Pension Benefit Guaranty Corporation

Office of Inspector General

Audit Report

Audit of the Pension Benefit Guaranty Corporation's Fiscal Years 1997 and 1996 Financial Statements

Report of Independent Accountants

Report on Internal Controls

Report on Compliance With Applicable Laws and Regulations

Pension Benefit Guaranty Corporation's
Fiscal Years 1997 and 1996 Financial Statements
and Notes to the Financial Statements

March 23, 1998

98-3/23126-2

Pension Benefit Guaranty Corporation
PBGC US GOVERNMENT AGENCY 1200 K Street, N.W., Washington, D.C. 20005-4026

Office of Inspector General

To the Board of Directors
Pension Benefit Guaranty Corporation

Under the direction of the Office of Inspector General, Price Waterhouse LLP (Price Waterhouse) conducted an audit of the Pension Benefit Guaranty Corporation's (PBGC) Fiscal Year 1997 and 1996 financial statements.

This report presents Price Waterhouse's unqualified opinions on PBGC's (1) statements of financial condition as of September 30, 1997 and 1996, of the Single-Employer and Multiemployer Funds and the related statements of operations and changes in net position and statements of cash flows for the years then ended, and (2) management's assertion about the effectiveness of its internal controls. Price Waterhouse also tested and reported on PBGC's compliance with laws and regulations applicable to each fund and reported no instances of non-compliance with provisions tested.

The Chief Financial Officers (CFO) Act of 1990 (P.L. 101-576) requires PBGC's Office of Inspector General or an independent external auditor, as determined by the Inspector General, to audit the Agency's financial statements in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. The Office of Inspector General has responsibility for the audit and coordinated all work performed.

Our audit responsibility under the CFO Act was fulfilled by evaluating the quality of the audit work performed in accordance with GAS. Specifically, we:

- reviewed Price Waterhouse's approach and planning of the audit;
- evaluated the qualifications and independence of its auditors;
- monitored the progress of the audit at key points;
- examined its working papers and reports to evaluate compliance with GAS; and
- performed other procedures we deemed necessary.

Based on our quality review, we determined that Price Waterhouse planned, executed, and reported the results of its audit of PBGC's Fiscal Years 1997 and 1996 financial statements in accordance with GAS. Therefore, we concur that Price Waterhouse's audit work provided a reliable basis on which to render its reports.

In addition, Price Waterhouse's report on internal controls identified one reportable condition separated into three issues. These issues are: (1) that financial systems require integration to support accurate and efficient reporting of financial information; (2) that a formal Systems Development Life Cycle Methodology was not implemented and operational; and (3) that specific criteria were lacking to adequately manage and monitor system development projects outsourced to external vendors.

The Agency commented on a draft of the Price Waterhouse reports and agreed with the findings and recommendations. The Agency's written comments are in Section V.

Wayne Robert Poll

Wayne Robert Poll
Inspector General

March 23, 1998

Audit of the Pension Benefit Guaranty Corporation's Fiscal Year 1997 and 1996 Financial Statements

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Contents

Abbreviations

CFO	Chief Financial Officers Act
CSRS	Civil Service Retirement System
ERISA	Employee Retirement Income Security Act of 1974
FAM	Financial Audit Manual
FARS	Financial Accounting and Reporting System
FERS	Federal Employees Retirement System
FMFIA	Federal Managers' Financial Integrity Act of 1982
FRS	Financial Reporting System
GAO	U.S. General Accounting Office
GAS	Government Auditing Standards
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBGC	Pension Benefit Guaranty Corporation
PVFB	Present Value of Future Benefits
SDLC	Systems Development Life Cycle
TAS	Trust Accounting System
The Fund	Single-Employer Fund
83GAM	1983 Group Annuity Mortality Table
94GAM	1994 Group Annuity Mortality Table

Section I

Report of Independent Accountants

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Price Waterhouse LLP

Report of Independent Accountants

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the accompanying statements of financial condition as of September 30, 1997 and 1996, of the Single-Employer and Multiemployer Funds administered by the Pension Benefit Guaranty Corporation (PBGC or the Corporation) and the related statements of operations and changes in net position and statements of cash flows for the years then ended. These financial statements are the responsibility of PBGC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Single-Employer and Multiemployer Funds administered by PBGC at September 30, 1997 and 1996, and the results of their operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

By law, PBGC's Single-Employer Fund (the Fund) must be self-sustaining and as such, its premiums must be sufficient to cover both its short and long-term obligations. The Fund is able to meet its short-term benefit obligations and internal analyses indicate that the combined effect of future premium revenue and reduced underfunding of single-employer plans may allow the Fund to meet its future obligations as well. While the Fund's Statement of Financial Condition reports a net position (assets in excess of liabilities) of $3.5 billion at September 30, 1997, losses that are "reasonably possible" as a result of unfunded vested benefits are estimated to be in the range of $21 billion to $23 billion, as discussed in Note 9. To the extent contingent losses currently classified as "reasonably possible" become more likely, such as from deteriorating economic conditions or from insolvency of a large plan sponsor, the Fund's net position could be depleted.

The overview of PBGC, the Actuarial Valuation, and other supplemental information contain a wide range of data, some of which are not directly related to the principal financial statements. We do not express an overall opinion on this information. However, we compared this information for consistency with the principal financial statements and discussed the methods of measurement and presentation with PBGC officials. Based on this limited work, we found no material inconsistencies with the principal financial statements.

In addition, in accordance with *Government Auditing Standards*, we have issued reports dated January 30, 1998 on PBGC management's assertion about the effectiveness of its internal controls and on its compliance with laws and regulations.

Price Waterhouse LLP

January 30, 1998
Arlington, Virginia

Section II

Report on Internal Controls

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Price Waterhouse LLP

Independent Accountants' Report on Internal Controls

To the Inspector General
Pension Benefit Guaranty Corporation

We have examined management's assertion, included in its representation letter dated January 30, 1998, that internal accounting and administrative controls as of September 30, 1997, provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability over funds; and controls in effect as of that date provided reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authority and with applicable laws and regulations.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards,* and the U.S. General Accounting Office's (GAO) *Financial Audit Manual* (FAM) and, accordingly, included obtaining an understanding of the internal controls over financial reporting, testing, and evaluating the design and operating effectiveness of internal controls, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal controls over financial reporting to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that internal accounting and administrative controls as of September 30, 1997, provided reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles and to maintain accountability over funds; and controls in effect as of that date provided reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authority and with applicable laws and regulations is fairly stated, in all material respects, based upon criteria contained in Office of Management and Budget (OMB) Circular No. A-123.

However, our work identified the need to improve certain internal controls, as described below, and in a separate letter to PBGC management, dated January 30, 1998. The weakness in internal controls described below, although not considered to be material, represents a significant deficiency in the design or operations of internal controls which could adversely affect PBGC's ability to meet the internal control objectives listed above or meet OMB's criteria for reporting matters under Federal Managers' Financial Integrity Act of 1982 (FMFIA).

REPORTABLE CONDITION

Systems Design and Integration

Financial Management Systems Integration

In our prior year audits of PBGC, we identified a lack of integration of its financial management systems. Currently, these systems include the Financial Accounting and Reporting System (FARS) Revolving Fund and the Trust Accounting System (TAS), which are PBGC's general ledger systems, as well as the Financial Reporting System (FRS). PBGC recognized the need for integration of its financial management systems in its Five Year Financial Management Systems Plan and the Corporation's Integrity Act statement. Accordingly, the FARS Trust Fund was replaced by the Trust Accounting System, and the Standard General Ledger System was replaced by FRS in 1997. Although the Performance Accounting System was also scheduled to replace the FARS Revolving Fund during 1997, implementation of this system was delayed until fiscal year 1998. As a result, the lack of complete integration continues to impact the Corporation's ability to promptly and efficiently accumulate and summarize information required for internal and external financial reporting.

Office of Management and Budget's (OMB) Circular A-127, *Financial Management Systems*, states that financial management systems should be designed to provide for effective and efficient interrelationships between systems.

> *"The term "single, integrated financial management system" means a unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls and data necessary to carry out financial management functions, manage financial operations of the agency and report on the agency's financial status to central agencies, Congress and the public. Unified means that the systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs."*

An integrated financial management system should have the following characteristics:

- Common data elements
- Common transaction processing
- Consistent internal controls
- Efficient transaction entry

Under these criteria, PBGC did not meet the requirements of OMB Circular A-127. As a result, PBGC's financial management systems did not promote efficiencies in processing financial data, to avoid manual re-keying of transactions or extraction of data.

Systems Development Life Cycle (SDLC) Methodology

Prior fiscal year audits reported that PBGC had not formalized and implemented a SDLC methodology. In general, an SDLC methodology defines the standards for software development and includes the following:

- Analysis - Defines the scope of the project and what the organization wants to accomplish. The requirements definition is prepared which then enables an evaluation of potential solutions.

- Design - After the project team becomes familiar with the requirements and accepted solution, specific parameters and data fields are incorporated into a design which meets the business needs.

- Construction - Reports/screens/interfaces/programs are created and tested, the entire system is tested and accepted by the business user, and policies and procedures are developed, including user manuals.

- Implementation - Data is converted or created, users are trained, the completed and accepted system is delivered to the user and put into production.

- Post-Implementation - Once implemented, a mechanism is in place to define how continued maintenance, support, and operations will be performed and monitored, ensuring an effective level of control and adherence to PBGC policies and standards.

During fiscal year 1997, PBGC piloted a commercial product, CS/10000, to address our prior year audit recommendation (FOD-193B). In September, 1997, PBGC mandated the use of CS/10000 for systems development projects. Being a commercial product, CS/10000 will prompt any user of the product to perform and document certain generic tasks that would be required as part of a normal SDLC process. CS/10000 was designed to be used as a process management tool during systems development projects, implementing specific requirements that the user needs to define. As a result, PBGC needs to 1) develop an overall, standard SDLC methodology that addresses the Corporation's specific needs and requirements, incorporating the use of CS/10000; and 2) define a policy that requires implementation of this standard methodology, for the development of systems. Therefore, PBGC still must identify specific standards, which should then be followed in conjunction with CS/10000. The standards should address but not be limited to:

- hardware selection and use of software development tools (e.g., Powerbuilder)
- naming conventions (e.g., for library files and data elements)
- design of edit checks
- implementation of security and determination of access levels
- roles and responsibilities of the development team
- ongoing maintenance of systems

OMB Circular A-127 states that "agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program." OMB Circular A-127 also addresses requirements with respect to systems documentation, training and user support, maintenance, financial management system improvements, and internal controls related to the systems.

The lack of a formalized SDLC methodology has historically impacted, and may continue to impact, data conversion efforts, security administration, user acceptance testing, reports definition, and consistency of systems development initiatives.

Systems Development Monitoring and Oversight

PBGC lacks specific criteria to adequately manage and monitor its systems development projects that are outsourced to external vendors. In addition, the policies for monitoring outside service providers do not address the roles and responsibilities of PBGC in overseeing the service provider in areas related to security, capacity planning, back-up and recovery, and intrusion detection. As a result, inadequate security mechanisms may be implemented by outside service providers, increasing the risk of unauthorized access. During our audit, we determined that the lack of specific criteria or proper monitoring impacted the adequacy of logical access controls and the initial design of front-end edits related to certain PBGC applications.

PBGC's lack of formal methodologies and requirements to monitor the development and support of its business applications combined with the lack of specific criteria for ensuring the continued effectiveness of operational and financial management controls once systems are implemented will continue to impact current and future systems development efforts.

Recommendations:

We recommend that the Corporation:

- Complete its efforts to integrate its financial management systems, in accordance with OMB Circular A-127 and its Five Year Management Systems Plan. **(OIG Control Number FOD-268)**

- Develop a systems development life cycle methodology that is tailored to PBGC's environment and needs, and define a policy to implement this standard methodology. **(OIG Control Number IRMD-91)**

- Follow the formal systems development life cycle methodology on all subsequent systems acquisition or development projects, and require the same of contractors. **(OIG Control Number IRMD-92)**

- Identify specific criteria to allow PBGC to effectively monitor systems outsourcing relationships. **(OIG Control Number IRMD-93)**

We considered this reportable condition in rendering an opinion on the financial statements of the Funds administered by PBGC for the year ended September 30, 1997. This condition has been reported in the Corporation's 1997 Integrity Act draft annual statement.

This report is intended solely for the information and use of PBGC's Office of Inspector General, its Board of Directors, the management of PBGC, and the United States Congress. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse LLP

January 30, 1998
Arlington, Virginia

Section III

Report on Compliance with Applicable Laws and Regulations

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Price Waterhouse LLP

Independent Accountants' Report on Compliance with Laws and Regulations

To the Inspector General
Pension Benefit Guaranty Corporation

We have audited the financial statements of the Single-Employer and Multiemployer Funds administered by the Pension Benefit Guaranty Corporation (PBGC) as of and for the years ended September 30, 1997 and 1996, and have issued our report thereon dated January 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to PBGC is the responsibility of PBGC's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of PBGC's compliance with certain provisions of the Employee Retirement Income Security Act of 1974, the Federal Managers' Financial Integrity Act of 1982, the Retirement Protection Act of 1994, the Chief Financial Officers Act of 1990, and the Anti-Deficiency Act (limited to comparing the Corporation's recorded payments to related authorized limitations on certain payments and apportionments). However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under *Government Auditing Standards* or the U.S. General Accounting Office's *Financial Audit Manual*.

This report is intended for the information of PBGC's Office of Inspector General, its Board of Directors, the management of PBGC, and the United States Congress. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse LLP

January 30, 1998
Arlington, Virginia

Section IV

Pension Benefit Guaranty Corporation's Fiscal Years 1997 and 1996 Financial Statements and Notes to the Financial Statements

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions)	Single-Employer Program September 30, 1997	Single-Employer Program September 30, 1996	Multiemployer Program September 30, 1997	Multiemployer Program September 30, 1996	Memorandum Total September 30, 1997	Memorandum Total September 30, 1996
ASSETS						
Cash and cash equivalents	$ 553	$ 674	$ 20	$ 24	$ 573	$ 698
Investments, at market (Note 3):						
Fixed maturity securities	8,340	6,479	561	471	8,901	6,950
Equity securities	5,974	4,369	4	3	5,978	4,372
Real estate	83	53	0	0	83	53
Other	38	90	0	0	38	90
Total investments	14,435	10,991	565	474	15,000	11,465
Receivables, net:						
Sponsors of terminated plans	52	44	0	0	52	44
Sponsors of restored plans (Note 4)	56	51	0	0	56	51
Premiums	59	63	1	1	60	64
Sale of securities	33	28	0	0	33	28
Notes receivable (Note 5)	3	86	0	0	3	86
Investment income	114	97	7	6	121	103
Other	4	5	3	0	7	5
tal receivables	321	374	11	7	332	381
Furniture and fixtures, net	5	4	0	0	5	4
Total assets	$15,314	$12,043	$596	$505	$15,910	$12,548

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
(Dollars in millions)	1997	1996	1997	1996	1997	1996
LIABILITIES						
Present value of future benefits, net (Note 6):						
Trusteed plans	$ 9,994	$ 9,520	$ 7	$ 9	$10,001	$ 9,529
Terminated plans pending trusteeship	147	223	0	0	147	223
Settlements and judgments	248	62	0	0	248	62
Claims for probable terminations	1,108	955	0	0	1,108	955
Total present value of future benefits, net	11,497	10,760	7	9	11,504	10,769
Present value of nonrecoverable future financial assistance (Note 7)			361	365	361	365
Unearned premiums	271	296	9	7	280	303
Accounts payable and accrued expenses (Note 8)	65	118	0	0	65	118
Commitments and contingencies (Notes 9, 10, and 17)						
[illegible] liabilities	11,833	11,174	377	381	12,210	11,555
[illegible] POSITION	3,481	869	219	124	3,700	993
Total liabilities and net position	$15,314	$12,043	$596	$505	$15,910	$12,548

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION

	Single-Employer Program For the Years Ended September 30,		Multiemployer Program For the Years Ended September 30,		Memorandum Total For the Years Ended September 30,	
(Dollars in millions)	1997	1996	1997	1996	1997	1996
UNDERWRITING:						
Income:						
Premium (Note 11)	$1,064	$1,146	$ 22	$ 22	$1,086	$1,168
Other (Note 12)	22	26	1	1	23	27
Total	1,086	1,172	23	23	1,109	1,195
Expenses:						
Administrative	143	140	0	0	143	140
Other	29	3	0	0	29	3
Total	172	143	0	0	172	143
Other underwriting activity:						
Losses from completed and probable terminations (Note 13)	489	118	0	0	489	118
Losses (gains) from financial assistance (Note 7)			(3)	102	(3)	102
Actuarial adjustments (Note 6)	(472)	151	(2)	0	(474)	151
Total	17	269	(5)	102	12	371
Underwriting income (loss)	897	760	28	(79)	925	681
FINANCIAL:						
nent income (Note 14):						
I	1,000	191	67	11	1,067	202
Equity	1,679	694	1	1	1,680	695
Other	8	30	0	0	8	30
Total	2,687	915	68	12	2,755	927
Expenses:						
Investment	12	10	0	0	12	10
Actuarial charges (credits) (Note 6):						
Due to passage of time	654	615	1	1	655	616
Due to change in interest rates	306	(134)	0	0	306	(134)
Total	972	491	1	1	973	492
Financial income	1,715	424	67	11	1,782	435
Net income (loss)	2,612	1,184	95	(68)	2,707	1,116
Net position, beginning of year	869	(315)	124	192	993	(123)
Net position, end of year	$3,481	$ 869	$219	$124	$3,700	$ 993

The accompanying notes are an integral part of these financial statements.

PENSION BENEFIT GUARANTY CORPORATION
STATEMENTS OF CASH FLOWS

(Dollars in millions)	Single-Employer Program For the Years Ended September 30, 1997	1996	Multiemployer Program For the Years Ended September 30, 1997	1996	Memorandum Total For the Years Ended September 30, 1997	1996
OPERATING ACTIVITIES:						
Premium receipts	$1,047	$1,191	$24	$ 21	$1,071	$ 1,212
Interest and dividends received, net	597	509	36	32	633	541
Cash received from plans upon trusteeship	29	47	0	0	29	47
Receipts from sponsors	25	47	0	0	25	47
Other receipts	8	17	0	0	8	17
Receipts of notes receivable	79	8	0	0	79	8
Benefit payments - trusteed plans	(792)	(778)	(1)	(2)	(793)	(780)
Financial assistance payments			(4)	(5)	(4)	(5)
Settlements and judgments	(5)	(35)	0	0	(5)	(35)
Payments for administrative and other expenses	(154)	(158)	0	0	(154)	(158)
Net cash provided by operating activities (Note 16)	834	848	55	46	889	894
INVESTING ACTIVITIES:						
Proceeds from sales of investments	3,680	5,093	23	176	3,703	5,269
Payments for purchases of investments	(4,635)	(5,704)	(82)	(210)	(4,717)	(5,914)
Net cash used in investing activities	(955)	(611)	(59)	(34)	(1,014)	(645)
Net increase (decrease) in cash and cash equivalents	(121)	237	(4)	12	(125)	249
Cash and cash equivalents, beginning of year	674	437	24	12	698	449
Cash and cash equivalents, end of year	$ 553	$ 674	$20	$ 24	$ 573	$ 698

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1997 AND 1996

Note 1 – Organization and Purpose

The Pension Benefit Guaranty Corporation (PBGC or the Corporation) is a federal corporation created by Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) and is subject to the provisions of the Government Corporation Control Act. Its activities are defined in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980, the Single-Employer Pension Plan Amendments Act of 1986, the Pension Protection Act of 1987, and the Retirement Protection Act of 1994. The Corporation insures pensions, within statutory limits, of participants in covered single-employer and multiemployer defined benefit pension plans that meet the criteria specified in Section 4021 of ERISA.

ERISA requires that PBGC programs be self-financing. The Corporation finances its operations through premiums collected from covered plans, assets assumed from terminated plans, collection of employer liability payments due under ERISA as amended, and investment income. In addition, PBGC may borrow up to $100 million from the U.S. Treasury to finance its operations. The Corporation did not use this borrowing authority during the years ended September 30, 1997, or September 30, 1996, nor is use of this authority currently planned. ERISA provides that the U.S. Government is not liable for any obligation or liability incurred by PBGC.

Under the single-employer program, PBGC is liable for the payment of guaranteed benefits with respect only to underfunded terminated plans. An underfunded plan may terminate only if PBGC or a bankruptcy court finds that one of the four conditions for a distress termination, as defined in ERISA, is met or if PBGC involuntarily terminates a plan under one of five specified statutory tests. The net liability assumed by PBGC is generally equal to the present value of the future benefits (including amounts owed under Section 4022(c) of ERISA) less (1) the amounts that are provided by the plan's assets and (2) the amounts that are recoverable by PBGC from the plan sponsor and members of the plan sponsor's controlled group, as defined by ERISA.

Under the multiemployer program, if a plan becomes insolvent, it receives financial assistance from PBGC to allow the plan to continue to pay participants their guaranteed benefits. Such assistance is recognized as a loss to the extent that the plan is expected to be unable to repay these amounts from future plan contributions, employer withdrawal liability, or investment earnings.

Note 2 – Significant Accounting Policies

Revolving and Trust Funds: PBGC accounts for its single-employer and multiemployer programs' revolving and trust funds on an accrual basis. Each fund is charged its portion of the benefits paid each year. The revolving and trust funds have been combined for presentation purposes in the financial statements. The single-employer and multiemployer programs are separate programs by law and, therefore, are reported separately.

ERISA provides for the establishment of revolving funds to be used by PBGC in carrying out its duties. The revolving funds support the operational and administrative functions of PBGC and fund any deficits incurred by PBGC in trusteeing plans or providing financial assistance. Premiums collected from ongoing plans are accounted for through the revolving funds. The Pension Protection Act of 1987 created a single-employer revolving fund that is credited with all premiums in excess of $8.50 per participant, including all penalties and interest charged on these amounts, as well as investment income. This fund may not be used to pay PBGC's administrative costs or the benefits of any plan terminated prior to October 1, 1988, unless no other amounts are available.

The trust funds reflect accounting activity associated with: (1) trusteed plans – plans for which PBGC has legal responsibility, (2) plans pending trusteeship – terminated plans for which PBGC has not become legal trustee by fiscal yearend, and (3) probable terminations – plans that PBGC determines are likely to terminate and be trusteed by PBGC. PBGC cannot exercise legal control over a plan's assets until PBGC becomes trustee, which may be several years after the date of plan termination.

Allocation of Revolving and Trust Funds: Revolving and trust fund assets, liabilities, income, and expenses are allocated to each program's revolving and trust funds to the extent that such amounts are not directly attributable to a specific fund. Revolving fund income is allocated on the basis of each program's average cash available for investment during the year while the expenses are allocated on the basis of each program's present value of future benefits. Revolving fund assets and liabilities are allocated on the basis of the yearend equity of each program's revolving funds. The plan assets acquired by PBGC and commingled at PBGC's custodian bank are credited directly to the appropriate fund while the earnings and expenses on the commingled assets are allocated to each trust fund's trust funds on the basis of each trust fund's value, relative to the total value of the commingled fund.

Valuation Method: Consistent with generally accepted accounting principles outlined in Statements of Financial Accounting Standards Nos. 35 ("Accounting and Reporting by Defined Benefit Pension Plans"), 60 ("Accounting and Reporting by Insurance Enterprises"), and 87 ("Employers' Accounting for Pensions"), PBGC reports its assets and liabilities at fair value. A primary objective of PBGC's financial statements is to provide financial information that is useful in assessing PBGC's present and future ability to ensure that defined benefit pension plan beneficiaries receive benefits when due. PBGC believes that measuring its assets and liabilities at fair value provides the most relevant information to the reader.

Cash and Cash Equivalents: Cash includes cash on hand and demand deposits. Cash equivalents are securities with a maturity of one business day.

Investment Valuation and Income: Fair values are based on the last sale of a listed security, on the mean of the "bid-and-asked" for nonlisted securities, or on a valuation model in the case of fixed-income securities that are not actively traded. These valuations are determined as of the end of each fiscal year. Purchases and sales of securities are recorded on the trade date. Investment income is accrued as earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on sales of investments are calculated using an average cost basis. Any increase or decrease in the market value of a plan's assets occurring after the date on which the plan is terminated must, by law, be credited to or suffered by PBGC (see Notes 3, 6, and 14).

Sponsors of Terminated Plans, Receivables: The amounts due from sponsors of terminated plans or members of their controlled group represent the settled claims for employer liability (underfunding as of date of plan termination) and for contributions due their plan less an allowance for uncollectible amounts. Any amounts expected to be received beyond one year are discounted for time and risk factors. Some agreements between PBGC and plan sponsors provide for contingent payments based on future profits of the sponsors. Any such future amounts realized will be reported in the period in which they accrue or are received.

Premiums: Premiums receivable represent the earned but unpaid portion of the premiums for plans that have a plan year commencing before the end of PBGC's fiscal year and past due premiums deemed collectible, including collectible penalties and interest. Unearned premiums represent an estimate of payments received during the fiscal year that cover the portion of a plan's year after the Corporation's fiscal yearend. Premium income represents revenue generated from self-assessments from defined benefit pension plans as required by Title IV of ERISA.

Present Value of Future Benefits (PVFB): The PVFB is the estimated liability for future pension benefits that PBGC is or will be obligated to pay with respect to trusteed plans and terminated plans pending trusteeship. This liability is stated as the actuarial present value of estimated future benefits less the present value of estimated recoveries from sponsors and members of their controlled group and the assets of terminated plans pending trusteeship. The estimated liabilities attributable to probable future plan terminations are also included in the PVFB as a separate line item (net of estimated recoveries and assets). To measure the actuarial present value, PBGC used assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also included anticipated expenses to settle the benefit obligation in the determination of the PVFB.

(1) Trusteed Plans – represents the present value of future benefit payments less the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated and been trusteed by PBGC prior to fiscal yearend.

(2) Terminated Plans Pending Trusteeship – represents the present value of future benefit payments less the plans' net assets (at fair value) anticipated to be received and the present value of expected recoveries (for which a settlement agreement has not been reached with sponsors and members of their controlled group) for plans that have terminated but have not been trusteed by PBGC prior to fiscal yearend.

(3) Settlements and Judgments – represents estimated liabilities related to settled litigation.

(4) Net Claims for Probable Terminations – includes reasonable estimates of the losses, net of plan assets and the present value of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in a future year. These estimated losses are based on conditions that existed as of PBGC's fiscal yearend. It is likely that one or more events subsequent to PBGC's fiscal yearend will occur, confirming the fact of the loss.

PBGC's benefit payments to participants represent a reduction to the PVFB (see Note 6).

Present Value of Nonrecoverable Future Financial Assistance: In accordance with Title IV of ERISA, PBGC provides financial assistance to multiemployer plans, in the form of loans, to enable the plans to pay guaranteed benefits to participants and reasonable administrative expenses.

These loans, issued in exchange for interest-bearing promissory notes, constitute an obligation of each plan.

The present value of nonrecoverable future financial assistance represents the estimated nonrecoverable payments to be provided by PBGC in the future to multiemployer plans that will not be able to meet their benefit obligations. The present value of nonrecoverable future financial assistance is based on the difference between the present value of future guaranteed benefits and expenses and the market value of plan assets, including the present value of future amounts expected to be paid by employers, for those plans that are expected to require future assistance. The amount reflects the rates at which, in the opinion of management, these liabilities (net of expenses) could be settled in the market for single-premium nonparticipating group annuities issued by private insurers (see Note 7).

Other Expenses: These expenses represent a current period estimate of the net amount of receivables deemed to be uncollectible. The estimate is based on the most recent status of the debtor (e.g., sponsor), the age of the receivables, and other factors that indicate the element of uncollectibility in the receivables outstanding.

Losses from Completed and Probable Terminations: Amounts reported as losses from completed and probable terminations represent the difference as of the date of plan termination between the present value of future benefits (including amounts owed under Section 4022(c) of ERISA) assumed, or expected to be assumed, by PBGC, less related plan assets and the present value of expected recoveries from sponsors and members of their controlled group (see Note 13). In addition, the plans' net income from date of plan termination to the beginning of the fiscal year is included as a component of losses from completed and probable terminations for plans with termination dates prior to the year in which they were added to PBGC's inventory of terminated plans.

Actuarial Adjustments and Charges: Actuarial adjustments related to changes in method and the effect of experience are classified as underwriting activity. Actuarial charges related to changes in interest rates and passage of time are classified as financial activity. These adjustments and charges represent the change in the PVFB that results from applying actuarial assumptions in the calculation of future benefit liabilities (see Note 6).

Depreciation: Depreciation of PBGC's furniture and equipment is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives range from 5 to 10 years.

Routine maintenance and leasehold improvements (the amounts of which are not material) are charged to operations as incurred.

Note 3 -- Investments

Premium receipts are invested in securities issued by the U.S. Government.

The trust funds include assets PBGC acquires or expects to acquire with respect to terminated plans and investment income thereon. These assets generally are held by custodian banks.

The basis and market value of the investments by type are detailed below. The basis indicated is cost of the asset if acquired after the date of plan termination or the market value at date of plan termination if the asset was acquired as a result of a plan's termination. Realized and unrealized gains and losses, in addition to interest and dividends earned on these investments, are disclosed in Note 14.

INVESTMENTS OF SINGLE-EMPLOYER REVOLVING FUNDS AND SINGLE-EMPLOYER TRUSTEED PLANS
(Dollars in millions)

	September 30, 1997		September 30, 1996	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	$ 7,710	$ 8,122	$6,440	$ 6,462
Certificates of deposit	1	1	1	1
Corporate bonds	195	217	15	16
Subtotal	7,906	8,340	6,456	6,479
Equity securities	3,443	5,974	3,096	4,369
Real estate	73	83	57	53
Other:				
Insurance contracts	44	36	37	36
Mortgages	2	2	1	1
Foreign securities	0	0	58	53
Total	$11,468	$14,435	$9,705	$10,991

INVESTMENTS OF MULTIEMPLOYER REVOLVING FUNDS AND MULTIEMPLOYER TRUSTEED PLANS
(Dollars in millions)

	September 30, 1997		September 30, 1996	
	Basis	Market Value	Basis	Market Value
Fixed maturity securities:				
U.S. Government securities	$532	$561	$469	$471
Corporate bonds	0	0	0	0
Subtotal	532	561	469	471
Equity securities	2	4	2	3
Total	$534	$565	$471	$474

Note 4 – Receivables, Net: Sponsors of Restored Plans

The $56 million receivable consists of the original $48 million, 8 1/2% interest-bearing note from the LTV Corporation that matures on December 31, 2020, $4 million of interest owed for 1997 and $3 million of interest owed for prior years that were added to the principal balance, and approximately $1 million in interest accrued at yearend.

Note 5 – Receivables, Net: Notes Receivable

In fiscal year 1997, PBGC received $73 million from Continental Airlines to liquidate 10 secured notes with a face value of $82 million. There are four remaining 12% secured notes that mature in 1999. These notes had a net present value of $3 million at September 30, 1997, and the 14 notes had a net present value of $86 million at September 30, 1996.

Note 6 – Present Value of Future Benefits

The following table summarizes the actuarial adjustments, charges, and credits that explain how the Corporation's single-employer program liability for the present value of future benefits changed for the years ended September 30, 1997 and 1996.

PBGC used a 25-year select interest rate of 6.2% followed by an ultimate rate of 5.5% for 1997 and a 25-year select interest rate of 6.6% followed by an ultimate rate of 4.75% for 1996. These rates were determined to be those needed to continue to match the survey of annuity prices provided by the American Council of Life Insurance. PBGC's regulations state that both the interest rate and the length of the select period may vary to produce the best fit with these prices. The prices reflect rates at which, in the opinion of management, the liabilities (net of expenses) could be settled in the market at September 30, for single-premium nonparticipating group annuities issued by private insurers. These rates are impacted by many factors including Federal Reserve policy.

In 1997 PBGC adopted the 1994 Group Annuity Mortality (GAM) Static Table (with margins), set forward two years and projected 12 years to 2006 using Scale AA, based on the recommendation of a study conducted by an outside consultant. In 1996 PBGC used the 1983 GAM table with margins projected to 1993 by Scale H.

The reserve for administrative expenses in the 1997 valuation was assumed to be 1.3% of benefit liabilities plus additional reserves for cases whose plan asset determinations, participant database audits, and actuarial valuations were not yet complete. The factors to determine the additional reserves were based on case size, number of participants, and time since trusteeship. For 1996 this assumption consisted of (1) an initial case processing cost of $26,000 per plan plus $650 per participant, both of which were phased out over four years following the date of trusteeship; and (2) a flat 3.25 percent of total benefit liability. The expense formula used to calculate the PVFB was modified for 1997 to more accurately reflect PBGC's claims-related expenses, as determined by a study conducted by an outside consultant.

The present values of future benefits for trusteed multiemployer plans for 1997 and 1996 reflect changes due to benefit payments, change in interest assumption, passage of time, and effect of experience.

The resulting liability represents PBGC's best estimate of the measure of anticipated experience under these programs.

RECONCILIATION OF THE PRESENT VALUE OF FUTURE BENEFITS FOR THE YEARS ENDED SEPTEMBER 30, 1997 AND 1996
(Dollars in millions)

	September 30, 1997		1996	
Present value of future benefits, at beginning of year – Single-Employer, net		$10,760		$10,388
Estimated recoveries		36		58
Assets of terminated plans pending trusteeship, net		119		212
Present value of future benefits at beginning of year, gross		10,915		10,658
Settlements and judgments		(62)		0
Net claims for probable terminations, prior year		(955)		(1,179)
Actuarial adjustments – underwriting:				
Changes in method and assumptions	$ (454)		$ (44)	
Effect of experience	(18)		195	
Total actuarial adjustments – underwriting	(472)		151	
Actuarial charges (credits) – financial:				
Passage of time	654		615	
Change in interest rates	306		(134)	
Total actuarial charges – financial	960		481	
Total actuarial charges		488		632
Terminations:				
Current year	870		675	
Changes in prior year	(177)		(98)	
Total terminations		693		577
Benefit payments*		(823)		(790)
Estimated recoveries		(12)		(36)
..ts of terminated plans pending ..steeship, net		(103)		(119)
..lements and judgments		248		62
Net claims for probable terminations:				
Future benefits**	2,593		2,680	
Estimated plan assets and recoveries from sponsors	(1,485)		(1,725)	
Total net claims, current year		1,108		955
Present value of future benefits, at end of year – Single-Employer, net		11,497		10,760
Present value of future benefits, at end of year – Multiemployer		7		9
Total present value of future benefits, at end of year, net		$11,504		$10,769

* The benefit payments of $823 million and $790 million include $31 million in 1997 and $12 million in 1996 for benefits paid from plan assets by plans prior to trusteeship.

** The future benefits for probable terminations of $2,593 million and $2,680 million for fiscal years 1997 and 1996, respectively, include $140 million and $118 million, respectively, in net claims (future benefits less estimated plan assets and recoveries) for probable terminations not specifically identified.

TS OF SINGLE-EMPLOYER TERMINATED PLANS PENDING TRUSTEESHIP, NET
rs in millions)

	September 30, 1997		September 30, 1996	
	Basis	Market Value	Basis	Market Value
U.S. Government securities	$ 19	$ 19	$ 29	$ 28
Corporate bonds	27	27	26	27
Equity securities	35	35	27	29
Insurance contracts	6	6	25	16
Other	5	5	0	0
Cash and cash equivalents	11	11	19	19
Total, net	$103	$103	$126	$119

Net Claims for Probable Terminations: Factors that are presently not fully determinable may be responsible for these claim estimates differing from actual experience. Included in net claims for probable terminations is a provision for future benefit liabilities for plans not specifically identified.

The values recorded in the following reconciliation table have been adjusted to the expected dates of termination.

RECONCILIATION OF NET CLAIMS FOR PROBABLE TERMINATIONS
(Dollars in millions)

	September 30, 1997		September 30, 1996	
Net claims for probable terminations, at beginning of year		$ 955		$1,179
New claims	$ 95		$ 144	
Actual terminations	(127)		(113)	
Eliminated probables	(32)		(73)	
Change in benefit liabilities	331		(30)	
Change in plan assets	(198)		(102)	
Change in expected recoveries	84		(50)	
Loss on probables		153*		(224)*
Net claims for probable terminations, at end of year		$1,108		$ 955

* See Note 13

Note 7 -- Multiemployer Financial Assistance

Financial assistance is granted to multiemployer defined benefit pension plans in the form of loans. An allowance is set up to the extent that repayment of these loans is not expected. Prior to September 30, 1997, PBGC was in negotiations with a multiemployer plan for the repayment of financial assistance. A final agreement was reached in December 1997 and $3.2 million was repaid in January 1998.

NOTES RECEIVABLE
IULTIEMPLOYER FINANCIAL ASSISTANCE
)ollars in millions)

	September 30, 1997	1996
ross balance at beginning of year	$ 31	$ 26
Financial assistance payments-current year	4	5
ıbtotal	35	31
llowance for uncollectible amounts	(32)	(31)
Net balance at end of year	$ 3	$ 0

The losses (gains) from financial assistance reflected in the Statements of Operations and Changes in Net Position include annual changes in the estimated present value of nonrecoverable future financial assistance and assistance granted that was not previously accrued.

PRESENT VALUE OF NONRECOVERABLE FUTURE FINANCIAL
SSISTANCE AND LOSSES FROM FINANCIAL ASSISTANCE
ollars in millions)

	September 30, 1997	1996
ılance at beginning of year	$365	$268
hanges in allowance:		
Losses from financial assistance	0	102
Financial assistance granted (previously accrued)	(4)	(5)
Balance at end of year	$361	$365

Note 8 -- Accounts Payable and Accrued Expenses

The following table itemizes accounts payable and accrued expenses reported in the Statements of Financial Condition:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES
(Dollars in millions)

	September 30, 1997	1996
Due for purchase of securities	$36	$ 91
Annual leave	3	3
Other payables and accrued expenses	26	24
Accounts payable and accrued expenses	$65	$118

Note 9 – Contingencies

There are a number of large single-employer plans that may terminate. In addition, there are some multiemployer plans that may require future financial assistance. The amounts disclosed below represent the Corporation's best estimates given the inherent uncertainties about these plans.

PBGC estimates that total unfunded vested benefits on termination of single-employer plans that represent reasonably possible exposure as of September 30, 1997, range from $21 billion to $23 billion. This exposure is primarily in the steel, airline, industrial and commercial equipment, and transportation equipment industries. The estimate has been calculated as in previous years by using data obtained from filings with the government and corporate annual reports for fiscal years ending in calendar 1996. The value reported for liabilities in the $21 billion estimate has been adjusted to the December 31, 1996, PBGC select interest rate of 5.8%. When available, data has been adjusted to a consistent set of mortality assumptions. Plans not insured by PBGC have been eliminated from the data. Since these figures are generally based on the reporting requirements in the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 87 ("Employers' Accounting for Pensions"), no provision has been made for the possible failure of the plan sponsor to make subsequent contributions or for plan liabilities that would be incurred after that date.

PBGC has included amounts in the liability for the present value of nonrecoverable future financial assistance (see Note 7) for multiemployer plans that PBGC estimates may require future financial assistance. In addition, PBGC currently estimates that it is reasonably possible that other multiemployer plans may require future financial assistance in the amount of $314 million.

The future financial assistance liability for each multiemployer plan identified as probable or reasonably possible was calculated as the present value of guaranteed future benefit and expense payments as of the later of September 30, 1997, or the projected (or actual, if known) date of plan insolvency, discounted back to September 30, 1997, using interest only. The Corporation's identification of plans that are likely to require such assistance and estimation of related amounts require consideration of many complex factors. These factors are affected by future events, including actions by plans and their sponsors, most of which are beyond the Corporation's control.

A select and ultimate interest rate assumption of 6.2% for the first 25 years after the valuation date and 5.5% thereafter was used. The 1994 Group Annuity Mortality Static Table (with margins), set forward two years, projected 12 years to 2006 using Scale AA, was also used.

Note 10 – Commitments

PBGC leases its office facility under a commitment that began on December 11, 1993, and expires December 10, 2008. The lease provides for periodic rate increases based on increases in operating costs and real estate taxes over a base amount. In addition, PBGC is leasing space for field benefit administrators. These leases began in 1996 and expire in 2005. The minimum future lease payments for office facilities having noncancellable terms in excess of one year as of September 30, 1997, are as follows:

COMMITMENTS: FUTURE LEASE PAYMENTS
(Dollars in millions)

Years Ending September 30,	Operating Leases
1998	$ 12.0
1999	12.4
2000	12.1
2001	12.3
2002	12.5
Thereafter	84.7
Minimum lease payments	$146.0

Lease expenditures were $11.3 million in 1997 and $10.7 million in 1996.

Note 11 – Premiums

For both the single-employer and multiemployer programs, ERISA provides that PBGC shall continue to guarantee basic benefits despite the failure of a plan administrator to pay premiums when due. PBGC assesses interest and penalties on the unpaid amount for late payment or underpayment of premiums. Late payment interest continues to accrue until the premium due is paid, while the amount of penalty that can be levied is capped at 100 percent of the premium late payment or underpayment (see Note 12). Annual premiums for the single-employer program are $19 per participant for a fully funded plan. Underfunded single-employer plans pay an additional variable-rate charge, previously capped at $53 per participant, based on funding levels. The Retirement Protection Act, signed into law on December 8, 1994, phased out the cap on the variable-rate charge for most plans by the end of the 1996 calendar year. The multiemployer premium is $2.60 per participant.

Note 12 -- Underwriting: Other Income

UNDERWRITING: OTHER INCOME
(Dollars in millions)

	For the Years Ended September 30, 1997	1996
Interest income-premiums	$ 2	$ 1
Penalty income-premiums	2	15
Interest income-employer liability	6	4
Interest income-due and unpaid contributions	8	2
Other	5	5
	$23	$27

Note 13 -- Losses from Completed and Probable Terminations

Amounts reported as losses are the present value of future benefits (including amounts owed under Section 4022(c)) less related plan assets and the present value of expected recoveries from sponsors. The following table details the components that make up the losses:

LOSSES FROM COMPLETED AND PROBABLE TERMINATIONS -- SINGLE-EMPLOYER PROGRAM
(Dollars in millions)

	1997 New Terminations	1997 Changes in Prior Year Terminations	1997 Total	1996 New Terminations	1996 Changes in Prior Year Terminations	1996 Total
Present value of future benefits	$870	$(177)	$693	$675	$ (98)	$ 577
Less plan assets	536	35	571	340	13	353
Plan asset insufficiency	334	(212)	122	335	(111)	224
Less estimated recoveries	0	(24)	(24)	3	(25)	(22)
Subtotal	$334	$(188)	146	$332	$ (86)	246
Settlements and judgments			190			96
[illegible]bles			153*			(224)*
Total			$489			$ 118

* See Note 6

Note 14 – Financial Income

NCIAL INCOME
rs in millions)

	For the Years Ended September 30,					
	1997			1996		
	Terminated Plans Pending Trusteeship	Revolving Funds and Trusteed Plans	Total	Terminated Plans Pending Trusteeship	Revolving Funds and Trusteed Plans	Total
Fixed-income securities:						
Interest earned	$1	$ 596	$ 597	$ 3	$ 513	$ 516
Realized gain	1	29	30	0	306	306
Unrealized gain (loss)	0	440	440	0	(620)	(620)
Total fixed-income securities	2	1,065	1,067	3	199	202
Equity securities:						
Dividends earned	1	64	65	0	57	57
Realized gain	1	351	352	0	261	261
Unrealized gain	0	1,263	1,263	0	377	377
Total equity securities	2	1,678	1,680	0	695	695
Other income (loss)	0	8	8	(5)	35	30
Total financial income (loss)	$4	$2,751	$2,755	$(2)	$ 929	$ 927

Note 15 -- Employee Benefit Plans

All permanent full-time and part-time PBGC employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Full-time and part-time employees with less than five years service under CSRS and hired after December 31, 1983, are automatically covered by both Social Security and FERS. Employees hired before January 1, 1984, participate in CSRS unless they elected to transfer to FERS by June 30, 1988.

The Corporation's contribution to the CSRS plan equals the 7 percent of base pay contributed by employees covered by that system. For those employees covered by FERS, the Corporation's contribution was 12.2 percent of base pay for both 1997 and 1996. In addition, for FERS-covered employees, PBGC automatically contributes 1 percent of base pay to the employee's Thrift Savings account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Total retirement plan expenses amounted to $6 million in both 1997 and 1996.

These financial statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to PBGC employees. These amounts are reported by the U.S. Office of Personnel Management (OPM) and are not allocated to the individual employers. OPM accounts for federal health and life insurance programs for those retired PBGC eligible employees who had selected federal government-sponsored plans. PBGC does not offer other supplemental health and life insurance benefits to its employees.

Note 16 -- Cash Flows

The following is a reconciliation between the net income (loss) as reported in the Statements of Operations and Changes in Net Position and net cash provided by operating activities as reported in the Statements of Cash Flows.

RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES
(Dollars in millions)

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	September 30,		September 30,		September 30,	
	1997	1996	1997	1996	1997	1996
Net income (loss)	$2,612	$1,184	$ 95	$(68)	$2,707	$1,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Net (appreciation) decline in fair value of investments	(2,010)	(379)	(32)	21	(2,042)	(358)
Net (income) loss of terminated plans pending trusteeship	(36)	3	0	0	(36)	3
Loss on completed and probable terminations	489	118	0	0	489	118
tuarial charges (credits)	488	632	(1)	1	487	633
enefit payments-trusteed plans	(792)	(778)	(1)	(2)	(793)	(780)
Cash received from plans upon trusteeship	29	47	0	0	29	47
Changes in assets and liabilities, net of effects of trusteed and pending plans:						
(Increase) decrease in receivables	77	(41)	(4)	(3)	73	(44)
Increase (decrease) in present value of nonrecoverable future financial assistance			(4)	97	(4)	97
Increase (decrease) in unearned premiums	(25)	99	2	0	(23)	99
Increase (decrease) in accounts payable	2	(37)	0	0	2	(37)
Net cash provided by operating activities	$ 834	$ 848	$ 55	$ 46	$ 889	$ 894

Note 17 -- Litigation

PBGC records as a liability on its financial statements an estimated cost for unresolved litigation to the extent that losses in such cases are probable and estimable in amount. In addition to such recorded costs, PBGC estimates that possible losses of up to $70 million could be incurred in the event that PBGC does not prevail in these matters.

Section V

Agency Comments

Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026
(202) 26-4010

Office of the Executive Director

February 18, 1998

MEMORANDUM

TO: Wayne Robert Poll
Inspector General

FROM: N. Anthony Calhoun
Deputy Executive Director
and Chief Financial Officer

SUBJECT: Comments - Audit of the PBGC's Fiscal Year 1997 and 1996 Financial Statements

We have reviewed the Price Waterhouse Report of Independent Accountants, Report on Internal Controls, and Report on Compliance with Applicable Laws and Regulations that you provided last week. We are pleased to have earned unqualified opinions.

We have made substantial improvements during the past year (e.g., two of our three reportable conditions were removed), and expect to make further improvements in FY 1998. Your assistance in identifying areas where we can further strengthen and improve our financial management systems is appreciated.

Thank you for your continuing support.

cc: David Strauss
John Seal
Joseph Grant
Ellen A. Hennessy