

APPENDIX

The following data prepared by the Treasury Department indicates for the items included therein the type of information which would be presented on a governmentwide basis in the reports called for by S. 1013, as reported by your committee. This data was compiled as of June 30, 1965.

FINANCIAL CONTINGENCIES OF THE U.S. GOVERNMENT AS OF JUNE 30, 1965

This statement deals with financial contingencies which are not recognized as legal obligations in terms of real liabilities on the central books of the Treasury or real liabilities and undelivered orders and contracts on the books of operating agencies. The statement is designed to supplement the Government's regular financial reports (e.g., the combined statement of receipts, expenditures, and balances of the U.S. Government) in order to disclose potential claims which are not otherwise reported in a single compilation. Readers are cautioned, however, against misuse of the data since contingencies differ sharply from legal obligations.

Legal obligations fall into two categories: (1) "Liabilities," and (2) "undelivered orders." Liabilities are amounts owed, representing such things as borrowings, uninvested trust fund balances, and accounts payable for goods and services received. Undelivered orders, which include unfilled contracts, are commitments which will mature into liabilities as orders are filled by delivery of goods and services or performance is otherwise rendered under contracts. Contingencies, on the other hand, represent such things as loan guarantees and credit insurance which involve a risk of incurring liabilities, and a concomitant risk of loss, with a high degree of uncertainty as to time or amount. Whereas figures on liabilities and undelivered orders generally represent valuations of firm commitments against Government funds, accurate within a narrow range of variation, figures on contingencies represent merely the upper limit of a wide range of possible future liabilities.

The element of uncertainty is the primary basis for differentiating contingencies from legal obligations. In the case of legal obligations, ultimate payment by the Government is virtually certain or is contingent upon conditions which are likely to occur in the normal course of events. In the case of contingencies, the extent of ultimate payments, if any, and more importantly, the extent of ultimate losses, is contingent upon highly uncertain events such as widespread bank failures, defaults of borrowers, accelerated death rates, or war. Potential losses are further dependent upon the value of assets presently held as reserves against the contingency, the value of contingent assets which might be acquired, and future revenues generated by the existence of the contingency. Substantial losses can be predicted only on the basis of an abnormal course of events.