial matters which are either maintained or reported by other Federal agencies in which GSA is indirectly involved:

- Although GSA funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, it does not disclose the assets of the Civil Service Retirement System nor does it disclose actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees, as reporting such amounts is the responsibility of the Office of Personnel Management.
- To the extent capital investments are financed with Congressional appropriations, a portion of which represents funds obtained through public borrowings, no interest has been capitalized since such public borrowings are recorded in total by the Department of the Treasury and are not specifically identified to individual agencies' investing activities.
- Certain legal matters to which GSA may be a named party are administered and [illegible] some instances, litigated by other Federal agencies and amounts to be paid under any decision, settlement or award pertaining thereto are sometimes funded by those agencies. In most cases, tort claims are administered and resolved by the Department of Justice and any amounts necessary for resolution are obtained from a special fund maintained by the Department of the Treasury. Amounts paid from this Judgment Fund on behalf of GSA were $1.9 million and $5.0 million in fiscal years 1986 and 1985, respectively. Legal actions brought by employees of GSA for on-the-job injuries fall under the Federal Employees Compensation Act, administered by the Department of Labor (DOL), which does not make a separate measurement of each agency's future obligations for claims; therefore, GSA has not recorded a liability for them. Instead, DOL bills each agency annually as its claims are paid, and bills are due in two years so they can be included in the budget process. Thus, although GSA records an expense each year, there is a 2-year time lag between payment by DOL and reimbursement and expensing of the payments by GSA. Expenses for payments made by DOL through fiscal year 1984 are reflected in these statements. The expenses for payments made by DOL in fiscal years 1985 and 1986, which are not reflected in these statements, are not considered to be material to those years' financial statements. GSA is responsible for legal matters involving contractual arrangements it has entered into (Note 9). The costs of administering, litigating, and resolving these actions are generally borne by GSA unless it can recover the cost from another Federal agency.

3. Adoption of Revised Generally Accepted Accounting Principles for Federal Agencies

Effective for fiscal year 1985, GSA adopted various revised generally accepted accounting principles for Federal agencies as promulgated by the U.S. General Accounting Office in November 1984. The accounting principles adopted relate to preparing a consolidated statement of reconciliation to budget reports, recording an allowance for estimated uncollectible Federal accounts receivable and a provision for contingent liabilities related to various legal actions, and to capitalizing certain leases.

The consolidated statement of reconciliation to budget reports was prepared to reconcile amounts included in the consolidated financial statements to information reported to the Department of the Treasury and the Office of Management and Budget.

The allowance for doubtful Federal accounts receivable was recorded to more properly match revenues with their related costs. GSA previously followed the policy of writing off such receivables directly to the statement of revenues and expenses only at the time collection efforts were terminated.

The provision for contingent liabilities was recorded for those legal actions where GSA's legal counsel believed it was probable that a loss or expense would be realized and the amounts thereof could be reasonably estimated. GSA previously recorded losses or expenses from legal actions only at the time such legal actions were decided or settled.

Certain additional leasing arrangements were capitalized by recording an asset and liability in amounts essentially equivalent to the present value of minimum lease payments together with related amounts of depreciation and interest. GSA has, in prior years, recorded certain of its leases as capital leases but only for those which transferred ownership to GSA at the end of the lease. Revised generally accepted accounting principles for

Federal agencies require that leases also be capitalized if they meet certain other criteria relating to the useful lives and fair market value of the leased property or if a bargain purchase option exists. The additional leases capitalized during fiscal year 1985 reflect the application of these additional criteria.

The effect on the fiscal year 1985 statement of revenues and expenses of recording an allowance for doubtful Federal accounts receivable and a reserve for contingent liabilities and of recording capital leases was to increase (decrease) the excess of revenues over expenses by ($21.5 million), ($6 million) and $735 thousand, respectively. The cumulative effect on prior years of recording an allowance for doubtful Federal accounts receivable and of capitalizing additional leases was $32 million and $768 thousand, respectively. The cumulative effect of recording a reserve for contingent liabilities was not material, and is included in the $6 million 1985 provision.

4. Leasing Arrangements

At September 30, 1986, GSA was committed to various noncancellable operating leases primarily covering administrative office space and storage facilities maintained by its Federal Buildings Fund. Many of these leases contain escalation clauses and renewal options.

GSA was also committed to various capital leases covering telecommunications equipment maintained through the Federal Telecommunications Fund and motor vehicles maintained through the General Supply Fund. Capital leases covering telecommunications equipment generally transfer ownership to GSA at the end of the lease term. In most cases, capital leases covering motor vehicles allow GSA to acquire such motor vehicles at the end of the lease term at their fair value. For those capital leases that neither transfer ownership nor grant purchase options, GSA has the right to renew said leases at the fair rental value.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year and under capital leases together with the present value of the minimum lease payments.

(Dollars in Thousands)	Operating Leases	Capital Leases	Total
Fiscal year ending			
September 30, 1987	$ 680,981	$14,943	$ 695,924
1988	562,968	13,061	576,029
1989	479,228	28,448	507,676
1990	392,478	4,725	397,203
1991 and thereafter	1,239,632	3,812	1,243,444
Total minimum lease payments	$3,355,287	64,989	$3,420,276
Less: Amount representing interest		(15,331)	
Executory Costs		(5,490)	
Total Obligations under capital leases		44,168	
Less current maturities		(7,433)	
Obligations under capital leases, non-current		$36,735	

Substantially all leased space maintained by the Federal Buildings Fund is sublet to other Federal agencies at rent charges based upon approximate commercial rates for comparable space. The agreements covering the sublease arrangements allow customer agencies to, among other things, terminate the sublease at any time. In most cases, however, management believes the subleases will continue without interruption. Rental income under subleasing agreements approximated $998 million and $993 million respectively, for the fiscal years ended September 30, 1986 and 1985. Rent expense under all operating leases, including short-term noncancellable leases, was approximately $834 million and $771 million for these same years.

Included in telecommunications equipment and in motor vehicles on the consolidated balance sheet as of September 30, 1986 are $45.1 million and $64.1 million, respectively, of property under capital leases and $31.0 million of aggregate accumulated depreciation thereon.

For substantially all of its leased property, management expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

Aggregate debt maturities for all capital leases are as follows (in thousands): 1987, $7,433; 1988, $6,708; 1989, $24,028; 1990, $3,490; 1991, $1,053; 1992 and beyond $1,456.

5. **Purchase Contract Debt**

Purchase contract debt consists of two distinct financing methods employed to finance construction of Federal buildings. The Dual System provided monies via publicly issued participation certificates (Series A through J) and participation certificates of the Department of the Treasury's Federal Financing Bank (Series K through M). The Package System, for which construction and financing were arranged by the same party, consists of mortgage notes which are payable in semi-annual installments over a 30 year period. GSA is not authorized to obtain any additional debt.

The purchase contract debt outstanding at September 30, 1986 and 1985 was as follows:

(Dollars in Thousands)	1986	1985
Dual System:		
Participation Certificates held by the public:		
Series A-E, due November 1, 2002, bearing interest at rates ranging from 7.125% to 7.4%	$ 152,516	$ 157,740
Series F, due December 15, 2002, bearing interest at 7.15%	139,001	139,159
Series G, due March 1, 2003, bearing interest at 7.5%	82,435	86,196
Series H-J, due July 31, 2003, bearing interest at rates ranging from 8.1% to 8.2%	130,193	133,384
Participation Certificates held by the Federal Financing Bank:		
Series K, due June 26, 2004, bearing interest at 9.0741%	130,393	133,222
Series L, due November 15, 2004, bearing interest at 8.472%	95,528	97,621
Series M, due June 26, 2003, bearing interest at 9.162%	274,258	280,824
Total Dual System	1,004,324	1,028,146
Package System:		
Mortgage loans due at various dates through 2005 at interest rates ranging from 7.07% to 7.95%	72,729	77,481
	1,077,053	1,105,627
Less: Current maturities	21,634	18,571
Totals	$1,055,419	$1,087,056

The participation certificates held by the public are covered by a Public Buildings Purchase Contract and Trust Indenture, which, among other things, gives the trustee security interest in the property. GSA has annual sinking fund requirements to retire a portion of the outstanding certificates in varying amounts as specified by the indenture. In addition, GSA, at its option, may elect to retire additional certificates at their existing market rates. This is done only when favorable market conditions exist.

During fiscal years 1986 and 1985, participation certificates and mortgage loans held by the public with approximate carrying value of $15.3 million and $21.9 million were retired for $14.5 million and $19.7 million and resultant gains on retirement of $819 thousand and $2.2 million were recorded, respectively. In the event GSA defaults on any principal or interest payment, the participation certificates become immediately due and payable at which time ownership of the secured property may pass to the trustee.

Participation certificates held by the public are presented net of an unamortized discount of $2.4 million and $2.6 million at September 30, 1986 and 1985, respectively. The unamortized discount, which was recorded upon issuance of the certificates, is being amortized on a straight-line method, which approximates the interest method over the redemption period.

Aggregate debt maturities are as follows (in thousands): 1987, $21,634; 1988, $37,728; 1989, $40,697; 1990, $44,167; 1991, $47,792; 1992 and beyond, $885,035.

6. **Reserve for Asset Replacement Cost**

In accordance with Public Law 95-506, GSA is authorized to recover through interagency billings, increments for the estimated replacement cost of certain of its property and equipment, principally motor vehicles. The law, which was enacted in recognition of the rising cost of replacing equipment and the need to provide additional funds to do so, permits recovery only to the extent of replacement cost amortization.

GSA calculates and records its replacement reserve on an annual incremental basis whereby the amount recorded in any fiscal year represents only that portion of the total replacement cost pertaining to that fiscal year. This annual increment is amortized to expense in total during the course of the fiscal year in a manner which approximates the related recovery through interagency billings. Thus the amount capitalized for motor vehicles in the consolidated balance sheet at September 30, 1986, reflects only historical cost since the replacement cost increment has been fully amortized by the end of the fiscal year.

To the extent funds held for asset replacement cost are used to replace old assets, the amount thereof is transferred from the reserve for asset replacement cost to invested capital. As of September 30, 1986 and 1985, all funds held for motor vehicle replacement cost were used for that purpose; therefore, this reserve account shows no balance for motor vehicles at September 30, 1986 and 1985.

Funds collected through billings of the replacement cost increment are maintained in a separate reserve account and may only be used to replace the assets to which they pertain. Reserves were maintained to cover the cost of replacing property and equipment (excluding motor vehicles) in the amount of $3.4 million and $3.2 million at September 30, 1986, and September 30, 1985, respectively.

Reserving funds collected through interagency billings for the asset replacement cost only applies to those assets specifically authorized for this purpose by Congress. Funds needed to replace other property and equipment must be obtained by other means, including appropriations and other Federal financing methods, as authorized by Congress.

7. **Employee Benefit Plans**

Substantially all of GSA's employees were covered by the Civil Service Retirement System (CSRS) during 1986 and 1985. Total GSA (employer) matching contributions (7 percent of pay) to CSRS for all employees were approximately $46.7 million and $46.1 million for the fiscal years ended September 30, 1986 and 1985, respectively. For employees hired since December 31, 1983, GSA also contributed the employer's matching amount for Social Security.

On January 1, 1987, the new Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984, may elect to either join FERS and Social Security or remain in CSRS. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which GSA will automatically contribute 1 percent of pay and then match any employee contribution up to an additional 4 percent of pay.

As discussed in Note 2, data regarding the Civil Service Retirement System's actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are maintained by the Office of Personnel Management and are not allocated to individual departments and agencies.

8. **Invested Capital, Cumulative Results of Operations and Prior Period Adjustments**

Invested Capital represents U.S. Government resources invested in certain of GSA's assets, principally land, buildings, construction in process, equipment and strategic material stockpiles. Increases to Invested Capital are recorded only when such assets are acquired with direct appropriations or with monies transferred to GSA for that purpose and when monies from the reserve for motor vehicle replacement are used to replace motor vehicles (See Note 6).

GSA records no diminution in Invested Capital for depreciation since it recovers depreciation expense through interagency billings. Monies obtained through such billings are generally used to replace, repair or otherwise alter GSA's existing capital asset base thus maintaining the value of Invested Capital.

Cumulative Results of Operations for business-type funds includes the excess of revenues over expenses since their inception, reduced by the excess returned to the Treasury, by U.S. Congressional rescissions and by transfers to other Federal departments or agencies.

During fiscal year 1986, various adjustments were made which represented corrections of errors in the consolidated financial statements of prior fiscal years. These adjustments related to reinstating accounts receivable previously written off in error, to recording depreciation which should have been recorded in prior years, to properly recording prior year expenditures for property improvements as capitalized costs rather than as expenses and to adjusting the prior year balances in the stockpile account to reflect actual activity. The statement of revenue and expenses for fiscal year 1985 has been restated to reflect the 1985 impact of these adjustments which increased the excess of revenues over expenses by $31.4 million. To the extent these adjustments affected fiscal years prior to 1985 the balance of Cumulative Results of Operations at October 1, 1984, the beginning of fiscal year 1985, has been restated.

Following is a summary of the activity of Invested Capital and Cumulative Results of Operations for fiscal years 1986 and 1985:

	1986		1985 (restated)	
(Dollars in Thousands)	Invested Capital	Cumulative Results of Operations	Invested Capital	Cumulative Results of Operations
Beginning Balance-originally reported	$8,633,964	$227,015	$8,303,145	$276,154
Prior period adjustments				(40,314)
Beginning Balance-restated	8,633,964	227,015	8,303,145	235,840
Excess of revenues over expenses		139,381		248,688
Appropriations	31,886			
Sequestration/Congressional Rescission (Note 11)	(35,572)			(34,683)
Earnings payable to U.S. Treasury		(3,183)		(2,830)
Transfer of funds to the Land and Water Conservation Fund (Note 1-G)		(63,224)		(220,000)
Acquisition of property and equipment with appropriations	3,531		1,299	
Receipts from the Department of Energy (Note 19)	179,714		297,414	
Reclassification of current year reserve for motor vehicle replacement	40,800		39,000	
Other, Net	9,878	(6,820)	(6,894)	
Balance-end of year	$8,864,201	$293,169	$8,633,964	$227,015

9. **Commitments and Contingencies**

In addition to future lease commitments discussed in Note 4, GSA is also committed under obligations it has incurred for goods and services which have been ordered but not yet received at fiscal year-end (i.e., undelivered orders). Aggregate undelivered orders for all GSA fund activities amounted to $1.1 billion and $1.27 billion at September 30, 1986 and 1985, respectively.

GSA is also committed through its Federal Telecommunications Fund to certain long-term contractual agreements arising from the procurement of telephone and other telecommunications systems. Annual commitments under these agreements are expected to approximate $40 million per year through fiscal 1992.

During 1984, an appeal was filed to the GSA Board of Contract Appeals in Denver alleging that GSA wrongfully terminated an agreement for construction and subsequent leasing of certain real property. Plaintiffs are seeking damages of $260 million which purportedly represent lost rental income, additional construction costs, and lost income from the eventual sale of the property. Legal counsel believes that the plaintiff's allegations are without merit and that the amount of damages stated in the complaint is excessive in relation to the terms of the original agreement.

GSA is also a defendant in a legal action filed in the Court of Claims, in which plaintiffs allege that construction delays and changes imposed by GSA and its subsequent misuse of rental property caused plaintiffs additional costs and they are seeking damages of $12 million.

Management and legal counsel believe GSA has substantial defenses for both of these matters, which are still pending, and they intend to vigorously defend GSA in them.

In addition to these matters, GSA is also a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations of GSA.

As of September 30, 1986 and 1985, GSA recorded a contingent liability of $15 million and $6 million respectively, for those pending legal matters for which, in the opinion of management and legal counsel, GSA will probably incur losses.

In most cases, legal matters which directly involve GSA relate to contractual arrangements it has entered into either for property and services it has obtained or for property or services it has procured on behalf of other Federal agencies. However, as discussed in Note 2, there are other legal matters in which GSA has indirect involvement which are administered, litigated, or settled by other Federal agencies.

10. Reconciliation to Budget Reports

The Consolidated Statement of Reconciliation to Budget Reports is designed to serve two purposes. It reconciles the accrual basis excess of revenues over expenses to outlays reported to the U.S. Treasury by eliminating the impact of accrual transactions (i.e., through adjustments for increases or decreases in asset and liability accounts) and by adding or subtracting other transactions which impact outlays. It also shows the relation of obligations and offsetting collections to outlays together with the impact of changes in the obligated fund balance. This format is designed to coincide with the budget activity reported by the Office of Management and Budget.

In addition to the adjustments made to eliminate the impact of accrual transactions, the reconciliation to outlays includes the following significant adjustments: Appropriations Expended are added since they are a financing source (revenue) provided by the U.S. Treasury and therefore are included in outlays for budgetary purposes; and a receipt of $179.7 million and $297.4 million in fiscal years 1986 and 1985 respectively, which was accounted for as a transfer of invested capital for financial reporting purposes, was subtracted since, for budgetary purposes, they were reported as offsetting collections against outlays.

Outlays reported on this statement are net of reimbursements. For fiscal year 1986, gross outlays exceeded reimbursements, whereas for fiscal year 1985, reimbursements exceeded gross outlays. The obligations incurred during fiscal year 1985 were increased by $13.5 million to reflect previously unrecorded obligations.

Funds with U.S. Treasury include obligated funds as reported in the statement of reconciliation to budget reports, and unobligated funds. Following is a breakdown of Funds with U.S. Treasury (in thousands):

(Dollars in Thousands)	1986	1985 (restated)
Obligated Funds Balance	$ 402,168	$ 983,106
Unobligated Funds Balance	2,009,953	1,425,033
Total Funds with U.S. Treasury	$ 2,412,121	$ 2,408,139

11. Sequestration/Congressional Rescision

Pursuant to Public Law 99-177 (The Balanced Budget Act of 1985), the sequestration order ratified by Public Law 99-366, GSA transferred $36.6 million to the U.S. Treasury during fiscal year 1986. Of this amount $35.6 million represented a return of a portion of prior years' unobligated balance of funds appropriated to the National Defense Stockpile Transaction Fund and, consequently, was deducted from the revolving fund's invested capital. The remaining $980 thousand was deducted from the revolving funds' appropriations. During fiscal year 1985, GSA transferred $37.5 million to the U.S. Treasury pursuant to Public Law 99-88 (The Supplemental Appropriations Act of 1985). For the general funds, appropriations were reduced by $2.8 million. Revolving fund transfers of $34.7 million were recorded as a reduction to the appropriate cumulative results of operations accounts.

12. Accounts and Notes Receivable:

(Dollars in Thousands)	1986	1985 (restated)
Current:		
Accounts receivable–billed	$ 377,774	$ 294,611
Accounts receivable–unbilled	282,031	218,597
Allowance for Doubtful accounts	(29,514)	(22,268)
	630,291	490,940
Notes receivable	2,777	7,071
Totals	$ 633,068	$ 498,011
Noncurrent:		
Notes receivable from the sale of surplus real and related personal property. Interest rates range from 0 to 15 percent		
From individuals	$ 1,169	$ 1,555
From corporations	6,413	32,507
From state and local governments	2,527	2,642
	10,109	36,704
Less: current portion	2,777	7,071
Totals	$ 7,332	$ 29,633

Annual maturities in thousands of dollars on notes receivable outstanding at September 30, 1986 are as follows: 1987, $2,777; 1988, $807; 1989, $574; 1990, $531; 1991, $440; 1992 and beyond, $4,980.

Substantially all accounts receivable are with other Federal agencies. Unbilled accounts receivable result from the delivery of goods or performance of services for which bills have not yet been rendered.

The allowance for doubtful accounts is based upon analyses of prior collection experience, performed by program.

13. Property and Equipment Changes for Fiscal Year 1986

(Dollars in Thousands) Balances Sept. 30, 1985 (restated):	Cost	Accumulated Depreciation	Net Book Value
Land	$ 449,103	$ -	$ 449,103
Buildings	4,492,548	1,464,396	3,028,152
Leasehold Improvements	9,767	7,612	2,155
Construction-in-Process	298,626	-	298,626
Telecommunications Equipment	76,498	25,162	51,336
ADP Equipment	84,911	84,279	632
Other Equipment	110,170	61,697	48,473
Motor Vehicles	779,073	376,699	402,374
Totals	$ 6,300,696	$2,019,845	$ 4,280,851
Acquisitions:			
Purchases	$ 361,259	$ -	$ 361,259
Transfers In	22,324	8,317	14,007
Adjustments	51,780	3,719	48,061
Totals	$ 435,363	$12,036	$ 423,327
Disposals:			
Sales	$ (104,692)	$ (84,121)	$ (20,571)
Transfers Out	(7,239)	(4,451)	(2,788)
Adjustments	(29,385)	(12,983)	(16,402)
Totals	$ (141,316)	$ (101,555)	$ (39,761)
Replacement Cost Adjustment	$ 40,800	$ 40,800	$ -
Annual Depreciation	$ -	$ 266,140	$ (266,140)
Balances Sept. 30, 1986:			
Land	$ 463,720	$ -	$ 463,720
Buildings	4,584,186	1,611,402	2,972,784
Leasehold Improvements	9,382	7,426	1,956
Construction-in-Process	412,989	-	412,989
Telecommunications Equipment	71,407	26,158	45,249
ADP Equipment	85,141	84,355	786
Other Equipment	112,159	52,814	59,345
Motor Vehicles	896,559	455,111	441,448
	$6,635,543	$2,237,266	$ 4,398,277

Substantially all land, buildings and leasehold improvements are leased to other Federal departments and agencies under short-term cancellable agreements. These departments and agencies are billed for leased space at rent charges based upon commercial rates for comparable space. Motor vehicles are leased on a short-term basis to individual users within the Federal Government on an as-needed basis. Telecommunications and Automated Data Processing Equipment are used in operations to perform services for other Federal agencies for which billings are rendered. Most of the assets comprising other equipment are used internally by GSA.

14. Other Noncurrent Assets

(Dollars in Thousands)	1986	1985
Artworks	$ 997	$ 1,252
Deferred Charges	16,837	20,299
Long-term Receivables		88
Surplus Property Held for Sale(1)	39,215	31,363
Idle Property and Equipment	325	7,303
Total	$ 57,374	$60,305

(1) The Surplus Property Held for Sale account balance reflects GSA initiatives to identify land and buildings not essential to the needs of the Federal government.

15. Earnings Payable to U.S. Treasury

Current year earnings in excess of amounts allowed to be retained are recorded as a current liability by the revolving funds. Payment is made to the U.S. Treasury during the next fiscal year. The liability by fund is as follows:

(Dollars in Thousands)	1986	1985
General Supply Fund	$ 2,415	$ 850
Working Capital Fund	712	771
William Langer Jewel Bearing Plant Fund	1,265	1,209
Total	$ 4,392	$2,830

16. Cost of Sales

Cost of Sales reflects the value assigned to inventories sold during the period along with related costs incurred to acquire those goods and prepare them for sale.

Cost of Sales presented on the Statement of Revenues and Expenses is composed of charges for the following:

(Dollars in Thousands)	1986	1985
General Supply Fund	$ 1,724,048	$1,933,611
National Defense Stockpile Transaction Fund	46,955	41,980
William Langer Jewel Bearing Plant Fund	3,113	2,532
Total Cost of Sales	$ 1,774,116	$1,978,123

17. Other Income

(Dollars in Millions)	1986	1985
Gain on retirement of participation certificates held by the public	$ .8	$ 2.2
Consumer information services	3.7	3.8
Export program surcharges	20.4	30.6
Restored stockpile receipts	-	18.6
Furniture reclamation	2.5	2.1
Credit returns program	-	1.5
Working Capital Fund revenues from other agencies	11.1	11.8
Miscellaneous categories	20.1	31.4
Totals	$58.6	$102.0

18. Analysis of Appropriated Funds

The term "appropriated funds" refers to the Congressional appropriations to GSA's general and special fund groups through the budget process.

Appropriated Funds generally incur obligations at the time an order is placed and the obligations are recorded in the Undelivered Orders Account and reflected as an equity item on the Balance Sheet. No expense is recognized in the Statement of Revenues and Expenses nor payment made until the goods or services have been received. At the end of the fiscal year, certain multi-year or no-year appropriations which have not been obligated remain available to GSA to obligate in future periods. This is shown as Unobligated Balances, an equity account on the Balance Sheet. Other unobligated appropriations are reverted to the U.S. Treasury. Some or all of these appropriations may be restored to pay for claims against that particular fund year.

The following summarizes appropriated fund activities:

Analysis of Appropriated Funds
For the Fiscal Year Ended September 30, 1986

(Dollars in Thousands)	Appropri- ations	Undelivered Orders	Unobligated Balances
Beginning Balances			
October 1, 1985		$ 44,933	$ 2,916
1986 Appropriations $	403,229		
Less: Appropriations to Business-Type Entities			
Federal Buildings Fund	(10,199)		
Consumer Information Center	(1,182)		
National Defense Stockpile	(19,020)		
Operating Appropriations Current Year (Net)	372,828		
Expenses against 1986 Appropriations:			
Accrued	342,643		
Obligated not Accrued	23,860	23,860	
Obligated	366,503		
Unobligated 1986 Appropriations	6,323		6,323
Expenses against Prior Appropriations	33,137	(24,686)	(8,451)
Balances to be Restored by Treasury			142
Ending Balance September 30, 1986		$ 44,107	$ 930

Reconciliation of Expenses	Accrued Expenses
Accrued expenses	
1986 Appropriations	$ 342,643
Less Capital Purchases	(3,531)
Depreciation	19
Prior Appropriations	33,137
Subtotal	372,268
Expenses Reimbursed	53,019
Subtotal	425,287
Revolving Funds Expenses	5,794,067
Total Expenses	6,219,354
Intra-GSA Eliminations	331,171
Total Expenses per Statement of Revenues and Expenses	$ 5,888,183

19. Major Activities

GSA's major activities consist of general, special, revolving and deposit fund activities. A description of general, special and deposit fund activities together with financial information thereon is included in the supplemental schedules. Revolving funds, which represent the most significant part of GSA's activities, were established by law to finance a continuing cycle of intragovernmental business-type operations. The receipts derived from such operations are normally available in their entirety for use without further action by Congress. The revenue and expense accounts of these various revolving funds are closed into cumulative results of operations at the end of the fiscal year. A positive balance in the cumulative results of operations must be transferred to the U.S. Treasury for the three funds listed in Note 15 and the ADP Fund and FT Fund. The other four are specifically authorized by law to keep such earnings.

Effective January 1, 1987, the Automatic Data Processing Fund and the Federal Telecommunications Fund were consolidated into a single fund, the Information Technology Fund. The two funds were consolidated pursuant to PL 99-591 and resulted from the increased convergence of data processing and telecommunications technologies. Depending upon the needs of the customer agencies, the consolidated fund could produce increased resources for capital and information technology resource expansion. No additional appropriations are provided for such purposes. However, under the conditions of the authorizing legislation, the Administrator of GSA is empowered to set rates to finance the expansion of the fund.

Federal Buildings Fund

The Federal Buildings Fund (FBF) finances the real property management and related activities of the Public Buildings Service. Its income is derived from rent assessments charged to occupants of GSA-controlled space. By law, these charges must approximate commercial rates for comparable space and services.

Beginning in fiscal year 1987 GSA has instituted a new Rent Program. The program will provide for full disclosure of the rate setting process. As a result of implementing this new system, income is expected to increase significantly for fiscal year 1987.

The FBF also is subject to annual appropriation by the Congress and apportionment by the Office of Management and Budget. Because of this, it operates similarly to an appropriated fund with allowances, operating budget plans, and legal limitations on the level of obligations incurred.

The overall operations of the Federal Buildings Fund for fiscal year 1986 resulted in an excess of revenues over expenses of $92.6 million compared to an adjusted excess of $135 million for fiscal year 1985. This year's excess of revenues over expenses is derived from direct operations of $91.4 million, other activity of $3.0 million, and a loss in reimbursable operations of $1.8 million.

General Supply Fund

The General Supply Fund (GSF) finances the following operations of the Federal Supply Service (FSS): (1) supplies, (2) motor vehicles, and (3) administrative equipment. The excess of revenues over expenses from program operations for fiscal year 1986 was $16.4 million from supply operations and $154 thousand from administrative equipment operations. Motor vehicle operations expenses exceeded revenues by $14.4 million.

Automatic Data Processing Fund

The Automatic Data Processing (ADP) Fund is a revolving fund which finances, on a reimbursable basis, ADP services through two major programs. These programs are the Equipment Lease Program and the Data Processing Programs. GSA is reimbursed by Federal agencies for ADP Services based upon predetermined bill rates which approximate the cost of the services rendered.

The ADP Fund's revenues increased by $23 million over the last fiscal year. This was due to greater utilization of the Contract Services Program by customers.

However, the fund has a deficiency of revenues over expenses of $5.4 million for fiscal year 1986 compared to a $2.1 million deficiency in fiscal year 1985. A factor leading to the 1986 deficiency was the yearend adjustments for unsupportable amounts and uncollectible accounts receivable of approximately $5.3 million.

Federal Telecommunications Fund

The Federal Telecommunications Fund (FTF) finances, on a reimbursable basis, a telecommunications system for the Federal Government. The services provided are contained in four major programs: Voice, Data, Circuit Procurement, and Special Programs. Some of these programs are further divided into subprograms: i.e., Voice into Local Service, Intercity Service, Radio, Technical Assistance and National Teleconferencing Network; Data into Federal Communications Centers and Data Communications.

The FTF ended fiscal year 1986 with excess of revenues over expenses of $10.1 million, compared to a $13.1 million deficiency in fiscal year 1985. The following two actions which occurred in the Local Services Area of the Voice Program were major factors in the turnaround from the previous year. Prior year costs of $9 million were billed and recovered in fiscal year 1986, and $5.9 million of accrual adjustments, identified during an extensive review of open items conducted during the fourth quarter, were processed in September.

Consumer Information Center Fund

The Consumer Information Center (CIC) provides to the public consumer information which has been collected as a by-product of ongoing government research, programs and activities. The CIC promotes public awareness of available consumer information through production of the quarterly Consumer Information Catalog and other media services. The CIC also coordinates distribution, with the Government Printing Office, of free Federal consumer publications from a central distribution facility in Pueblo, Colorado.

The Consumer Information Center Fund provides financing for the operation of the CIC. Its revenues consist of an annual appropriation of $1.2 million for fiscal year 1986, charges to other Federal agencies for distribution of their publications, and user fees charged the public.

The excess of revenues over expenses for fiscal year 1986 was $365 thousand compared to a deficiency of $13 thousand in fiscal year 1985.

Working Capital Fund

The Working Capital Fund is a revolving fund for the payment of blueprinting, photostating and duplicating services provided to Federal agencies in multi-use facilities.

The excess of revenues over expenses for fiscal year 1986 was $857 thousand compared to a $1.2 million excess in fiscal year 1985. Monies transferred to the Department of the Treasury amounted to $771 thousand.

William Langer Jewel Bearing Plant Fund

GSA contracts with a private firm to operate a government-owned plant in Rolla, North Dakota, to produce jewel bearings needed for national security purposes. The plant operates through resources provided by the William Langer Jewel Bearing Fund and is a primary source of supply for defense contractors and subcontractors from whom revenues are obtained. There was an excess of revenues over expenses for fiscal year 1986 of $56 thousand.

National Defense Stockpile Transaction Fund

This fund provides capital for the acquisition of certain strategic and critical materials for national defense purposes.

Stockpile acquisitions are made in accordance with amounts authorized by Congress and in conformity to an Annual Materials Plan (AMP) initiated by the Federal Emergency Management Agency (FEMA) and GSA. No AMP was submitted for fiscal year 1986 and, correspondingly, there were no acquisitions of goal materials during the year.

Stockpile inventories are carried at acquisition cost. Related operating cost (storage, inspection, protection, etc.) are provided for under a separate appropriation. The stockpile inventories had a market value of $8.6 billion and $9.9 billion at September 30, 1986 and 1985, respectively.

The excess of revenues over expenses for fiscal year 1986 was $3.0 million, down $47.5 million from the adjusted fiscal year 1985 total. Expense for fiscal year 1985 was reduced as $10.3 million in inventory acquisition costs improperly expensed were reclassified as inventory.

Funds with U.S. Treasury were augmented by transfers of $179.7 million and $297.4 million in fiscal years 1986 and 1985, respectively, of petroleum receipts from the Department of Energy in accordance with Public Law 98-525.

GSA enters into a number of nonmonetary sales transactions in which excess stockpile materials were transferred, at market value, to contractors to satisfy liabilities for the costs of upgrading stockpile commodities. The fund realized a profit of $7.8 million on these exchange sales transactions in fiscal year 1986.

Selected Financial Information by Major Revolving Fund Activity
(Dollars in Thousands)

1986	Federal Buildings Fund	General Supply Fund	Automatic Data Processing Fund	Federal Telecom-munications Fund	National Defense Stockpile Transaction Fund	Others [1]	Totals
Revenues [2]	$2,578,654	$2,265,204	$240,094	$726,288	$ 59,514	$28,091	$ 5,897,845
Excess (Deficiency) of Revenues over Expenses	92,600	2,137	(5,357)	10,133	3,014	1,251	103,778
Depreciation and Amortization	153,828	145,935	76	6,912	-	313	307,064
Assets	5,901,417	1,061,550	104,241	202,218	4,325,432	10,972	11,605,830
Capital Expenditures	186,585	165,975	230	4,645	-	293	357,728
1985							
Revenues [2]	$2,608,624	$2,342,712	$217,439	$665,281	$ 91,440	$29,114	$ 5,954,610
Excess (Deficiency) of Revenues over Expenses	134,878	32,133	(2,076)	(13,030)	50,548	1,691	204,144
Depreciation and Amortization	162,738	124,572	(69)	8,280	-	277	295,798
Assets	5,683,703	1,112,472	93,824	197,432	4,160,134	19,056	11,266,621
Capital Expenditures	148,524	181,367	4	36,882	-	650	367,427

[1] Includes the following: Working Capital Fund, Consumer Information Center Fund, William Langer Jewel Bearing Fund, and the Virgin Islands Corporation Liquidation Fund.
[2] Prior to intra-GSA eliminations.

Supplemental Schedules

The supplemental schedules present GSA's financial reporting by fund type. A description of each fund type is as follows:

- General fund accounts are used to record financial transactions arising under Congressional appropriations or other authorizations to spend general revenues. GSA is managing 22 general fund accounts, of which only 9 are funded by current year appropriations. The remaining 13 cannot incur new obligations.

- Special fund accounts are established to account for receipts of the government that are earmarked by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. GSA uses special fund receipts to pay certain costs associated with the disposal of surplus real property and for rotational sales of the National Defense Stockpile.

- Revolving fund accounts are established by law to finance a continuing cycle of operations, with receipts derived from such operations usually available in their entirety for use by the fund without further action by the Congress. Note 19 briefly describes GSA's revolving funds activities.

- Deposit fund accounts hold monies outside the budget, accordingly their transactions do not affect budget surplus or deficit. These accounts include: (1) deposits received for which GSA is acting as an agent or custodian; (2) unidentified remittances; (3) monies withheld from payments for goods and services received; and (4) monies whose distribution awaits a legal determination or investigation.

Schedule of Revenues and Expenses by Fund Type

For the Fiscal Year Ended September 30, 1986
(Dollars in Thousands)

	General Funds	Special Funds	Revolving Funds	Intra-GSA Eliminations	Totals
Revenues:					
Operating:					
Building Rents and Services	$ -	$ -	$ 2,575,649	$ 64,726	$ 2,510,923
Sale of Supplies	-		1,895,688	171,831	1,723,857
Telecommunications Services	-	-	726,180	19,245	706,935
Data Processing Services	-	-	240,094	8,985	231,109
Motor Vehicle Service	-	-	322,290	6,034	316,256
Stockpile Sales	-	-	59,383	-	59,383
Reimbursements	53,019	-	-	40,359	12,660
Proprietary Receipts	-	35,603	-	-	35,603
Other	-	-	78,561	19,991	58,570
Total Operating Revenues	53,019	35,603	5,897,845	331,171	5,655,296
Appropriations Expended	370,523	1,745	-	-	372,268
Total Revenues	423,542	37,348	5,897,845	331,171	6,027,564
Expenses:					
Cost of Sales	-	-	1,945,947	171,831	1,774,116
Personnel Salaries and Benefits	259,940	-	504,602	-	764,542
Rent	47,584	-	930,231	64,726	913,089
Telecommunications	-	-	636,973	19,245	617,728
Data Processing	-	-	226,674	8,985	217,689
Contracted Services	86,892	1,573	680,312	50,339	718,438
Depreciation and Amortization	19	-	307,064	-	307,083
Utilities	-	-	249,118	-	249,118
Operating Supplies	8,657	-	157,320	-	165,977
Interest	-	-	92,858	-	92,858
Real Estate Taxes	-	-	15,240	-	15,240
Travel and Transportation	5,250	-	12,988	6,034	12,204
Miscellaneous	15,200	172	34,740	10,011	40,101
Total Expenses	423,542	1,745	5,794,067	331,171	5,888,183
Excess of Revenues Over Expenses	$ -	$ 35,603	$ 103,778	$ -	$ 139,381

Schedule of Assets, Liabilities, and Equity of the U.S. Government by Fund Type

As of September 30, 1986 (Dollars in Thousands)

Assets:	General Funds	Special Funds	Revolving Funds	Deposit Funds	Totals
Current Assets:					
Funds with					
U.S. Treasury	$ 51,058	$46,998	$ 2,221,156	$ 92,909	$ 2,412,121
Accounts Receivable:					
From Other Federal Agencies	22,257	-	573,220	-	595,477
From Individuals	112	5	3,820		3,937
From Corporations	114	307	6,517	23,939	30,877
Notes Receivable	424	2,350	3	-	2,777
Inventories:					
Operating Supplies	49	-	14,853	-	14,902
For Sale to Federal Agencies	-	-	224,835	-	224,835
For Sale to the Public	-	-	1,265	-	1,265
Reimbursable Repairs and					
Alterations in Process	3	-	444,224	-	444,227
Advances:					
To Other Federal Agencies	85	-	1,575	-	1,660
To the Public	999	-	775	-	1,774
Prepaid Expenses	14,381	5	10,920	14,100	39,406
Total Current Assets	89,482	49,665	3,503,163	130,948	3,773,258
Property and Equipment:					
Buildings	-	-	4,584,186	-	4,584,186
Leasehold Improvements	-	-	9,382	-	9,382
Telecommunications					
Equipment	-	-	71,407	-	71,407
Automated Data					
Processing Equipment	-	-	85,141	-	85,141
Motor Vehicles	-	-	896,559	-	896,559
Other Equipment	11,887	-	100,272	-	112,159
Less: Accumulated Depreciation					
and Amortization	(1,284)	-	(2,235,982)	-	(2,237,266)
	10,603	-	3,510,965	-	3,521,568
Land	-	-	463,720	-	463,720
Construction in Process	-	-	412,989	-	412,989
Total Property and Equipment	10,603	-	4,387,674	-	4,398,277
Other Assets:					
National Defense Stockpile	-	-	3,691,754	-	3,691,754
Defense Production Act Stockpile	56,932	-	-	-	56,932
Notes Receivable	3,634	3,698	-	-	7,332
Other Noncurrent Assets	34,135	-	23,239	-	57,374
Total Other Assets	94,701	3,698	3,714,993		3,813,392
Total Assets	$194,786	$53,363	$11,605,830	$130,948	$11,984,927

Liabilities:	General Funds	Special Funds	Revolving Funds	Deposit Funds	Totals
Current Liabilities:					
Accounts Payable:					
To Other Federal Agencies	$ 18,538	$ 25	$ 36,760	$ –	$ 55,323
To the Public	27,652	68	617,917	–	645,637
Earnings Payable to U.S. Treasury	–	–	4,392		4,392
Deposit Fund Liability	–	–	–	96,899	96,899
Advances:					
From Other Federal Agencies	15	–	197,774	–	197,789
From the Public	–	82	9,789	–	9,871
Deferred Revenue	2,335	42	579,100	24,048	605,525
Total Current Liabilities	48,540	217	1,445,732	120,947	1,615,436
Long-Term Liabilities:					
Annual Leave Liability	19,560	–	33,073	–	52,633
Purchase Contract Debt	–	–	1,055,419	–	1,055,419
Obligations under Capital Leases	–	–	36,735	–	36,735
Other Long-term Liabilities	1	–	18,888	–	18,889
Total Long-term Liabilities	19,561	–	1,144,115	–	1,163,676
Total Liabilities	68,101	217	2,589,847	120,947	2,779,112
Equity of U.S. Government:					
Invested Capital	102,573	–	8,761,628	–	8,864,201
Cumulative Results of Operations	(19,560)	51,781	250,947	10,001	293,169
Unexpended Appropriations:					
Unobligated Balances	672	258	–	–	930
Undelivered Orders	43,000	1,107	–	–	44,107
Reserve for Asset Replacement Cost	–	–	3,408	–	3,408
Total Equity of U.S. Government	126,685	53,146	9,015,983	10,001	9,205,815
Total Liabilities and Equity of U.S. Government	$194,786	$ 53,363	$11,605,830	$130,948	$11,984,927

Schedule of Changes in Financial Position by Fund Type

For the Fiscal Year Ended September 30, 1986
(Dollars in Thousands)

Source of Funds:	General Funds	Special Funds	Revolving Funds	Deposit Funds	Totals
Operations:					
Excess of Revenues over Expenses	$ –	$35,603	$103,778	$ –	$ 139,381
Items Not Affecting Funds:					
Depreciation and Amortization	19	–	266,122	–	266,141
Asset Replacement Cost Expense	–	–	40,800	–	40,800
Amortization of Participation Certificate Discount	–	–	142	–	142
Accrued Annual Leave Expense	–	–	2,111	–	2,111
Adjustments and Write-off of Capital Assets	(3)	–	(4,040)	–	(4,043)
Gain on Retirement of Participation Certificates	–	–	(819)	–	(819)
Other	(83)	–	5,489	–	5,406
Total Funds Provided by Operations	(67)	35,603	413,583	–	449,119
Disposition of Stockpile, book value	–	–	14,941	–	14,941
Disposition of Property and Equipment, book value	840	–	22,184	–	23,024
Reduction in Non-Current Receivables	(2,697)	24,998	88	–	22,389
Increase (Decrease) in Other Long-term Liabilities	(936)	–	8,572	–	7,636
Increase (Decrease) in Unexpended Appropriations	(3,117)	305	–	–	(2,812)
Additional Appropriated Capital:					
Appropriated Funds	2,667	–	–	–	2,667
Revolving Funds	–	–	29,219	–	29,219
Receipts Transferred In	–	1,559	179,714	–	181,273
*Decrease (Increase) in Working Capital Items	(2,760)	1,807	(180,675)	12,108	(169,520)
Total Source of Funds	$(6,070)	$64,272	$ 487,626	$12,108	$ 557,936

Application of Funds:	General Funds	Special Funds	Revolving Funds	Deposit Funds	Totals
Purchases of Property and Equipment:					
Land	$ –	$ –	$ 16,481	$ –	$ 16,481
Buildings	–	–	7,485	–	7,485
Leasehold Improvements	–	–	–	–	–
Construction in Process	–	–	162,505	–	162,505
Telecommunications Equipment	–	–	4,645	–	4,645
ADP Equipment	–	–	230	–	230
Motor Vehicles	–	–	154,951	–	154,951
Other Equipment	3,531	–	11,431	–	14,962
Total Purchases of Property and Equipment	3,531	–	357,728	–	361,259
Purchases of Stockpile	–	–	20,517	–	20,517
Reduction of Purchase Contract Debt	–	–	31,637	–	31,637
Reduction of Obligations under Capital Leases	–	–	5,190	–	5,190
Increase (Decrease) in Deferred Charges	–	–	(3,462)	–	(3,462)
Receipts Transferred Out	–	63,224	–	–	63,224
Receipts Appropriated	–	15,082	–	–	15,082
Sequestration/Congressional Rescission	–	–	35,572	–	35,572
Earnings Payable to U.S. Treasury	–	–	3,183	–	3,183
Other	6	–	21,746	–	21,752
Total Application of Funds	3,537	78,306	472,111	–	553,954
Funds with U.S. Treasury:					
Net Increase	(9,607)	(14,034)	15,515	12,108	3,982
Beginning Balance	60,665	61,032	2,205,641	80,801	2,408,139
Ending Balance	51,058	46,998	2,221,156	92,909	2,412,121
*Analysis of Changes in Working Capital Items: (Excluding Funds with U.S. Treasury)					
Accounts Receivable	4,652	(601)	111,361	23,939	139,351
Notes Receivable	(3,103)	(1,194)	3	–	(4,294)
Inventories	(16)	–	96,032	–	96,016
Advances to Others	114	–	(411)	–	(297)
Prepaid Expenses	7,267	5	5,037	13,447	25,756
Accounts Payable	(4,359)	(4)	36,705	–	32,342
Earnings Payable to U.S. Treasury	–	–	(1,562)	–	(1,562)
Deposit Fund Liability	–	–	–	(25,446)	(25,446)
Advances from Others	–	(1)	(951)	–	(952)
Deferred Revenue	(1,795)	(12)	(65,539)	(24,048)	(91,394)
Net Increase (Decrease) in Working Capital Items	$ 2,760	$ (1,807)	$ 180,675	$ (12,108)	$ 169,520

Schedule of Reconciliation to Budget Reports by Fund Type

For the Fiscal Year Ended September 30, 1986
(Dollars in Thousands)

	General Funds	Special Funds	Revolving Funds	Deposit Funds	Totals
Increases (Decreases) to Outlays:					
Excess of Revenues Over Expenses	$ –	$(35,603)	$ (103,778)	$ –	$ (139,381)
Adjustments for:					
Increase (Decrease) in Assets	15,345	(26,788)	323,694	37,386	349,637
(Increase) Decrease in Liabilities	(5,532)	(17)	(3,255)	(49,494)	(58,298)
Appropriations Expended	370,523	1,745	–	–	372,268
Donations/Nonreciprocal Transfers	–	–	6,353	–	6,353
Asset Replacement Cost Amortization	–	–	(40,800)	–	(40,800)
Funds Transactions (included) excluded in outlays	(17,760)	–	(247,724)	12,108	(253,376)
Outlays (Excess of Reimbursements over Gross Expenditures)	$362,576	$ (60,663)	$ (65,510)	$ –	$ 236,403
Relation of Obligations to Outlays:					
Obligations incurred	$425,109	$ 2,050	$ 5,822,607	$ –	$ 6,249,766
Offsetting Collections	(53,019)	(62,405)	(6,410,303)	–	(6,525,727)
Obligations Incurred, Net	372,090	(60,355)	(587,696)	–	(275,961)
Obligated Funds Balance–beginning of year	48,793	891	933,422	–	983,106
Less:					
Obligated Funds					
Balance–end of year	(57,673)	(1,199)	(343,296)	–	(402,168)
Adjustments in Unexpired Accounts	(634)	–	(67,940)	–	(68,574)
Outlays (Excess of Reimbursements over Gross Expenditures)	$362,576	$(60,663)	$ (65,510)	$ –	$ 236,403

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