Fiscal Year 1998 Principal Financial Statements and Notes to the Statements

PRINCIPAL FINANCIAL STATEMENTS

Introduction to Principal Financial Statements

The following principal financial statements have been prepared to report the financial position and results of operations of the U.S. Department of State (Department), pursuant to the requirements of 31 U. S. C. 3515b. The statements have been prepared from the books and records of the Department in accordance with formats prescribed by the Office of Management and Budget (OMB) in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended.

These principal statements are in addition to financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources, which are prepared from the same books and records. The principal financial statements should be read with the understanding that they are for a component of the U.S. Government, a sovereign entity. The Department has no authority to pay liabilities not covered by budgetary resources. Liquidation of such liabilities requires enactment of an appropriation.

For 1998, with the exception of the Consolidated Balance Sheet, the principal financial statements are significantly different than last year's statements. Specifically, the Department is reporting under new financial statement formats prescribed by OMB Bulletin 97-01 in response to new accounting standards recommended by the Federal Accounting Standards Advisory Board and approved by the Director of OMB, the Secretary of the Treasury, and the Comptroller General. In addition to changing its reporting formats, the Department has adopted several new Federal accounting standards effective for 1998.

The **Consolidated Balance Sheet** is similar to the Consolidated Statement of Financial Position prepared for 1997. The name has been changed in accordance with guidance in OMB Bulletin 97-01. Comparative data for 1997 are included. The Consolidated Balance Sheet provides information on assets, liabilities, and net position, similar to balance sheets reported in the private sector.

The **Consolidating Statement of Net Cost** and the **Consolidated Statement of Changes in Net Position** replace the Consolidated Statement of Operations and Changes in Net Position reported for 1997. The Statement of Net Cost reports the components of the net costs of the Department's operations for the period. The net cost of operations consist of the gross cost incurred by the Department less any exchange (i.e., earned) revenue from our activities. The Statement of Changes in Net Position reports the beginning net position, a summary of the Department's transactions that affect its net position for the period, and the ending net position.

The **Combined Statement of Budgetary Resources** is a new statement for 1998 and provides information on how budgetary resources were made available and their status at the end of the year. Information in this Statement is reported on the budgetary basis of accounting.

The **Statement of Financing** reconciliation (contained in Note 18) ensures a proper relationship between budgetary transactions and financial transactions. OMB Bulletin 97-01 allows agencies to report this information in a footnote to the financial statements, and the Department has elected to do so.

In addition to the new financial statement formats, there are new disclosure and supplementary reporting requirements. **Required Supplementary Stewardship Information** provides information on the Department's Heritage Assets. **Required Supplementary Information** contains information on the Working Capital Fund.

The Department received an "Unqualified Opinion" on its financial statements for 1998 and 1997, and a "Qualified Opinion" on its Statement of Financial Position for 1996. The opinions were from an independent public accounting firm engaged by the Department's Office of the Inspector General. The Department also issues audited financial statements for its Foreign Service Retirement and Disability Fund (FSRDF) and International Cooperative Administrative Support Services (ICASS). The FSRDF (which comprises over 50% of the Department's assets, liabilities and net position) received "Unqualified Opinions" on its financial statements for 1994 through 1998. The ICASS, which began worldwide operations for 1997, received "Unqualified Opinions" on its financial statements for 1998 and 1997.

Department of State
CONSOLIDATED BALANCE SHEET
[Dollars in Thousands]

As of September 30,	1998	1997
ASSETS		
Entity Assets:		
Intragovemmental Assets -		
Fund Balances With Treasury (Note 2)	$ 2,954,523	$ 2,435,277
Investments, Net (Note 3)	9,553,109	8,989,294
Accounts Receivable, Net (Note 4)	256,893	391,013
Interest Receivable	175,244	171,296
Other Assets	111	475
Total Intragovemmental Assets	$ 12,939,880	$ 11,987,355
Accounts Receivable, Net (Note 4)	28,564	193,380
Loans Receivable, Net (Note 5)	753	582
Cash and Other Monetary Assets (Note 6)	170	173
Inventory, Net (Note 7)	907	1,067
Property and Equipment, Net (Note 8)	4,434,797	4,399,532
Other Assets	89,669	71,832
Total Entity Assets	$ 17,494,740	$ 16,653,921
Non-Entity Assets - Cash and Other Monetary Assets (Note 6)	59,136	110,308
Total Assets	$ 17,553,876	$ 16,764,229

The accompanying notes are an integral part of this financial statement.

Department of State

CONSOLIDATED BALANCE SHEET

[Dollars in Thousands]

As of September 30,	1998	1997
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovemmental Liabilities -		
Accounts Payable	$ 46,650	$ 19,469
Other Liabilities (Note 11)	17,258	14,258
Total Intragovemmental Liabilities	$ 63,908	$ 33,727
Accounts Payable	221,168	233,279
Foreign Service Retirement Actuarial Liability (Note 10)	9,689,364	9,115,284
Other Liabilities (Note 11)	112,083	369,811
Total Liabilities Covered by Budgetary Resources	$ 10,086,523	$ 9,752,101
Liabilities not Covered by Budgetary Resources:		
Intragovemmental Liabilities -		
Accounts Payable	$ 16,400	$ -
Other Liabilities (Note 11)	12,148	-
Liability to International Organizations (Note 12)	1,735,446	1,700,459
Foreign Service Retirement Actuarial Liability (Note 10)	1,047,336	1,372,916
Capital Lease Liability (Note 9)	76,843	81,683
Funds Held in Trust (Note 6)	59,136	110,308
Federal Employees' Compensation Act Benefits	46,881	43,706
Other Liabilities (Note 11)	121,291	80,125
Total Liabilities not Covered by Budgetary Resources	$ 3,115,481	$ 3,389,197
Total Liabilities	$ 13,202,004	$ 13,141,298
NET POSITION		
Unexpended Appropriations (Note 13)	$ 2,399,562	$ 2,092,515
Cumulative Results of Operations	1,952,310	1,530,416
Total Net Position	$ 4,351,872	$ 3,622,931
Total Liabilities and Net Position	$ 17,553,876	$ 16,764,229

The accompanying notes are an integral part of this financial statement.

Department of State
CONSOLIDATING STATEMENT OF NET COST (Note 15)
For the Year Ended September 30, 1998
[Dollars in Thousands]

	Under Secretary For						
	Arms Control, International Security	Economic, Business and Agriculture	Global Affairs	Political Affairs	Secretariat/ Management	Intra-Departmental Eliminations	Total
Diplomatic Relations							
Total Costs	$ 80,599	$ 21,449	$ 21,651	$ 480,146	$ 399,555	$ -	$ 1,003,400
Earned Revenue	(8,736)	(2,126)	(345)	(41,578)	(32,185)	121	(84,849)
Net Program Costs	$ 71,863	$ 19,323	$ 21,306	$ 438,568	$ 367,370	$ 121	$ 918,551
International Organizations							
Total Costs	$ -	$ -	$ 118	$ 1,128,972	$ 37,664	$ (88)	$ 1,166,666
Earned Revenue	-	-	-	(7,861)	(3,111)	88	(10,884)
Net Program Costs	$ -	$ -	$ 118	$ 1,121,111	$ 34,553	$ -	$ 1,155,782
Humanitarian Response							
Total Costs	$ -	$ -	$ 690,797	$ 15	$ 8,670	$ (404)	$ 699,078
Earned Revenue	-	-	(949)	-	(1,662)	404	(2,207)
Net Program Costs	$ -	$ -	$ 689,848	$ 15	$ 7,008	$ -	$ 696,871
American Citizens and Border Security							
Total Costs	$ -	$ -	$ 15,059	$ 269,586	$ 408,105	$ (82,830)	$ 609,920
Earned Revenue	-	-	-	(40,189)	(843,294)	82,830	(800,653)
Net Program Costs	$ -	$ -	$ 15,059	$ 229,397	$ (435,189)	-	$ (190,733)
Law Enforcement							
Total Costs	$ -	$ -	$ 211,266	$ 8,646	$ 15,996	$ (30)	$ 235,878
Earned Revenue	-	-	(19,239)	(1,199)	(1,342)	$ -	(21,780)
Net Program Costs	$ -	$ -	$ 192,027	$ 7,447	$ 14,654	$ (30)	$ 214,098
Diplomatic Readiness:							
Foreign Buildings Operations							
Total Costs	$ -	$ -	$ -	$ -	$ 557,956	$ (1,756)	$ 556,200
Eamed Revenue	-	-	-	-	(167,254)	1,756	(165,498)
Net Program Costs	$ -	$ -	$ -	$ -	$ 390,702	$ -	$ 390,702
Diplomatic Security							
Total Costs	$ -	$ -	$ 1,511	$ 112,540	$ 451,212	$ (42,453)	$ 522,810
Eamed Revenue	-	-		(11,908)	(85,781)	42,453	(55,236)
Net Program Costs	$ -	$ -	$ 1,511	$ 100,632	$ 365,431	$ -	$ 467,574
Diplomatic Readiness - Other							
Total Costs	$ -	$ -	$ -	$ 10,601	$ 101,720	$(112,321)	$ -
Earned Revenue	-	-	-	(1,856)	(108,205)	110,061	-
Net Program Costs	$ -	$ -	$ -	$ 8,745	$ (6,485)	$ (2,260)	$ -
Executive Direction and Other Costs Not Assigned							
Total Costs	$ -	$ 23	$ 15,077	$ 865,745	$ 1,367,225	$(742,371)	$ 1,505,699
Earned Revenue	$ -	$ -	$ -	$ (605,377)	$ (1,359,065)	$ 718,942	$(1,245,500)
Deferred Maintenance (Note 21)							
Total Cost	$ 80,599	$ 21,472	$ 955,479	$ 2,876,251	$ 3,348,103	$ (982,253)	$ 6,299,651
Total Earned Revenue	$ (8,736)	$ (2,126)	$ (20,533)	$ (709,968)	$ (2,601,899)	$ 956,655	$(2,386,607)
Total Net Costs	$ 71,863	$ 19,346	$ 934,946	$ 2,166,283	$ 746,204	$ (25,598)	$ 3,913,044

The accompanying notes are an integral part of this financial statement.

Department of State
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 1998
[Dollars in Thousands]

Total Net Cost	$ (3,913,044)
Financing Sources (Other Than Exchange Revenue) -	
Appropriations Used	4,863,695
Donations and Miscellaneous	3,885
Imputed Financing	43,859
Transfers-in	1,720
Transfers-out	(524,597)
Net Results of Operations	$ 475,518
Prior Period Adjustments (Note 16)	(53,624)
Net Change in Cumulative Results of Operations	$ 421,894
Increase in Unexpended Appropriations	307,047
Change in Net Position	$ 728,941
Net Position - Beginning of Year	3,622,931
Net Position - End of Year	$ 4,351,872

The accompanying notes are an integral part of this financial statement.

Department of State

COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 17)

For the Year Ended September 30, 1998

[Dollars in Thousands]

Budgetary Resources -		
Budget Authority	$	6,328,501
Unobligated Balances - Beginning of Year		670,240
Net Transfers Prior-Year Balance		165
Spending Authority From Offsetting Collections		1,748,301
Adjustments		(411,619)
Total Budgetary Resources	$	8,335,588
Status of Budgetary Resources -		
Obligations Incurred	$	7,400,865
Unobligated Balances-Available		614,992
Unobligated Balances-Not Available		319,731
Total, Status of Budgetary Resources	$	8,335,588
Outlays -		
Obligations Incurred	$	7,400,865
Less: Spending Authority From Offsetting Collections		(1,748,301)
Recoveries		(303,048)
Subtotal	$	5,349,516
Obligated Balance, Net - Beginning of Year		1,659,871
Less: Obligated Balance, Net - End of Year		(1,950,129)
Total Outlays	$	5,059,258

The accompanying notes are an integral part of this financial statement.

NOTES TO PRINCIPAL FINANCIAL STATEMENTS

ORGANIZATION

The U.S. Department of State, the senior executive department of the United States Government, was established by Congress in 1789, replacing the Department of Foreign Affairs established in 1781. The Department advises the President in the formulation and execution of foreign policy. As head of the Department, the Secretary of State is the President's principal advisor on foreign affairs. The Department's primary objective in the conduct of foreign relations is to promote the security and well-being of the United States.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Consolidation

The accompanying principal financial statements (statements) present the financial activity for the Department of State. The statements include the accounts of all funds under Department control that have been established and maintained to account for resources entrusted to Department management, or for which the Department acts as a fiscal agent or custodian. The Department maintains 30 General Funds, 4 Special Funds, 2 Revolving Funds, 4 Trust Funds, and 23 Deposit Funds.

- General and Special Funds are used to record financial transactions under Congressional appropriations or other authorization to spend general revenues.

- Revolving Funds 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 Congress.

- Trust Funds are credited with receipts generated by the terms of a trust agreement or statute. At the point of collection, these receipts are available immediately or unavailable depending upon statutory requirements.

- Deposit Funds are established for (1) amounts received for which the Department is acting as a fiscal agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods and services received, and (4) monies held awaiting distribution on the basis of a legal determination.

All significant interfund balances and transactions within the Department have been eliminated (Intra-Departmental eliminations) in the Consolidated Balance Sheet, Consolidating Statement of Net Cost, and Consolidated Statement of Changes in Net Position. The Combined Statement of Budgetary Resources has been prepared on a combined basis and does not include Intra-Departmental eliminations.

Basis of Presentation

The accompanying statements have been prepared to report the financial position and results of operations for the Department of State. They have been prepared from the Department's books and records and in accordance with the Department's accounting policies, of which the significant policies are summarized in this Note. These statements are prepared as required by the Government Management and Reform Act (GMRA) of 1994 and presented in accordance with form and content requirements contained in Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. The statements presented herein are in addition to the financial reports prepared by the Department in accordance with OMB and U.S. Department of the Treasury (Treasury) directives to monitor and control the status and use of budgetary resources.

The Department's accounting policies follow an "other comprehensive basis of accounting" as agreed to and published by the Director of OMB, the Secretary of the Treasury, and the Comptroller General. This basis, which constitutes Generally Accepted Accounting Principles (GAAP) for all U.S. Government reporting entities, consists of the following hierarchy.

1. Accounting standards and principles recommended by the Federal Accounting Standards Advisory Board (FASAB) and approved and issued by the above-named officials. These are known as Statements of Federal Financial Accounting Standards (SFFASs).

2. Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular A-134, *Financial Accounting Principles and Standards.*

3. Form and content requirements in OMB Bulletin 97-01, as amended.

4. Accounting principles published by authoritative standard-setting bodies (e.g., Financial Accounting Standards Board (FASB)) and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and/or (2) if the use of such accounting standards improves the meaningfulness of these financial statements.

Adoption of New Accounting Standards

Standards Implemented. The Department implemented new accounting standards in fiscal years 1998 and 1997.

Beginning in 1998, the Department adopted the following standards. None of these standards had a material effect on the financial position of the Department. The standards, however, did have a material effect on the manner in which the Department reports on the cost of its programs and activities.

a) SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.* SFFAS No. 4 establishes managerial cost accounting standards for Federal agencies to report the full cost of their programs, activities and outputs. See Note 15, "Statement of Net Costs," for further information.

b) SFFAS No. 6, *Accounting for Property, Plant, and Equipment.* SFFAS No. 6 establishes standards for categorizing and reporting Federally owned property, plant and equipment (PP&E); deferred maintenance on PP&E; and cleanup costs. Major changes from standards followed in previous years include (1) categorizing PP&E as general PP&E, Federal mission PP&E, heritage assets, and stewardship land and (2) disclosing deferred maintenance on PP&E. See **Works of Art and High Value Furnishings, Property and Equipment - Real Property and Property** and **Equipment - Personal Property** in Note 1 below, Note 8, "Property and Equipment, Net," Note 21, "Deferred Maintenance," and "Supplementary Stewardship Information Heritage Assets," for further information.

c) SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. SFFAS No. 7 establishes standards for classifying, recognizing, and measuring inflows of resources to the U.S. Government and its component reporting entities (e.g., the Department). Major changes include (1) classifying and categorizing inflows of resources as exchange (i.e., earned) revenues versus nonexchange revenues and other financing resources, (2) providing information about budgetary resources, the status of those resources, and outlays, and (3) providing information that reconciles budgetary and financial accounting. See Note 15, “Statement of Net Cost,” Note 17, “Statement of Budgetary Resources,” Note 18, “Statement of Financing,” and Note 20, “Dedicated Collections,” for further information.

d) SFFAS No. 8, *Supplementary Stewardship Reporting*. SFFAS No. 8 establishes standards for reporting on the U.S. Government’s stewardship over (1) certain resources entrusted to it, identified as stewardship PP&E and stewardship investments, and (2) certain responsibilities assumed by it, identified as a current service assessment. SFFAS No. 8 did not have a material effect on the financial position or net cost of operations of the Department. In accordance with SFFAS No. 8, the Department reports its collections of art objects and furnishings as Heritage Assets. See **Works of Art and High Value Furnishings** in Note 1 below, and “Supplementary Stewardship Reporting – Heritage Assets,” for further information.

e) OMB Bulletin 97-01, as amended. Bulletin 97-01 defines the form and content for annual financial statements that are required to be submitted to the Director of OMB for the fiscal year ending September 30, 1998. Bulletin 97-01 incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts (SFFACs) and SFFASs. Due to the number of new SFFACs and SFFASs effective for 1998, the principal financial statements, with the exception of the Consolidated Balance Sheet, differ substantially from last year’s statements. Effective for 1998, Bulletin 97-01 requires the following new principal statements: Statement of Net Costs (see Note 15), Statement of Changes in Net Position, Statement of Budgetary Resources (see Note 17), Statement of Financing (see Note 18), and Statement of Custodial Activity (see Note 19). Bulletin 97-01 allows agencies the option of presenting the Statement of Financing in a footnote to the financial statements, and the Department has elected to do so. In addition, as allowed for by Bulletin 97-01, the Department has not prepared a Statement of Custodial Activity because the amounts involved are immaterial and are incidental to the Department’s operations and mission. Along with changes to the principal financial statements, Bulletin 97-01 also requires a number of new footnote disclosures that have been incorporated herein.

Beginning in 1997, the Department adopted SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. In December 1995, the FASAB issued SFFAS No. 5, which establishes accounting standards to recognize and measure liabilities resulting from contingencies, capital leases, pensions and other retirement benefits, and was effective for 1997 and subsequent financial reporting. Except as noted in the following paragraph, the Department’s implementation of SFFAS No. 5 had no material effect on the financial position of the Department.

As administrator of the Foreign Service Retirement and Disability Fund (FSRDF), the Department reports on the Foreign Service Retirement and Disability System and Foreign Service Pension System assets, accumulated plan benefits and any unfunded liability (see Note 10). SFFAS No. 5 requires Federal pension plans to report the actuarial liability using the Projected Benefit Obligation (PBO). Prior to 1997, the Department reported the FSRDF’s actuarial liability using the Accumulated Benefit Obligation (ABO), as specified by FASB No. 35. The PBO uses the same inflation and return on investments assumptions but, unlike the ABO, considers future service and salary changes. Since the pension benefit is based on the average final salary, the PBO pension liability includes projected future salaries that reflect an estimate of future changes attributable to seniority, promotions and Cost of Living Allowances (COLAs).

Basis of Accounting

Transactions are recorded on both an accrual and budgetary basis. Under the accrual basis, exchange revenues are recognized when earned and expenses are recognized when a liability is incurred. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Budgets and Budgetary Accounting

Congress annually enacts one-year appropriations that provide the Department with authority to obligate funds within the fiscal year cited for necessary expenses to carry out mandated program activities. In addition, Congress also enacts multi-year appropriations and appropriations that are available until expended. The funds appropriated are subject to OMB apportionment in addition to Congressional restrictions on the expenditure. Also, the Department places internal restrictions to ensure the efficient and proper use of all funds. One-year and multi-year appropriations are canceled and cannot be used for disbursements after five years have elapsed since the appropriation was last available for obligation.

Revenues and Other Financing Sources

Department operations are financed through appropriations, reimbursements for the provision of goods or services, proceeds of sales of property, certain consular-related and other fees, and donations. In addition, the Department collects passport, visa, and other consular fees that are not retained by the Department but are deposited directly to a U.S. Treasury account. These passport and visa fees are reported as earned revenues on the Statement of Net Cost and as a transfer-out of financing sources on the Statement of Changes in Net Position.

For financial statement purposes, appropriations are recorded as a financing source (i.e., Appropriations Used) and reported on the Statement of Changes in Net Position at the time they are recognized as an expenditure. Appropriations expended for capitalized property and equipment are recognized when the asset is purchased. The applicable depreciation expense is recorded over lives described below in **Property and Equipment – Real Property** and **Personal Property**.

Work performed for other Federal agencies under reimbursable agreements is initially financed through the account providing the service and subsequently reimbursed from other agencies or funds. Reimbursements are recognized as revenues when earned, i.e., goods have been delivered or services rendered and the associated costs incurred.

Administrative support services at overseas posts are provided to other federal agencies through the International Cooperative Administrative Support Services (ICASS) Fund. ICASS bills for the services used by the agencies at overseas posts. These billings are recorded as revenues to ICASS and must be sufficient to cover all overhead costs, operating expenses and the replacement costs of capital assets necessary to carry on the operation.

Proceeds of sales from the sale of real property, vehicles and other personal property are recognized as revenues when the proceeds of sales are credited to the account from which the asset was funded. For non-capitalized property, the full amount realized is recognized as revenue. For capitalized property, revenue or loss is recognized based on whether the proceeds received were greater or less than the net book value of the asset sold. Proceeds of sale are available for purchase of the same or similar category of property.

The Department is authorized to collect and retain specific user fees for machine-readable visas, expedited passport processing, and fingerprint checks on immigrant visa applicants. These revenues are recognized in the Diplomatic and Consular Programs account when the fees are collected. The Department is also authorized to credit the respective appropriations (1) fees for the use of Blair House, (2) lease payments and transfers from the International Center Chancery Fees held in Trust to the International Center Project, (3) registration fees for the Office of Defense Trade Controls, (4) reimbursements for international litigation related expenses, and (5) reimbursement for training of foreign government officials at the Foreign Service Institute.

Generally, donations received in the form of cash or financial instruments are recognized as revenues at their fair values in the period received. Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of works of art, historical treasures, and similar assets that are added to collections are not recognized at time of donation. If subsequently sold, proceeds from the sale of these collection items are recognized in the year of sale.

The Department receives the majority of the funding needed to support the Repatriation Loan Program through an annual appropriation and permanent, indefinite borrowing authority. The appropriation has two components: (1) the subsidy portion for the present value of long-term cash flows, and (2) estimated expenses to administer the program. Appropriations are recognized as appropriations used at the time the loans are obligated and administrative expenses are incurred.

Fund Balances with Treasury

The Fund Balances with Treasury are funds that are available to pay accrued liabilities and finance authorized commitments relative to goods, services, and benefits. The Department does not maintain cash in commercial bank accounts for the funds reported in the Consolidated Balance Sheet, except for the Emergencies in the Diplomatic and Consular Services, Office of Foreign Missions and the International Center (which maintains a commercial account for lease fees held in trust - see Note 6). Domestic receipts and disbursements are processed by the United States Treasury. The Department operates three Financial Service Centers overseas in Paris and Bangkok, and domestically in Charleston, South Carolina, that provide financial support for the Department and other Federal agencies' overseas operations. The U.S. Disbursing Officer (USDO) at each center, is empowered to disburse funds on behalf of the Treasury.

Accounts Receivable

Intragovernmental Accounts Receivable are due principally from other Federal agencies for ICASS, reimbursable and Working Capital Fund services. Accounts Receivable from non-Federal entities are primarily due for sales of real property overseas. Accounts Receivable also arise from current and former employees and vendors. Accounts Receivable from current and former employees and vendors are subject to the full debt collection cycle, e.g., salary offset, referral to collection agents and Treasury (e.g., Internal Revenue Service) offset.

Allowances for Accounts Receivable are based on criteria established for each type of receivable. Allowances for Accounts Receivable primarily consist of amounts for the FSRDF and Working Capital Fund (WCF). The allowance amount for FSRDF is computed based on amounts owed for annuity overpayments that are for inactive accounts that are over 120 days overdue. The allowance amount for WCF is based on overdue employee receivables.

Interest Receivable

Interest earned on investments, but not received as of September 30, is recognized as interest receivable.

Loans Receivable

The Department provides Repatriation Loans for destitute American citizens overseas where the Department becomes the lender of last resort. These loans provide assistance to pay for return transportation, food and lodging, or medical expenses. A promissory note is executed by the borrower without collateral. Consequently, the loans are made anticipating a low rate of recovery.

Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments, and recognized as expenses when the related goods and services are received. Advances are principally advances to State employees for official travel, prepayments and advances to other entities for future services, and salary advances to employees transferring to overseas assignments. Advances and prepayments are reported under Other Assets on the Consolidated Balance Sheet.

Valuation of Investments

The investments of the Foreign Service Retirement and Disability Fund consist solely of special issues of U.S. Government securities, which are redeemable on demand, at par. Therefore, for financial statement purposes, the investments are valued at par. Interest on investments is paid semiannually on June 30 and December 31.

The investments of the Gift Funds consist of U.S. guaranteed securities. These investments are reported at the acquisition cost, which equals the face value plus or minus the unamortized premium or discount. Premiums and discounts are amortized over the life of the security using the effective interest method.

Works of Art and High Value Furnishings

The Department has collections of art objects and furnishings that are held for public exhibition, education and official entertainment of visiting Chiefs of State, Heads of Government, Foreign Ministers, as well as other distinguished foreign and American guests. There are three separate collections: the Diplomatic Reception Rooms, Art in Embassies, and Curatorial Services Program. The collections consist of items acquired as donations, purchased using donated or appropriated funds, or on loan from individuals, organizations, or museums. The Department provides protection and preservation services for these collections.

The items which are owned by the Department are considered to be heritage assets (see “Required Supplementary Stewardship Information – Heritage Assets”). In accordance with SFFAS No. 6, no value is assigned to these assets in the Consolidated Balance Sheet. Purchases of items for collections are recorded as an expense in the year of purchase. Proceeds from disposals are recognized as revenue in the year of sale and are designated for future collection acquisitions.

Inventories

The Department’s Consolidated Balance Sheet reflects inventories held by the Working Capital Fund’s (WCF) Publishing Services, and Supply Services Center and Stock Account. The WCF inventory primarily consists of paper and ink used in the printing and reproduction services (Publishing Services) and furniture held for sale to bureaus within the Department (Supply Services Center and Stock Account).

The WCF’s Publishing Services inventory on hand is valued at latest acquisition cost. The Supply Services Center and Stock Account inventory is valued monthly using a weighted moving average.

Recorded values are adjusted for the results of physical inventories taken periodically.

In previous years, the International Boundary and Water Commission (IBWC) reported a central inventory of small parts for light maintenance of vehicles and equipment. IBWC's inventory was valued using the weighted average balance method. Effective October 1, 1997, IBWC changed it policy and began expensing the supplies when purchased. The change in policy had no material effect on the financial position or results of operations of the Department.

Property and Equipment - Real Property

Real property assets primarily consist of facilities used for U.S. diplomatic missions abroad and capital improvements to these facilities. They include unimproved land, residential and functional use buildings such as embassy/consulate office buildings, office annexes and support facilities as well as construction in progress. Title to these properties are held under various conditions including fee simple, restricted use, crown lease and deed of use agreement.

Since 1997, additions to the real property asset accounts are based on historical costs. Construction-in-Progress represents the costs incurred for new facilities, major rehabilitations or other improvements that are in the design or construction stage. When these projects are complete, the costs are transferred to the Buildings and Structures or Leasehold Improvements account as appropriate. The Department capitalizes construction of new buildings and all acquisitions regardless of cost and capitalizes improvements and building acquisitions greater than $250,000.

Prior to 1997, historical cost information for most of the Department's overseas properties was either unavailable or incomplete. Therefore, the Department estimated a value for overseas real property assets as of September 30, 1996. Assets valued through the estimation technique comprise most of the reported values of real property assets as of September 30, 1998 and 1997.

The Department also owns several domestic real properties, including the National Foreign Affairs Training Center, the International Center, the Charleston Financial Services Center, the Beltsville Information Management Center, the Florida Regional Center, and the Portsmouth, New Hampshire, Consular Center. Except for the International Center, these properties have been recorded at their estimated historical cost, based on available information maintained by the Department's Office of Real Property Management. The value for the International Center is reconstructed historical cost.

The IBWC has buildings and structures related to its boundary preservation, flood control, and sanitation. Its buildings and structures are capitalized at cost.

Depreciation of buildings and other structures is computed on a straight-line basis. Buildings and other facilities are depreciated principally over a 30-year period.

Property and Equipment - Personal Property

In general, personal property and equipment with an acquisition cost of $25,000 or more and a useful life of 2 or more years is capitalized at cost. However, some items are capitalized using different amounts. All vehicles are capitalized. In addition, commercial off-the-shelf ADP software costing over $100,000, and ADP software developed internally costing over $250,000 is capitalized. Depreciation of property and equipment is calculated on a straight-line basis over the asset's estimated life with a 5% salvage value. Depreciation is not recorded until the fiscal year after the item is put into service for all property except vehicles. Vehicles are depreciated over periods ranging from 3 to 6 years and depreciation begins the day after the vehicle is put into service. Other personal property and equipment is depreciated over periods generally ranging from 5 to 8 years. Telecommunication equipment is depreciated over 20 years.

Capital Leases

Leases are accounted for as capital leases if they meet one of the following criteria: (1) the lease transfers ownership of the property by the end of the lease term, (2) the lease contains an option to purchase the property at a bargain price, (2) the lease term is equal to or greater than 75% of the estimated useful life of the property, or (3) the present value of the minimum lease payments equals or exceeds 90% of the fair value of the leased property. The initial recording of the value of a lease (with a corresponding liability) is the lesser of the net present value of the lease payments or the fair value of the leased property. Capital leases are amortized over the term of the lease.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities represent amounts accrued for employee's salaries, employee and annuitant benefits, contracts for goods and services received but unpaid at the end of the fiscal year, and unearned revenue from the sale of real property.

Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. At the end of each fiscal year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. The amount of the adjustment is also recorded as an expense. Funding for annual leave earned but not taken, will be obtained from future financing sources. Sick leave and other types of leave are expensed as taken.

Employee Benefit Plans

Retirement Plans. Department of State Civil Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Members of the Foreign Service participate in either the Foreign Service Retirement and Disability System (FSRDS) or the Foreign Service Pension System (FSPS).

Employees covered under CSRS make contributions of 7% of pay, with the Department making contributions of 8.51% and 7% for 1998 and 1997, respectively. Employees covered under CSRS also contribute 1.45% of pay to Medicare insurance for which the Department makes a matching contribution. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, were allowed to join FERS or remain in CSRS. Employees participating in FERS contribute 0.8% of pay with the Department making contributions of 10.7% for 1998 and 11.4% for 1997. In addition, FERS employees contribute 6.2% to Social Security and 1.45% to Medicare insurance. The Department makes matching contributions to both. A primary feature of FERS is that it offers a Thrift Savings Plan (TSP) into which the Department automatically contributes 1% of pay and matches employee contributions up to an additional 4% of pay.

Foreign Service employees hired prior to January 1, 1984, participate in the FSRDS, with certain exceptions. FSPS was established pursuant to Section 415 of Public Law 99-335, signed on June 6, 1986. Foreign Service employees hired after December 31, 1983, participate in FSPS, with certain exceptions. FSRDS employees contribute 7% of pay for which the Department makes a contribution of 8.51% and 7% for 1998 and 1997, respectively. Both FSRDS and FSPS employees contribute 1.45% of pay to Medicare, with the Department making matching contributions. FSPS employees contribute a percentage of pay equal to 7.5% of pay less the percentage for Social Security. For 1997 and 1998, the Social Security rate was 6.2%. Consequently, FSPS employees contributed 1.3% of pay. The Department made a contribution of 20.34% for 1998 and 23.04% for 1997. Similar to

FERS, a primary feature of FSPS is that it offers a TSP into which the Department automatically contributes 1% of pay and matches employee contributions up to an additional 4% of pay.

Foreign Service Nationals (FSNs) and Third Country Nationals at overseas posts who were hired prior to January 1, 1984, are covered under CSRS. Employees hired after that date are covered under a variety of local governmental plans in compliance with host country laws and regulations. In a limited number of cases where no plans are mandated by the host country or such plans are inadequate, the employees are covered by a privately managed pension plan to conform with prevailing practices by comparable employers.

Health Insurance. Most American employees participate in the Federal Employees Health Benefits Program (FEHBP), a voluntary program providing protection for enrollees and eligible family members from the expense of illness and accident. Under FEHBP, the Department contributes the employer's share of the premium as determined by the Office of Personnel Management (OPM).

Life Insurance. Unless specifically waived, employees are covered by the Federal Employees Group Life Insurance Program (FEGLIP). FEGLIP automatically covers eligible employees for basic life insurance in amounts equivalent to an employee's annual pay rounded up to the next thousand dollars plus $2,000. The Department pays one-third of the cost of basic life insurance and employees pay two-thirds of the premium. Enrolled individuals are eligible to elect additional optional insurance coverage for themselves and their family members. The enrollee pays the entire cost of the optional insurance elected.

Other Post Employment Benefits. The Department does not report CSRS, FERS, FEHBP or FEGLIP assets, accumulated plan benefits or unfunded liabilities applicable to its employees. This information is reported by the OPM for the Civil Service Retirement and Disability Fund (CSRDF), FEHBP and the FEGLIP. As required by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the Department reports the full cost of employee benefits for the programs administered by OPM. The Department recognizes an expense and imputed financing source for the annualized unfunded portion of CSRDF pensions, post-retirement health benefits and life insurance for employees covered by these programs. The Department recognized $43.5 million and $42.9 million in 1998 and 1997, respectively, for unfunded pension and post-retirement benefits. The additional costs are not actually owed or paid to OPM and thus are not reported on the Consolidated Balance Sheet as a liability, but instead are reported as an Imputed Financing on the Statement of Changes in Net Position.

Future Workers' Compensation Benefits

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to cover Federal employees injured on the job or who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to job related injury or occupational disease. The U.S. Department of Labor (DOL) administers the FECA program. DOL initially pays valid claims and bills the employing Federal agency. DOL calculates the actuarial liability for future workers' compensation benefits and reports to each agency its share of the liability.

The present value of the liability for 1998 was computed using a discount rate of 5.6% for all years. For 1997, the present value of the liability was computed using a discount rate of 6.24% for the first year, 5.82% for the second year and 5.6% for the third year, 5.45% for the fourth year and 5.4% for years thereafter. In 1998, the Department's actuarial liability increased by approximately $3.1 million. The total actuarial liability for which the Department is responsible totaled $46.8 million as of September 30, 1998, and $43.7 million as of September 30, 1997.

Liabilities Not Covered by Budgetary Resources

These liabilities result from the receipt of goods and services in the current or prior periods, or occurrence of eligible events in the current or prior periods, for which revenues or other source of funds to pay the liabilities have not been made available through appropriations or current earnings of the Department. The major liabilities in this category include assessments from international organizations, unfunded actuarial liability for FSRDF, future workers' compensation benefits, capital leases and accrued annual leave (see additional explanation in Notes 1, 9, 10 and 12, respectively).

Valuation of FSN Separation Liability

Separation payments are made to eligible FSN employees who voluntarily resign, retire, or lose their jobs due to a reduction in force, and are in countries that require a voluntary separation payment. The amount required to finance the current and future costs of FSN separation pay is determined annually.

Actuarial Present Value of Projected Plan Benefits for the Foreign Service Retirement and Disability Program

The Department's financial statements present the Pension Actuarial Liability of the Foreign Service Retirement and Disability Program (the Plan) as the actuarial present value of projected plan benefits, as required by the SFFAS No. 5. The Pension Actuarial Liability represents those future periodic payments provided for current employee and retired Plan participants, less the future employee and agency contributions, stated in current dollars. Future periodic payments includes benefits expected to be paid to (1) retired or terminated employees or their beneficiaries, (2) beneficiaries of employees who have died, and (3) present employees or their beneficiaries, including refunds of employee contributions as specified by Plan provisions. Total projected service is used to determine eligibility for retirement benefits. The value of voluntary, involuntary, and deferred retirement benefits is based on projected service and assumed salary increases. The value of benefits for disabled employees or survivors of employees is determined by multiplying the benefit the employee or survivor would receive on the date of disability or death, by a ratio of service at the valuation date to projected service at the time of disability or death.

The Pension Actuarial Liability is determined by an actuary from the Department of the Treasury. It is the amount that results from applying actuarial assumptions to adjust the projected Plan benefits to reflect the discounted time value of money and the probability of payment (by means of decrements such as death, disability, withdrawal or retirement) between the valuation date and the expected date of payment. For 1998 and 1997, the valuation included assumed average rates of return on investments of 7%, inflation of 4% and salary increases of 4.25%. The Plan uses the aggregate entry age normal actuarial cost method. The aggregate entry age normal is a method whereby the present value of projected benefits for each employee is allocated on a level basis (such as a constant percentage of salary) over the service of the employee between entry age and assumed exit age. The portion of the present value allocated to each year is referred to as the normal cost. The normal cost for 1998 and 1997 was 28.31% for FSRDS and 21.64% for FSPS.

Actuarial assumptions are based on the presumption that the Plan will continue. If the Plan terminates, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

Net Position

The Department's net position comprises the following components.

1. Unexpended Appropriations include the amount of unobligated appropriations and undeliv-

ered orders outstanding for Congressional appropriations provided to the Department's general and special fund account. As these accounts incur obligations for goods or services, the available balance of the appropriation is reduced. Unobligated balances are the amount of appropriations or other authority remaining after deducting cumulative obligations. Undelivered orders represent the amount of obligations incurred for goods or services ordered but not yet received.

2. Cumulative Results of Operations represents the net difference between (1) revenues and financing sources and (2) expenses since the inception.

Foreign Currency

Accounting records for the Department are maintained in U.S. dollars, while a significant amount of the Department's overseas expenditures are in foreign currencies. For accounting purposes, overseas obligations and disbursements are recorded in U.S. dollars based on the rate of exchange as of the date of the transaction. The foreign currency payments are made by the U.S. Disbursing Officers located at the Department's Financial Service Centers.

Comparative Data

Comparative data for 1997 are presented for the Consolidated Balance Sheet. The Department received an unqualified opinion on its 1997 Consolidated Statements of Financial Position and Consolidated Statements of Operations and Changes in Net Position. However, since most of the principal statements are either new or presented in a significantly different format due to the adoption of new accounting standards, comparative data for 1997 are not shown for the Statement of Net Costs (Note 15), Statement of Changes in Net Position, Statement of Budgetary Resources (Note 17), and Statement of Financing (Note 18).

2. FUND BALANCES WITH TREASURY

Fund Balances with Treasury at September 30, 1998 and 1997, are summarized below (Dollars in Thousands).

At September 30:	1998			1997		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Appropriated Funds	$2,769,517	-	$2,769,517	$2,240,850	-	$2,240,850
Trust Funds	92,770	-	92,770	79,661	-	79,661
Revolving Funds	54,271	-	54,271	76,703	-	76,703
Other Funds	37,965	-	37,965	38,063	-	38,063
Total	$2,954,523	-	$2,954,523	$2,435,277	-	$2,435,277

3. INVESTMENTS

The Department has two activities that have the authority to invest excess cash resources. A description of the investments made and a listing of the outstanding investments follow. Although funds in the Chancery Development Trust Fund and the Bosnia Federation Fund are invested, because they are considered non-entity assets, the investments for these funds are not shown in this section, but are described in Note 6.

Foreign Service Retirement and Disability Fund (FSRDF)

FSRDF receipts are invested by the U.S. Treasury in special, non-marketable U.S. Government securities. These special issue Certificates of Indebtedness mature on the following June 30. On June 30, the Treasury rolls over the Certificates of Indebtedness into special, non-marketable bonds issued by the Department of the Treasury, with maturities spread over 15 years and a yield equaling the average of all marketable Treasury securities. All securities are purchased and redeemed at par, regardless of market conditions. Interest is paid semiannually on December 31 and June 30. Maturity dates on these securities range from 1999 through 2013, and interest rates range from 5.375% through 13.750%.

Gift Funds

The Gift Funds invest in U.S. Government non-marketable, market-based securities, issued at either a premium or a discount and redeemable for par at maturity. The discounts on these investments are amortized over the life of the security using the effective interest method.

Investments at September 30, 1998 and 1997, are summarized below (Dollars in Thousands). All investments are classified as Intragovernmental Securities.

	Par	Amortization Method	Unamortized (Discount)	Investments (Net)	Market Value
At September 30, 1998:					
Non-Marketable, Par Value:					
FSRDF Certificates of Indebtedness	$ 59,948	N/A	$ -	$ 59,948	$ 59,948
FSRDF Special Bonds	9,490,201	N/A	-	9,490,201	9,490,201
Subtotal	$ 9,550,149		$ -	$ 9,550,149	$ 9,550,149
Non-Marketable, Market Based:					
Conditional Gift Fund, Bills	$ 2,950	Interest	$ (54)	$ 2,896	$ 2,902
Unconditional Gift Fund, Bills	65	Interest	(1)	64	65
Subtotal	$ 3,015		$ (55)	$ 2,960	$ 2,967
Total Inventments	$ 9,553,164		$ (55)	$ 9,553,109	$ 9,553,116
At September 30, 1997:					
Non-Marketable, Par Value:					
FSRDF Certificates of Indebtedness	$ 57,272	N/A	$ -	$ 57,272	
FSRDF Special Bonds	8,920,962	N/A	-	8,920,962	
Subtotal	$ 8,978,234		$ -	$ 8,978,234	
Non-Marketable, Market Based:					
Conditional Gift Fund, Bills	$ 4,620	Interest	$ (62)	$ 4,558	
Unconditional Gift Fund, Bills	6,700	Interest	(198)	6,502	
Subtotals	$ 11,320		$ (260)	$ 11,060	
Total Investments	$ 8,989,554		$ (260)	$ 8,989,294	

4. ACCOUNTS RECEIVABLE

The Department's Accounts Receivable at September 30, 1998 and 1997, are summarized below (Dollars in Thousands).

	Entity Accounts Receivable	Non-Entity Accounts Receivable	Allowance for Loss on Accounts Receivable	Net Receivables
At September 30, 1998:				
Intragovernmental	$ 256,893	$ -	$ -	$ 256,893
Governmental	28,876	-	(312)	28,564
Total	$ 285,769	$ -	$ (312)	$ 285,457
At September 30, 1997:				
Intragovernmental	$ 391,013	$ -	$ -	$ 391,013
Governmental	193,663	-	(283)	193,380
Total	$ 584,676	$ -	$ (283)	$ 584,393

5. DIRECT LOANS, NON-FEDERAL BORROWERS

Repatriation Direct Loan Program

Repatriation loan obligations made prior to 1992, and the resulting direct loans, are reported net of an allowance for uncollectible loans or estimated losses. The loss allowance represents estimates of amounts the Department does not expect to recover on its loans made prior to 1992. These allowances are based upon historical experience.

Repatriation loan obligations made after 1991, and the resulting direct loans, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with the loans be recognized as a cost in the year the loan is disbursed. An analysis of loans receivable, the nature and amounts of the subsidy, and administrative costs associated with the loans are summarized below.

Repatriation Loans Obligated Prior to FY 1992 (Dollars in Thousands)

Loans Receivable, Gross	$	1,233
Allowance for Uncollectible Loans		(1,219)
Loans Receivable, Net	$	14

Repatriation Loans Obligated after FY 1991 (Dollars in Thousands)

Fiscal Year	Loans Receivable, Gross	Allowance For Subsidy Cost	Net Present Value of Assets Related to Direct Loans
1992	$ 173	$ 100	$ 73
1993	100	58	42
1994	75	43	32
1995	195	113	82
1996	443	257	186
1997	462	268	194
1998	837	707	130
Total	$ 2,285	$ 1,546	$ 739

The Department has chosen to use a subsidy rate of 80%. However, because the Department has complied with the provisions of the Debt Collection Improvement Act, it has experienced collections much greater than anticipated.

Subsidy Expense for Post 1991 Repatriation Loans

The subsidy expense for the loan program is comprised of the following components (Dollars in Thousands).

Interest Differential	Defaults	Fees	Other	Total
$ -	$740	$ -	$ -	$740

Subsidy and Administrative Expenses

Total subsidy expense for the Repatriation Loan Program was $740,097 and total administrative expense was approximately $607,000.

Accounts Payable to Treasury

The Department estimates a subsidy rate based upon collections of 20%. Over the past several years, however, the actual collection rate has been closer to 40%. As a result, the subsidy allowance, established at 80% understated the net credit programs receivable. A re-estimate of the subsidy rate will correct this by reducing the amount of subsidy allowance. The Department, however, has not yet re-estimated the subsidy. For financial reporting purposes, the Department has reduced the subsidy allowance by $3.2 million and established that amount as a payable to Treasury.

Accounts Payable is also comprised of a $0.5 million payable to Treasury from collections of Pre-Credit Reform loans.

Debt (Dollars in Thousands)

	Borrowing from Treasury
Beginning Balance, September 30, 1997	$ 64
Net Borrowings	185
Ending Balance, September 30, 1998	$ 249

Accounting Adjustment

Adjustments of $2.5 million resulted from the inappropriate accumulation of Cumulative Results of Operations (CRO) in the financing account. The amounts in CRO resulted from cash flows associated with the loans that should have been closed at the end of the fiscal year to the subsidy allowance account in accordance with SFFAS No. 2.

6. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets at September 30, 1998 and 1997, are summarized below (Dollars in Thousands).

	1998			1997		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
Bosnia Federation Defense Fund	$ -	$ 49,015	$ 49,015	$ -	$ 99,845	$ 99,845
International Chancery Center:						
Cash	-	1	1	-	2	2
Treasury Bills, at par	-	10,298	10,298	-	10,870	10,870
Unamortized Discount	-	(178)	(178)	-	(409)	(409)
Cash – Imprest Funds	170	-	170	173	-	173
Total	$ 170	$ 59,136	$ 59,306	$ 173	$ 110,308	$110,481

Lease fees collected for the International Chancery Center are deposited into an escrow account. The funds are unavailable to the Department at time of deposit, and do not constitute expendable resources until funds are necessary for additional performance of work on the Center project. The Chancery Development Trust account invests in one-year marketable Treasury bills issued at discount and redeemable for par at maturity. A corresponding liability for these amounts is reflected as a Funds Held in Trust on the Consolidated Balance Sheet.

The Bosnia Federation Defense Fund is a depository account containing funds that have been donated by various foreign governments to assist the Federation of Bosnia and Herzegovina in establishing a military balance to promote lasting peace in the region. A corresponding liability for these amounts is reflected as Funds Held in Trust.

7. INVENTORY, NET

Inventory at September 30, 1998 and 1997, is summarized below (Dollars in Thousands).

	1998	1997
Inventory Held for Current Sale:		
Publishing Services	$ 166	$ 160
Other Services	741	725
Total	$ 907	$ 885
Operating Materials and Supplies:		
IBWC	-	180
Other	-	2
Total Inventory	$ 907	$1,067

Effective October 1, 1997, the IBWC changed its policy regarding inventory. Previously, the IBWC reported a central inventory of small parts for light maintenance of vehicles and equipment. During 1998, the supplies were expensed when purchased.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment balances at September 30, 1998 and 1997, are shown in the following table (Dollars in Thousands).

	1998			1997
	Cost	Accumulated Depreciation	Net Value	Net Value
Real Property:				
Overseas -				
Land	$ 1,823,571	$ -	$1,823,571	$ 1,852,529
Buildings and Structures	3,112,670	1,566,290	1,546,380	1,645,689
Construction-in-Progress	327,083	-	327,083	176,549
Assets Under Capital Lease	129,312	52,469	76,843	81,683
Leasehold Improvements	21,707	2,121	19,586	2,688
Domestic -				
Structures, Facilities and Leaseholds	363,491	112,810	250,681	259,547
Construction-in-Progress	202,940	-	202,940	156,590
Land	69,708	-	69,708	69,708
Land Improvements	9,378	2,585	6,793	7,105
Subtotal – Real Property	$ 6,059,860	$ 1,736,275	$ 4,323,585	$ 4,252,088
Personal Property:				
Communication Equipment	$ 92,596	$ 47,146	$ 45,450	$ 45,078
Vehicles	109,174	70,105	39,069	33,001
ADP Equipment	44,971	32,940	12,031	17,769
Reproduction Equipment	8,750	6,022	2,728	3,612
Other Equipment	39,492	27,558	11,934	47,984
Subtotal – Personal Property	$ 294,983	$ 183,771	$ 111,212	$ 147,444
Total	$ 6,354,843	$ 1,920,046	$ 4,434,797	$ 4,399,532

9. LEASES

The Department was committed to over 9,000 leases covering office and functional properties and residential units at diplomatic missions overseas. The substantial majority of these leases are short-term, operating leases. In most cases, management expects that the leases will be renewed or replaced by other leases.

Personnel from other U.S. Government agencies occupy some of the buildings under lease (both residential and non-residential). These agencies reimburse the Department for the use of the properties. Reimbursements are received for over 25% of the lease costs.

Capital Leases

The Department has various long-term leases (more than 10 years) for overseas real property that meet the criteria as a capital lease for accounting purposes.

Following is a summary of Net Assets Under Capital Leases and future minimum lease payments as of September 30, 1998 (Dollars in Thousands).

Net Assets Under Capital Leases

Land and Buildings	$ 129,312
Accumulated Depreciation	(52,469)
Net Assets under Capital Leases	$ 76,843

Future Minimum Capital Lease Payments:

Fiscal Year	Lease Payments
1999	$ 9,791
2000	9,307
2001	9,149
2002	7,250
2003	7,180
2004 and thereafter	161,954
Total Minimum Lease Payments	$ 204,631
Less: Amount Representing Interest	(127,788)
Obligations under Capital Leases	$ 76,843

Operating Leases

Following is a summary of the estimated operating lease amounts for the next five fiscal years for overseas real property based on total estimated lease obligations and the future minimum lease payments for capital leases (Dollars in Thousands).

Due in Fiscal Year	Estimated Operating Lease Payments
1999	$162,364
2000	179,574
2001	188,609
2002	199,803
2003	209,605

10. FOREIGN SERVICE RETIREMENT ACTUARIAL LIABILITY

The Foreign Service Retirement and Disability Fund (FSRDF) finances the operations of the FSRDS and the FSPS. The FSRDS and FSPS are defined-benefit single-employer plans. FSRDS was originally established in 1924. FSPS was established in 1986. FSRDS and FSPS are excluded from major provisions of Public Law 93-406, the Employee Retirement Income Security Act of 1974 (ERISA), relating to reporting, disclosure, fiduciary, and vesting standards. However, the status of FSRDS and FSPS is reported annually under provisions of Public Law 95-595, which requires Federal pension plans to report under ERISA standards in such form as prescribed by the President, in consultation with the Comptroller General. The actuarial present value of projected plan benefits shown is consistent with amounts reported in the Public Law 95-595 report.

FSRDS is a single-benefit retirement plan. Retirees receive a monthly annuity from FSRDS for the rest of their lives. FSPS provides benefits from three sources: a basic benefit (annuity) from FSPS, Social Security, and Thrift Savings Plan.

The following table presents the calculation of the FSRDS and FSPS Pension Actuarial Liability and the assumptions used in computing it for 1998 and 1997 (Dollars in Millions).

For the Period Ended September 30:	1998	1997
Pension Actuarial Liability, Beginning of Year	$ 10,488.2	$ 10,265.7
Add Pension Expense:		
Normal Cost	166.3	183.7
Interest on Pension Liability	721.8	707.5
Prior Service Costs	-	-
Actuarial Gains	(119.8)	(168.6)
Total Pension Expense	768.3	722.6
Less: Payments to Beneficiaries		
(annuities and refunds)	(519.8)	(500.1)
Pension Actuarial Liability, End of Year	$ 10,736.7	$ 10,488.2
Less: Net Assets Available for Benefits	(9,689.4)	(9,115.3)
Actuarial Unfunded Pension Liability		
for Projected Plan Benefits	$ 1,047.3	$ 1,372.9
Actuarial Assumptions:		
Rate of return on Investments	7.00%	7.00%
Rate of Inflation	4.00%	4.00%
Pay Increase	4.25%	4.25%

The complete, separately-issued, FSRDF Annual Financial Report is available from Domestic Financial Services, 1800 N. Kent Street, Room 6604, Rosslyn, Virginia 22219, (703) 875-7141.

11. OTHER LIABILITIES

Other Liabilities primarily consists of accrued salaries and employee benefits. It also includes other items such as deposits for the sale of real property, advances received from other entities for work to be performed by the Department, funds awaiting distribution, and funds received for which the Department is acting as a fiscal agent or custodian.

Other Liabilities at September 30, 1998 and 1997, are summarized below (Dollars in Thousands).

	Current	Noncurrent	Total
At September 30, 1998:			
Other Liabilities Covered by Budgetary Resources:			
Accrued Salaries and Benefits	$ 76,683	$ -	$ 76,683
Deposit and Clearing Accounts	27,513	-	27,513
Advances from Others	14,525	-	14,525
Contingent Liabilities	4,000	-	4,000
Other	6,620	-	6,620
Subtotal	$ 129,341	$ -	$ 129,341
Other Liabilities Not Covered by Budgetary Resources:			
Annual Leave	$ -	$ 82,502	$ 82,502
Deposits for Real Property Sale	30,000	-	30,000
Reimbursements to DOL for OWCP Benefits	4,915	6,354	11,269
Contingent Liabilities	8,764	-	8,764
Other	904	-	904
Subtotal	$ 44,583	$ 88,856	$ 133,439
Total Other Liabilities	$ 173,924	$ 88,856	$ 262,780
At September 30, 1997:			
Other Liabilities Covered by Budgetary Resources:			
Unearned Revenue-Sales of Real Property	$ 114,187	$ 75,000	$ 189,187
Accrued Salaries and Benefits	100,158	-	100,158
Deposit and Clearing Accounts	67,001	-	67,001
Other	27,723	-	27,723
Subtotal	$ 309,069	$ 75,000	$ 384,069
Other Liabilities Not Covered by Budgetary Resources:			
Annual Leave	-	80,000	80,000
Other	125	-	125
Subtotal	$ 125	$ 80,000	$ 80,125
Total Other Liabilities	$ 309,194	$ 155,000	$ 464,194

12. LIABILITIES TO INTERNATIONAL ORGANIZATIONS

The Department has recognized as an unfunded liability the amount of accumulated arrears assessed by the United Nations, its affiliated agencies and other international organizations in the amount of $1,020.8 million for regular budget assessments and international peacekeeping. In 1998, $100 million was appropriated to pay some of the arrears, subject to enactment of applicable authorizing legislation. The Administration has proposed to Congress a supplemental request to make advance appropriations totaling $921 million for 1999 and 2000 to pay the remainder of the arrears. The financial statements also report a liability for the current annual assessments from the United Nations and several other international organizations of $714.6 million at September 30, 1998. It has been the Department's policy to pay the annual assessments for these organizations out of the following fiscal year's appropriation (i.e., the 1998 calendar year assessment is paid from the FY 1999 appropriation). The Liability to International Organizations as of September 30, 1998 and 1997, is summarized below (Dollars in Thousands).

	1998	1997
Accumulated Arrears	$1,020,833	$1,020,833
Unfunded Annual Assessments	714,613	679,626
Liability to International Organizations	$1,735,446	$1,700,459

13. UNEXPENDED APPROPRIATIONS

Unexpected Appropriations include the amount of unobligated appropriations and undelivered orders outstanding for Congressional appropriations provided to the Department's general and special fund account. As these accounts incur obligations, the available balance of the appropriation is reduced. Unobligated balances are the amount of appropriations or other authority remaining after deducting cumulative obligations. Undelivered orders represent the amount of obligations incurred for goods or services ordered but not yet received. Unexpended Appropriations at September 30, 1998 and 1997, are summarized below (Dollars in Thousands).

	1998	1997
Unexpended Appropriations:		
(1) Unobligated		
(a) Available	$ 311,688	$ 369,091
(b) Unavailable	319,003	131,000
(2) Undelivered Orders	1,768,871	1,592,424
Total	$ 2,399,562	$ 2,092,515

14. COMMITMENTS AND CONTINGENCIES

Commitments

In addition to the future lease commitments discussed in Note 9, the Department is committed under obligations for goods and services which have been ordered but not yet received (undelivered orders) at fiscal year-end.

Contingencies

The Department conducts Counter-Terrorism, Counter-Narcotics, and War Criminals rewards programs. The Counter-Terrorism Rewards Program offers rewards up to $5 million for information preventing acts of international terrorism against United States persons or property, or leading to the arrest or conviction of terrorist criminals responsible for such acts. The Counter-Narcotics Rewards Program also offers rewards up to $2 million dollars. The War Criminals Rewards Program offers rewards up to $5 million for information leading to the arrest and/or conviction of war criminals from the former Yugoslavia.

The Department is a party in various administrative proceedings, legal actions, environmental suits, and claims brought by and against it. Some of the actions are not related directly to Department programs but the Department is involved because of its status as the foreign policy agency. 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 the Department.

Claims Filed in Response to Embassy Bombings. Since February 1999, one class action lawsuit and a number of administrative claims have been filed against the Department alleging that the Department's negligence was responsible for the personal injuries and property and business losses incurred in Nairobi, Kenya. The class action suit demands $1 billion as well as attorney's fees and costs. Administrative claims filed request sums ranging from $10,000 to $1,500,000. The Department is vigorously contesting these claims. Any payments in connection with the lawsuit or the administrative claims would be funded from a special appropriation called the Judgment Fund maintained by the Department of the Treasury.

Loewen Arbitration. The Loewen Group, Inc., a Canadian Corporation, and one of its shareholders filed a claim against the United States under the arbitration provisions of the investment chapter of the North American Free Trade Agreement (NAFTA). Claimants contend they were damaged as a result of alleged breaches by the U.S. Government of its obligations under NAFTA arising out of certain actions of the Mississippi courts. The total claim is for $725 million plus interest and costs, as well as "further damages as appropriate." The U.S. Government intends to vigorously contest this claim. It is the understanding of the Department's Office of Legal Adviser that payment of an award, if any, would be made out of the Judgment Fund.

Certain legal matters to which the Department is a party are administered and, in some instances, litigated and paid by other Federal agencies. Generally, amounts to be paid under any decision, settlement, or award pertaining to these litigations are funded from the Judgment Fund. None of the amounts paid under the Judgment Fund on behalf of the Department in 1998 and 1997 had a material effect on the financial position or results of operations of the Department.

15. STATEMENT OF NET COST

The Statement of Net Cost reports the Department's gross and net cost for its major programs by organization(s) responsible for carrying out those programs. The net cost of operations is the gross (i.e., total) cost incurred by the Department less any exchange (i.e., earned) revenue.

The Statement of Net Cost categorizes costs and revenues by major program and responsibility segment. A responsibility segment is a component responsible for carrying out a mission or major line of activity, and whose managers report directly to top management. For the Department, a Bureau (e.g., Bureau of African Affairs) is considered a responsibility segment. For presentation purposes, Bureaus have been summarized and reported at the Under Secretary level (e.g., Under Secretary for Political Affairs). Information on the Bureaus (or equivalent) reporting to each Under Secretary can be found on the Organization Chart for the Department.

The presentation of major programs is based on the Department's *Strategic Plan* established pursuant to the *Government Performance and Results Act*. As outlined in the *Strategic Plan,* the United States conducts relations with foreign governments and others to pursue U.S. national interests and create a more secure, prosperous and democratic world. These national interests consist of the following.

- **National Security –** Secure peace, deter aggression, prevent, diffuse, and manage crises, halt the proliferation of weapons of mass destruction, and advance arms control and disarmament.
- **Economic Prosperity –** Expand exports, open markets, assist American business, foster economic growth, and promote sustainable development.
- **Democracy –** Increase foreign government adherence to democratic practices and respect for human rights.
- **Global Issues –** Improve the global environment, stabilize world population growth, and protect human health.
- **Humanitarian Response –** Provide humanitarian assistance to victims of crisis and disaster.
- **American Citizens and Border Security –** Protect American citizens abroad and safeguard the borders of the United States.
- **Law Enforcement –** Combat international terrorism, crime, and narcotics trafficking.

To the extent practicable, national interests are reported as programs. An exception is for the national interests of National Security, Economic Prosperity, Democracy, and Global Issues. These national interests are primarily carried out through the Department's **Diplomatic Relations** and **International Organizations** programs, which have been combined and are reported as such on the Statement of Net Cost.

Diplomatic Readiness relates to the Department's responsibilities for managing infrastructure, information and human resources. The ability of the Department to advance national and foreign policy interests depends upon the quality of these items - the largest and most visible of which are programs for **Diplomatic Security** and **Foreign Buildings Operations**.

Executive Direction and Other Costs Not Assigned relate to high level executive direction (e.g., Office of the Secretary, Office of the Legal Adviser), international commissions, general management and certain administrative support costs that cannot be directly traced or reasonably allocated to a particular program. For the year ended September 30, 1998, these consist of costs and earned revenue for the following (Dollars in Thousands).

	Total Prior to Eliminations	Intra-Departmental Eliminations	Total
Executive Direction and Other Costs Not Assigned:			
Costs:			
FSRDF	$ 984,819	$ 325,677	$ 659,142
ICASS	622,420	412,416	210,004
Executive Direction	580,847	4,278	576,569
International Commissions	59,984	-	59,984
Total Costs	$ 2,248,070	$ 742,371	$ 1,505,699
Earned Revenue:			
FSRDF	1,093,936	300,079	793,857
ICASS	655,139	408,741	246,398
Executive Direction	158,408	10,122	148,286
International Commissions	56,959	-	56,959
Total Earned Revenue	$ 1,964,442	$ 718,942	$ 1,245,500
Total Net Costs for Executive Direction and Other Costs Not Assigned	$ 283,628	$ 23,429	$ 260,199

Program Costs. These costs include the full costs of resources consumed by a program, both direct and indirect, to carry out its activities. Direct costs are costs that can be specifically identified with a program. Indirect costs are costs of resources that are commonly used to support two or more programs, and are not specifically identifiable with any program. Indirect costs are assigned to programs through allocations. Full costs include the costs of goods or services received from other Federal entities, referred to as inter-entity costs, regardless of whether the Department reimburses that entity.

Indirect Costs. Indirect costs allocated to programs primarily consist of **Diplomatic Readiness** costs for central support functions performed by the following organizations under the Under Secretary for Management (Dollars in Thousands).

Bureau (or equivalent)	Amount
Bureau of Administration	$ 380,024
Bureau of Information Resource Management	214,821
Bureau of Personnel	165,138
Bureau of Finance and Management Policy	104,327
Foreign Service Institute	61,077
Medical Services and Other	68,637
Total Central Support Costs	$ 994,024
Less: Intra-Departmental eliminations	(106,724)
Total Central Support Costs Allocated	$ 887,300

These support costs were distributed to programs on the basis of a program's total base salaries for its full-time employees as a percentage of total base salaries for all full-time employees. While the amounts allocated are included in the total costs for the program to which they were allocated, they remain under the Under Secretary for Management who has overall responsibility for carrying out the activities of these functions. The distribution by program was as follows (Dollars in Thousands).

Program Receiving Allocation	Total Support Cost Allocated
Diplomatic Relations	$ 338,945
Executive Direction and Other Costs not Assigned	193,398
American Citizens and Border Security	128,377
Diplomatic Readiness – Diplomatic Security	118,594
Diplomatic Readiness – Foreign Buildings Operations	46,737
International Organizations	37,022
Law Enforcement	15,967
Humanitarian Response	8,260
Total	$ 887,300

Inter-Entity Costs*.* The Department is an agency of the federal government and in this capacity performs many services on behalf of other federal agencies, especially overseas. 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 the Department may be an interested party. To measure the full costs of activities, SFFAS No. 4 requires that total costs of programs include, if material, costs that are paid by other entities. As provided for by SFFAS No. 4, OMB issued a Memorandum in April 1998, entitled *Technical Guidance on the Implementation of Managerial Cost Accounting Standards for the Government*. In that Memorandum, OMB established that, for 1998 and 1999, reporting entities should recognize inter-entity costs for (1) employees' pension benefits, (2) health, life insurance, and other benefits for retired employees, (3) other post-retirement benefits for retired, terminated and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the Federal Employees' Compensation Act, and (4) payments made in litigation proceedings. Accordingly, the following inter-entity costs were recognized in the Statement of Net Costs for the year ended September 30, 1998 (Dollars in Thousands).

Inter-Entity Cost	Amount
Other Post Employment Benefits:	
Civil Service Retirement System	$ 13,212
Federal Employees Health Benefits Program	30,120
Federal Employees Group Life Insurance Program	136
Future Workers' Compensation Benefits	3,261
Litigation funded by Treasury Judgment Fund	391
Total	$ 47,120

Intra-Departmental Eliminations*.* Intra-Departmental eliminations of cost and revenue were recorded against the program providing the service, thereby reporting the full program cost by leaving the reporting of cost in the program receiving the service.

Earned Revenues. Earned revenues occur when the Department provides goods or services to the public or another Federal entity. Earned revenues are reported regardless of whether the Department is permitted to retain the revenues in whole or in part. Specifically, the Department collects but does not retain passport, visa, and certain other consular fees. Earned revenues for the year ended September 30, 1998, consist of the following (Dollars in Thousands).

Source of Earned Revenue	Total Prior To Elimination	Intra-Departmental Eliminations	Total
FSRDF	$ 1,093,832	$ 300,079	$ 793,753
Consular Fees:			
Passport, Visa and other Consular Fees (not retained)	526,493	-	526,493
Machine Readable Visa	247,502	-	247,502
Expedited Passport	49,430	-	49,430
Fingerprint Processing and Diversity Lottery	6,838		6,838
ICASS	653,864	408,741	245,123
Reimbursable Agreements with Federal Agencies	528,883	151,950	376,933
Working Capital Fund	103,355	88,438	14,917
Gain on Sales of Property	98,177	-	98,177
Other	34,888	7,447	27,441
Total	$ 3,343,262	$ 956,655	$ 2,386,607

Pricing Policies. Generally, a Federal agency may not earn revenues from outside sources without specific statutory authority. Accordingly, the pricing policy for any earned revenue depends on the nature of the revenue including the statutory authority under which the Department is allowed to earn and retain (or not retain) the revenue. Earned revenue that the Department does not have the authority to retain is deposited into Treasury's General Fund.

FSRDF finances the operations of the Foreign Service Retirement and Disability System (FSRDS) and the Foreign Service Pension System (FSPS). FSRDF receives revenues from employee/employer contributions, a U.S. Government contribution, and interest on investments. By law, FSRDS participants contribute 7% of basic pay and each employing agency contributes 8.51% of basic pay, and FSPS participants contribute 1.3% of basic pay and each employing agency contributes 20.34% of basic pay. Employing agencies report employee/employer contributions biweekly. Total employee/employer contributions for 1998 were approximately $136 million. The FSRDF also receives a U.S. Government contribution to finance (1) FSRDS benefits not funded by employee/employer contributions, (2) interest on the FSRDS unfunded liability, and (3) FSRDS disbursements attributable to military service. The U.S. Government contribution for 1998 was approximately $258 million. FSRDF cash resources are invested in special non-marketable securities issued by Treasury; total interest earned on investments in 1998 was approximately $700 million.

Consular Fees are established primarily on a cost recovery basis and are determined based on periodic cost studies. Reimbursable Agreements with Federal Agencies are established and billed on a cost recovery basis. ICASS billings are computed on a cost recovery basis; billings are calculated to be sufficient to cover all operating, overhead, and replacement of capital assets based on budget submissions, budget updates, and other factors. In addition to services covered under ICASS, the Department provides administrative support to other agencies overseas for which the Department does not charge. Areas of support primarily include buildings and facilities, diplomatic security (other than local guard program), overseas employment, communications, diplomatic pouch, receptionist and selected information management activities. The Department receives direct appropriations to provide this support and individual costs for these activities have not been determined.

Gross Cost and Earned Revenue by Budget Functional Classification (BFC). The Department's costs and revenue are included in the *Financial Report of the United States Government – Fiscal Year 1998 (Formerly the Consolidated Financial Statements of the United States Government)*. The *Financial Report of the United States Government – Fiscal Year 1998* presents gross cost and earned revenue by BFC. Following is the Department's gross cost and earned revenue by BFC for the year ended September 30, 1998 (Dollars in Thousands and reported net of intra-departmental eliminations).

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
International Affairs	$ 5,480,897	$ 1,540,208	$ 3,940,689
Income Security	773,240	793,753	(20,513)
Natural Resources	45,514	52,646	(7,132)
Total	$ 6,299,651	$ 2,386,607	$ 3,913,044

16. PRIOR PERIOD ADJUSTMENTS

The prior period adjustments are primarily due to (1) the implementation of SFFAS No. 6 and SFFAS No. 8 provisions concerning heritage assets and (2) an adjustment related to a real property sale. In accordance with the SFFASs, properties previously identified as capitalized assets were reclassified as heritage assets and are no longer reported as assets on the balance sheet. This reclassification resulted in a prior period adjustment of $22.9 million. An adjustment was also made to correct the accounting for $30 million collected pertaining to a real property sales contract.

17. STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources reports information on how budgetary resources were made available and their status as of September 30, 1998. Intra-departmental transactions have not been eliminated in the amounts presented. The Budgetary Resources section presents the total budgetary resources available to the Department. For 1998, the Department received approximately $6.3 billion in budget authority. Of this amount, approximately $5.2 billion consisted of direct or related appropriations. The remaining portion consists of authority financed from trust funds (approximately $1.1 billion - see Note 20).

Amounts shown on the Combined Statement of Budgetary Resources differ from "1998 Actual" amounts reported for the Department in the *FY 2000 Budget of the United States Government* as follows.

- Under the Foreign Affairs Reform and Restructuring Act of 1998 (Public Law 105-277), the Arms Control and Disarmament Agency (ACDA) and major portions of the United States Information Agency (USIA) will be merged into the Department effective April 1, 1999, and October 1, 1999, respectively. While not officially part of the Department's accounts in 1998, the *FY 2000 Budget of the United States Government* presents these accounts under the Department because they will be Department accounts in 2000. Consequently, the *FY 2000 Budget of the United States Government* includes $830 million in Budget Authority for the Department for ACDA and USIA accounts that are not reported in the Combined Statement of Budgetary Resources.

- The Budget Authority reported on the Combined Statement of Budgetary Resources includes $258 million the Department received in 1998 to administer programs related to International Security Assistance. Amounts for these programs are not presented under the Department in the *FY 2000 Budget of the United States Government*. Instead, these amounts are reported under the section entitled International Assistance Programs.

- The Unobligated Balances – Beginning of Year reported on the Combined Statement of Budgetary Resources includes a $30 million prior period adjustment (decrease) discussed in Note 16 that is not reported in the *FY 2000 Budget of the United States Government.*

- The Obligated Balance, Net – End of Year reported on the Combined Statement of Budgetary Resources includes a $142.7 million adjustment (decrease) pertaining to undelivered order that is not reported in the *FY 2000 Budget of the United States Government.*

- The Unobligated Balances reported on the Combined Statement of Budgetary Resources includes a $112.7 million adjustment (increase) as a result of the undelivered orders ($142.7 million) and prior period ($30 million) adjustments that is not reported in the *FY 2000 Budget of the United States Government.*

The amount of budgetary resources obligated for undelivered orders for all activities was approximately $2.0 billion as of September 30, 1998. This includes amounts for revolving and trust funds of $261 million.

18. STATEMENT OF FINANCING

Accrual-based measures used in the Statement of Net Cost differ from the obligation-based measures used in the Statement of Budgetary Resources. The Statement of Financing for the year ended September 30, 1998, presented below provides information to reconcile these different measures (Dollars in Thousands).

Statement of Financing

Obligations and Nonbudgetary Resources:		
Obligations Incurred	$	7,400,865
Less: Spending Authority from Offsetting Collections		(3,122,206)
Less: Exchange Revenue Not in Budget		(526,493)
Financing Imputed from Cost Subsidies		43,859
Transfers-In (Net)		3,616
Donations Not in the Budget		1,653
Other		737
Total Obligations as Adjusted and Nonbudgetary Resources	$	3,802,031
Resources that Do Not Fund Net Cost of Operations:		
Change in Amount of Goods/Services Ordered but Not Yet Received (Net Increase)	$	(132,553)
(Increase) in Unfilled Customer Orders		(2,388)
Costs Capitalized on the Balance Sheet (Increases)		(332,210)
Less: Financing Sources that Fund Costs of Prior Periods		(1,203,957)
Total Resources that Do Not Fund Net Costs of Operations	$	(1,671,108)
Costs that Do Not Require Resources:		
Depreciation and Amortization	$	205,463
Provision for Uncollectible Receivables		29
Loss on Disposition of Assets		68,530
Total Costs that Do Not Require Resources	$	274,022
Financing Sources Yet to be Provided	$	1,508,099
Net Cost of Operations	$	3,913,044

19. CUSTODIAL ACTIVITY

The Department administers certain activities associated with the collection of nonexchange revenues that are deposited and recorded directly to the General Fund of the Treasury. The Department does not retain the amounts collected. Accordingly, these amounts are not considered, nor reported as, financial or budgetary resources for the Department. At the end of each fiscal year, the accounts are closed and the balances brought to zero by Treasury. Specifically, the Department collects interest, penalties and handling fees on accounts receivable, fines for Munitions Control violations, international contributions for ice patrol activities, and other miscellaneous receipts. In 1998, the Department collected $5.6 million in custodial revenues that were transferred to Treasury. An accrual adjustment of $7,500,000 represents a new civil monetary penalty receivable recognized in 1998 that has not been collected or transferred.

20. DEDICATED COLLECTIONS

The Department administers four Trust Funds that receive dedicated collections. A brief description of each Fund and its purpose follows.

Foreign Service Retirement and Disability Fund. The Foreign Service Retirement and Disability Fund (FSRDF) was established in 1924 to provide pensions to retired and disabled members of the Foreign Service. FSRDF's revenues consist of contributions from active participants and their employers, appropriations, and interest on investments. Monthly annuity payments are made to eligible retired employees or their survivors. Separated employees without title to an annuity may take a refund of their contributions. PL 96-465 limits the amount of administrative expense that can be charged to the fund to $5,000. The total costs for administering FSRDF during 1998 were $2.6 million. Cash is invested in U.S. Treasury securities until needed for disbursement.

Conditional and Unconditional Gift Funds. The Department maintains two Trust Funds for the receipt and disbursement of donations. The Department has the authority to accept gifts from private organizations and individuals in the form of cash, gifts-in-kind and securities. Gifts are classified as Restricted or Unrestricted Gifts. Restricted Gifts are those given to the Department provided the Department agrees to use the gift in the manner specified by the donor. Unrestricted Gifts can be used for any expense normally covered by an appropriation, such as representational purposes and embassy refurbishment. Cash is invested in U.S. Treasury securities until needed for disbursement.

Foreign Service National Separation Liability Trust Fund (FSNSLTF). The purpose of FSNSLTF is to fund separation liabilities to foreign service nationals (FSNs)and personal service contractor (PSCs) employees who voluntarily resign, retire, or lose their jobs due to a reduction in force. The liability is applicable only in those countries that, due to local law, require a lump-sum voluntary separation payment based on years of service. FSNSLTF was authorized in 1991 and initially capitalized with a transfer from the Department. Contributions are made to the FSNSLTF by the Department's appropriations from which the FSNs and PSCs are paid. Once the liability to the separating FSN or PSC is computed in accordance with the local compensation plan, the actual disbursement is made from FSNSLTF.

Financial data of the Trust Funds as of and for the year ending September 30, 1998, are summarized below (Dollars in Thousands).

	FSRDF	Gift Funds	FSNSLTF
Fund Balances with Treasury	$ 2	$ 12,643	$ 80,124
Investments	9,550,149	2,960	-
Other Assets	182,766	43	-
Payable to Beneficiaries	35,378	n/a	1,873
Actuarial Liability	10,736,700	n/a	n/a
Other Liabilities	8,175	3,384	-
Net Position (Deficit)	(1,047,336)	12,262	78,251
Exchange Revenue:			
Intragovernmental	1,067,273	-	7,447
Governmental	26,559	-	-
Non Exchange Revenue:			
Intragovernmental	-	518	-
Governmental	-	-	-
Other Financing Sources	-	1,653	-
Program Expenses	519,760	1,119	4,981
Actuarial Expenses	248,500	n/a	n/a
Other Expenses	-	16	-
Prior Period Adjustments	8	(5,282)	(961)

21. DEFERRED MAINTENANCE (Unaudited)

The Department occupies over 3,000 government-owned or long-term leased real properties at over 260 overseas locations. The Department uses a condition assessment survey method to evaluate asset condition and determine the repair and maintenance requirements for its overseas buildings.

The SFFAS No. 6 requires deferred maintenance, measured using the condition survey method, and the description of the requirements or standards for acceptable operating condition be disclosed. Fundamentally, the Department considers that all of its overseas facilities in operation are in an “acceptable condition” in that they serve their required mission. Adopting standard criteria for a classification of acceptable condition is difficult in the complex environment in which the Department operates.

From a budgetary perspective, funding for maintenance and repair has been insufficient over the years. As a result, the Department has identified current repair and maintenance requirements of $131 million for 730 buildings overseas that have not been funded. These requirements were determined during periodic fire/safety/security inspections and global condition surveys.

Of the $131 million in identified repair and maintenance requirements, 242 buildings, or about 8% of the Department's buildings overseas, have maintenance and repair requirements of $100,000 or more. The remaining buildings, 92% of the total, have requirements of less than $100,000 each.

In addition, total life-cycle cost method of determining deferred maintenance is used for generators and uninterrupted power supply equipment. Deferred maintenance on this facilities-related equipment is estimated at $6.6 million.

Department of State
Required Supplementary Stewardship Information Heritage Assets
for the Fiscal Year Ended September 30, 1998

The Department owns art objects and furnishings that are considered heritage assets. The assets are in three separate collections - the Diplomatic Reception Rooms, Art in Embassies, and Curatorial Services Program. They are housed in the Diplomatic Reception Rooms, the Secretary's suite, and embassies located throughout the world. These heritage assets have been acquired as donations or purchased using gift and appropriated funds. .

Diplomatic Reception Rooms

Under the management of the Curator's Office, the Diplomatic Reception Room collection is made up of museum caliber American furnishings of the period 1750 to 1825. These items are used to decorate the Diplomatic Reception Rooms located on the 8th floor of the Department of State and 19 offices on the 7th floor used by the Secretary of State and her senior staff. These items have been acquired through donations and purchases funded through gifts from private citizens, foundations, and corporations. No tax dollars have been used to acquire or maintain the collection.

Art in Embassies

The Art in Embassies program was established in 1964 to promote national pride and a sense of the distinct cultural identity of America's arts and its artists. The program provides original U.S. works of art for the representational rooms of United States ambassadorial residences worldwide. Works of art in the program were acquired through donations or purchases.

Curatorial Services Program

The Curatorial Services Program manages antiques, works of art and high-value furnishings owned by the Department abroad. These objects are significant based on their historic importance, antiquity, rare quality, or high dollar value. These items may have been donated or obtained as part of the furnishings acquired with a building.

	Diplomatic Reception Rooms Collection	Art in Embassies Program	Curatorial Services Program
Description	Collectibles - Art and furnishings from the period 1750 to 1825	Collectibles- American works of art.	Collectibles - Art and furnishings of cultural or historic value.
Condition	Good to excellent	Good to excellent	Good to excellent
Number of items	3,416	2,345	957

Department of State
Required Supplementary Information
Working Capital Fund
for the Fiscal Year Ended September 30, 1998

The Working Capital Fund is a revolving fund, authorized by the Foreign Assistance Act of 1963 (PL 88-205), created to finance a continuing cycle of business-type operations for the Department. The WCF balance sheet at September 30, 1998, is presented below (Dollars in Thousands).

		1998
Assets:		
Fund Balance with Treasurey	$	54,273
Accounts Receivable		107,115
Plant, Property $ Equipment		32,474
Other Assets		2,451
Total Assets	$	196,313
Liabilities:		
Accounts Payable	$	40,475
Deferred Revenue		3,980
Other Liabilities		40,462
Total Liabilities	$	84,917
Cumulative Results of Operations	$	111,396

The Working Capital Fund serves bureaus and offices within the Department of State, Federal agencies operating abroad, foreign governments and international organizations located in the U.S. The Fund consists of four lines of business. The products/services provided by each business line are as follows.

Information Management - provides centralized management for equipment, services and maintenance of unclassified voice/data telecommunications.

Operations - arranges ocean and airfreight shipment of personal property and official supplies from points within the U.S. to overseas posts; provides permanent storage of household belongs for employees assigned to overseas posts; printing and editorial services; procurement of all publications, periodicals, books and newspapers for the Department; assists overseas posts with procuring local supplies and materials; provides motor vehicle transportation services; and provides moving and delivery services.

Office of Foreign Missions - regulates foreign government activities undertaken within the U.S.; registers and licenses motor vehicles belonging to the foreign mission or its staff; administers travel restrictions and controls on members of a foreign mission; reviews and approves/denies all foreign mission real property acquisitions, leases, and sales; and protects and preserves foreign mission properties that belong to countries that no longer maintain diplomatic relations with the U.S.

International Cooperative Administrative Support Service - manages the interagency administrative support services for overseas posts which includes services such as computer and financial management services, providing guard service, mail and messenger service, motor pool and health services.

The cost of providing services and the exchange revenue earned for 1998 is presented below (Dollars in Thousands).

	Information Management	Operations	Office of Foreign Missions	ICASS
Costs	$57,919	$48,760	$ 6,842	$622,421
Exchange Revenue	58,944	36,996	7,415	656,085
Net Cost	$ 1,025	($11,764)	$ 573	$ 33,664