

III. CONSOLIDATED FINANCIAL STATEMENTS

U.S. Department of Agriculture
CONSOLIDATED BALANCE SHEET
 As of September 30, 2002
 (in millions)

Assets (Note 2):	
Intragovernmental:	
Fund balance with treasury (Note 3)	\$ 39,617
Investments (Note 5)	96
Accounts receivable, net (Note 6)	242
Other (Note 10)	<u>1</u>
Total intragovernmental	39,956
Cash and other monetary assets (Note 4)	165
Investments (Note 5)	15
Accounts receivable, net (Note 6)	1,866
Loans receivable and related foreclosed property, net (Note 7)	75,543
Inventory and related property, net (Note 8)	749
General property, plant, and equipment, net (Note 9)	4,862
Other (Note 10)	<u>284</u>
Total assets	<u><u>123,440</u></u>
Liabilities (Note 11):	
Intragovernmental:	
Accounts payable	637
Debt (Note 12)	75,868
Other (Note 14 & 15)	<u>21,393</u>
Total intragovernmental	97,898
Accounts payable	3,046
Loan guarantee liability (Note 7)	1,077
Debt held by the public (Note 12)	84
Environmental and disposal liabilities (Note 13)	22
Other (Note 14 & 15)	<u>10,560</u>
Total liabilities	112,687
Commitments and contingencies (Note 16)	
Net position:	
Unexpended appropriations	26,196
Cumulative results of operations	<u>(15,443)</u>
Total net position	<u>10,753</u>
Total liabilities and net position	<u><u>\$ 123,440</u></u>

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF NET COST
 For the Year Ended September 30, 2002
 (in millions)

Program Costs (Notes 17, 18, 19):

Intragovernmental gross costs	\$ 7,897
Less: Intragovernmental earned revenues	983
Intragovernmental net costs	<u>6,914</u>
Gross costs with the public	
Grants	51,837
Loan Cost Subsidies	(994)
Indemnities	3,945
Commodity program costs	5,408
Stewardship land acquisition	212
Other	15,145
Less: Earned revenues from the public	9,597
Net cost with the public	<u>65,956</u>
Net Cost of Operations	<u><u>\$ 72,870</u></u>

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U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the Year Ended September 30, 2002
 (in millions)

	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Beginning Balances	\$ (21,379)	\$ 31,639
Prior period adjustments (Note 19)	(907)	210
Beginning balances, as adjusted	<u>(22,286)</u>	<u>31,849</u>
Budgetary Financing Sources:		
Appropriations received		72,616
Appropriations transferred out		(19,746)
Other adjustments (rescissions, etc.)		(986)
Appropriations used	80,229	(57,536)
Non-exchange revenue	2	
Transfers out without reimbursement	(478)	
Other budgetary financing sources	(105)	
Other Financing Sources:		
Donations and forfeitures of property	14	
Transfers out without reimbursement	(1,351)	
Imputed financing from costs absorbed by others	1,328	
Other	74	
Total Financing Sources	<u>79,713</u>	<u>(5,653)</u>
Net Cost of Operations	<u>72,870</u>	
Ending Balances	<u><u>\$ (15,443)</u></u>	<u><u>\$ 26,196</u></u>

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U.S. Department of Agriculture
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2002
 (in millions)

	<u>Budgetary</u>	<u>Non-Budgetary Credit Program Financing Accounts</u>
Budgetary Resources:		
Budget authority:		
Appropriations Received	\$ 84,637	\$ -
Borrowing authority (Notes 21 & 22)	34,055	9,689
Net transfers	(2,281)	
Unobligated balances:		
Beginning of period	24,498	2,341
Net transfers, actual	125	
Spending authority from offsetting collections:		
Earned		
Collected	21,603	7,183
Receivable from Federal sources	(695)	(762)
Change in unfilled customer orders		
Advance received	148	
Without advance from Federal sources	55	664
Subtotal	<u>21,112</u>	<u>7,084</u>
Recoveries of prior year obligations	2,664	288
Permanently not available	(52,408)	(1,893)
Total Budgetary Resources	<u><u>112,402</u></u>	<u><u>17,509</u></u>
Status of Budgetary Resources:		
Obligations incurred (Note 20):		
Direct	64,482	12,245
Reimbursable	<u>29,382</u>	
Subtotal	<u>93,864</u>	<u>12,245</u>
Unobligated balance:		
Apportioned	4,578	4,252
Exempt from apportionment	276	
Other available	299	
Unobligated balance not available	<u>13,385</u>	<u>1,012</u>
Total Status of Budgetary Resources:	<u><u>112,402</u></u>	<u><u>17,509</u></u>
Relationship of Obligations to Outlays:		
Obligated balance, net, beginning of period	19,624	10,812
Obligated balance, net, end of period:		
Accounts receivable	(1,048)	(107)
Unfilled customer orders from Federal sources	(267)	(676)
Undelivered orders	14,561	14,107
Accounts payable	6,292	438
Outlays:		
Disbursements	92,034	9,105
Collections	<u>(21,751)</u>	<u>(7,182)</u>
Subtotal	<u>70,283</u>	<u>1,923</u>
Less: Offsetting receipts	<u>1,275</u>	<u>130</u>
Net Outlays	<u><u>\$ 69,008</u></u>	<u><u>\$ 1,793</u></u>

The accompanying notes are an integral part of these statements

U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF FINANCING
 For the Year Ended September 30, 2002
 (in millions)

Resources Used to Finance Activities:

Budgetary Resources Obligated	
Obligations incurred	\$ 106,271
Less: Spending authority from offsetting collections and recoveries	31,166
Obligations net of offsetting collections and recoveries	<u>75,105</u>
Less: Offsetting receipts	1,404
Net obligations	<u>73,701</u>
Other resources	
Donations and forfeitures of property	14
Transfers out without reimbursement	(1,351)
Imputed financing from costs absorbed by others	1,328
Other	74
Net other resources used to finance activities	<u>64</u>

Total resources used to finance activities 73,765

Resources Used To Finance Items Not Part of the Net Cost of Operations:

Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	4,371
Resources that fund expenses recognized in prior periods	3,174
Budgetary offsetting collections and receipts that do not affect net cost of operations	
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(9,739)
Other	(13,805)
Resources that finance the acquisition of assets	16,310
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>6,069</u>

Total resources used to finance items not part of the net cost of operations 6,380

Total resources used to finance the net cost of operations 67,385

Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:

<i>Components Requiring or Generating Resources in Future Periods:</i>	
Increase in annual leave liability	88
Upward/Downward reestimates of credit subsidy expense	(167)
Increase in exchange revenue receivable from the public	(4,045)
Other	1,636
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>(2,488)</u>
<i>Components not Requiring or Generating Resources:</i>	
Depreciation and amortization	520
Revaluation of assets or liabilities	397
Other	7,056
Total components of Net Cost of Operations that will not require or generate resources	<u>7,974</u>
<i>Total components of Net Cost of Operations that will not require or generate resources in the current period</i>	<u>5,485</u>

Net Cost of Operations \$ 72,870

The accompanying notes are an integral part of these statements

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2002
(in millions)

Note 1. Significant Accounting Policies

Reporting Entity

The Department provides a wide variety of services in the United States and around the world in seven distinct mission areas: Farm and Foreign Agricultural Services; Food, Nutrition, and Consumer Services; Natural Resources and Environment; Food Safety and Inspection Services; Marketing and Regulatory Programs; Research, Education, and Economics; and Rural Development.

Principles of Consolidation

The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 01-09, as applicable. The financial statements include the accounts of the Department of Agriculture and its twenty-one agencies, including four Government corporations. Significant intradepartmental activity and balances have been eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis.

Comparative Reporting

Comparative financial statements are not presented since the Department received a disclaimer of opinion in fiscal year 2001. The OMB agreed that the financial management resources of USDA are best directed toward improving underlying financial accounting weaknesses rather than preparing comparative financial statements for fiscal year 2002.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Other Financing Sources

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility is reasonably assured. In certain cases, the prices charged by the Department are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities. Revenue from non-exchange transactions is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable and the amount is reasonably estimable. Appropriations are recognized as a financing source when used. An imputed financing source is recognized for costs subsidized by other Government entities.

Investments

The Department is authorized to invest certain funds in excess of its immediate needs in Treasury securities. Investments in nonmarketable par value Treasury securities are classified as held to maturity and are carried at cost. Investments in market-based Treasury securities are classified as held to maturity and are carried at amortized cost. The amortized cost of securities is based on the purchase price adjusted for amortization of premiums and accretion of discounts using the straight-line method over the term of the securities.

Accounts Receivable

Accounts receivable with the public are reduced to net realizable value by an allowance for uncollectible accounts. The adequacy of the allowance is determined based on past experience and age of outstanding balances.

Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported based on the present value of the net cash-flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. The subsidy expense for direct or guaranteed loans disbursed during the year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before fiscal year 1992 are valued using the present-value method. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

Inventories and Related Property

Operating materials and supplies are valued on the basis of historical cost using a weighted average method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for personal property and real property range from 5 to 8 years and 10 to 50 years, respectively. Capitalization thresholds for personal property, except for internal use software, and real property are \$5,000 and \$25,000, respectively. The capitalization threshold for internal use software is \$100,000. The capitalization threshold for real property was changed from \$5,000 to \$25,000 effective October 1, 2001.

Pension and Other Retirement Benefits

Pension and other retirement benefits (primarily retirement health care benefits) expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

Other Postemployment Benefits

Other postemployment benefits expense for former or inactive (but not retired) employees is recognized when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The liability for long-term other postemployment benefits is the present value of future payments.

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Note 2. Non-Entity Assets

Intragovernmental:	
Fund balance with Treasury	\$ 1,337
Cash and other monetary assets	71
Accounts receivable	126
Total non-entity assets	1,534
Total entity assets	121,906
Total assets	\$ 123,440

Non-entity assets include proceeds from the sale of timber payable to Treasury and employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center.

Note 3. Fund Balance with Treasury

Fund Balances:	
Trust Funds	\$ 370
Revolving Funds	8,943
Appropriated Funds	29,091
Other Fund Types	1,212
Total	\$ 39,617
Status of Fund Balance with Treasury:	
Unobligated Balance:	
Available	\$ 10,625
Unavailable	12,645
Obligated Balance not yet Disbursed	16,347
Total	\$ 39,617

Other fund types include deposit and clearing accounts.

Note 4. Cash and Other Monetary Assets

Cash	\$ 165
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Cash includes excess cash reserves from fee-for-service programs of \$86 million and cash held in escrow to pay property taxes and insurance for single-family housing borrowers of \$71 million.

Note 5. Investments

	Cost	Amortization Method	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental Securities:					
Non-marketable:					
Par value	\$ 63		\$ -	\$ 63	\$ 63
Market-based	30	Straight Line	3	33	33
Total	93		3	96	96
Other Securities:					
AARC	15		-	15	15
Total	\$ 15		\$ -	\$ 15	\$ 15

Note 6. Accounts Receivable, net

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental	\$ 243	\$ 1	\$ 242
With the Public	2,137	271	1,866
Total	\$ 2,380	\$ 272	\$ 2,108

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

Total Loans Receivable and Related Foreclosed Property, Net						
FY 2002	Loans			Present	Value of Assets	
Direct Loans	Receivable, Gross	Interest Receivable	Foreclosed Property	Value Allowance	Related to Direct Loans	
Obligated Pre-1992						
Foreign Loans	\$ 7,852	\$ 90	\$ -	\$ 4,259	\$ 3,683	
Farm Loans	3,976	307	44	456	3,871	
Home Loans	14,957	108	39	5,178	9,925	
Utility Loans	20,093	50	-	1,874	18,268	
Community Loans	2,821	30	-	22	2,829	
Business and Industry Loans	49	-	-	11	38	
Pre-1992 Total	49,748	584	84	11,801	38,615	
Obligated Post-1991						
Foreign Loans	2,978	36	-	1,702	1,312	
Farm Loans	4,588	109	4	1,545	3,157	
Home Loans	13,190	64	35	2,171	11,119	
Utility Loans	11,564	6	-	572	10,998	
Community Loans	5,055	55	-	754	4,356	
Business and Industry Loans	524	4	-	197	332	
Post-1991 Total	37,900	274	40	6,939	31,274	
Total Direct Loan Program Receivables	\$ 87,648	\$ 858	\$ 123	\$ 18,740	\$ 69,889	
Defaulted Guarantee Loans						
Pre-1992						
Foreign Loans	\$ 5,171	\$ 28	\$ -	\$ 2,566	\$ 2,632	
Business and Industry Loans	12	-	-	9	3	
Pre-1992 Total	5,182	28	-	2,575	2,635	
Post-1991						
Foreign Loans	1,759	47	-	770	1,036	
Home Loans	4	-	-	-	4	
Business and Industry Loans	180	-	-	108	72	
Post-1991 Total	1,943	47	-	878	1,112	
Total Defaulted Guarantee Loans	\$ 7,125	\$ 75	\$ -	\$ 3,453	\$ 3,747	
Loans Exempt from Credit Reform Act:						
Commodity Loans	\$ 1,729	\$ -	\$ -	\$ 177	\$ 1,552	
Other Foreign Receivables	364	-	-	10	354	
Total Loans Exempt	\$ 2,093	\$ -	\$ -	\$ 187	\$ 1,906	
Total Loans Receivable and Related Foreclosed Property, Net				\$	75,543	

**Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1999)
Direct Loans**

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning balance of the subsidy cost allowance	\$ 7,909	\$ 6,383
Add: subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	383	416
Default costs (net of recoveries)	143	141
Fees and other collections	(77)	(102)
Other subsidy costs	35	67
Total of the above subsidy expense components	485	521
Adjustments		
Loan modifications	9	35
Fees received	12	7
Loans written off	(188)	(133)
Subsidy allowance amortization	(454)	(123)
Other	197	96
Ending balance of the subsidy cost allowance before reestimates	7,970	6,786
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	20	696
Technical/default reestimate	(943)	428
Total of the above reestimate components	(923)	1,123
Ending balance of the subsidy cost allowance	\$ 7,047	\$ 7,909

Table 3. Direct Loan Subsidy Expense by Program and Component

Current Reporting Year	Subsidy Expense for New Direct Loans Disbursed										Current Year
	Interest Differential	Defaults	Fees and Other		Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates		
Direct Loan Programs			Collections	Other							
P.L. 480, Title I	\$ 37	\$ 29	\$ -	\$ 15	\$ 80	\$ -	\$ (138)	\$ (210)	\$ (348)	\$ (268)	
Debt Reduction Fund	-	-	-	-	-	9	-	(69)	(69)	(60)	
Food for Progress	-	-	-	-	-	-	-	(112)	(112)	(112)	
Farm Storage Facility Loan Program	-	1	-	-	1	-	(1)	(6)	(6)	(5)	
Apple Loan Program	-	-	-	-	-	-	-	1	1	1	
Agriculture Credit Insurance Fund (ACIF)	10	88	(1)	(26)	72	-	(30)	41	11	83	
Rural Community Facilities Fund	18	1	(1)	-	18	-	3	(15)	(12)	6	
Rural Housing Insurance Fund	220	13	(75)	51	210	-	(47)	(423)	(470)	(260)	
Rural Electrification Loans	(2)	2	-	(2)	(2)	-	210	(117)	93	90	
Rural Telephone Loans	4	-	-	-	4	-	4	(6)	(2)	2	
Rural Telephone Bank	1	-	-	-	1	-	1	(3)	(2)	(2)	
Rural Water and Waste Disposal Loans	83	1	-	(3)	80	-	22	(27)	(5)	76	
Rural Business and Industry Loans	(6)	8	-	-	2	-	(3)	4	1	2	
Rural Development Loan Fund	16	-	-	-	16	-	-	(2)	(2)	15	
Rural Economic Development Loans	4	-	-	-	4	-	-	(1)	(1)	3	
Total Subsidy Expense, Direct Loans	\$ 383	\$ 143	\$ (77)	\$ 35	\$ 485	\$ 9	\$ 20	\$ (943)	\$ (923)	\$ (429)	

Prior Reporting Year	Subsidy Expense for New Direct Loans Disbursed										Prior Year
	Interest Differential	Defaults	Fees and Other		Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates		
Direct Loan Programs			Collections	Other							
P.L. 480, Title I	\$ 28	\$ 24	\$ -	\$ -	\$ 52	\$ -	\$ 6	\$ (48)	\$ (42)	\$ 11	
Debt Reduction Fund	-	-	-	-	-	35	-	(19)	(19)	17	
Food for Progress	-	-	-	-	-	-	-	(34)	(34)	(34)	
Farm Storage Facility Loan Program	-	2	-	-	2	-	1	(3)	(2)	-	
Apple Loan Program	-	-	-	-	1	-	(2)	-	(2)	(2)	
Agriculture Credit Insurance Fund (ACIF)	26	86	(25)	22	108	-	(29)	950	922	1,029	
Rural Community Facilities Fund	16	-	(2)	1	16	-	8	11	19	35	
Rural Housing Insurance Fund	228	13	(74)	48	214	-	271	(158)	113	327	
Rural Electrification Loans	(3)	12	(1)	(1)	8	-	326	(221)	105	113	
Rural Telephone Loans	3	-	-	-	4	-	42	(35)	7	11	
Rural Telephone Bank	1	-	-	-	1	-	11	(9)	2	2	
Rural Water and Waste Disposal Loans	96	1	-	(3)	93	-	47	(36)	11	104	
Rural Business and Industry Loans	(2)	2	-	-	1	-	13	28	41	41	
Rural Development Loan Fund	19	-	(1)	1	20	-	(1)	1	-	20	
Rural Economic Development Loans	4	-	-	-	4	-	2	(1)	2	6	
Total Subsidy Expense, Direct Loans	\$ 416	\$ 141	\$ (102)	\$ 67	\$ 521	\$ 35	\$ 696	\$ 428	\$ 1,123	\$ 1,680	

Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loans	Current Year	Prior Year	Current Year Over (Under) Prior Year
Farm and Foreign Agricultural Services Mission Area			
P.L. 480, Title I	\$ 122	\$ 101	\$ 21
Farm Storage Facility Loan Program	66	84	(17)
Boll Weevil Loan Program	-	10	(10)
Apple Loan Program	1	11	(10)
Agriculture Credit Insurance Fund (ACIF)	963	1,072	(109)
Mission area total	1,153	1,278	(125)
Rural Development Mission Area			
Rural Community Facilities Fund	201	163	38
Rural Housing Insurance Fund	1,207	1,222	(16)
Distance Learning and Telemedicine Loans	40	14	25
Rural Electrification Loans	2,080	1,951	129
Rural Telephone Loans	329	200	129
Rural Telephone Bank	60	55	5
Rural Water and Waste Disposal Loans	643	694	(51)
Rural Business and Industry Loans	36	27	10
Rural Development Loan Fund	33	40	(6)
Rural Economic Development Loans	17	16	1
Mission area total	4,646	4,383	262
Total Direct Loans Disbursed	\$ 5,799	\$ 5,661	\$ 137

Table 5. Loan Guarantees Outstanding

	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Guaranteed Loans (FY 2002)						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund (ACIF)	\$ 271	\$ 9,379	\$ 9,650	\$ 240	\$ 8,421	\$ 8,661
Export Credit Guarantee Programs	-	4,917	4,917	-	4,730	4,730
Mission area total	271	14,296	14,567	240	13,151	13,391
Rural Development Mission Area						
Rural Community Facilities Fund	-	301	301	-	249	249
Rural Housing Insurance Fund	16	13,602	13,618	14	12,241	12,256
Rural Electrification Loans	317	199	516	317	199	516
Rural Water and Waste Disposal Loans	-	30	30	-	24	24
Rural Business and Industry Loans	-	3,884	3,884	-	2,862	2,862
Rural Cooperative Development Fund	4	-	4	4	-	4
Rural Development Insurance Fund	80	-	80	57	-	57
Mission area total	417	18,015	18,432	391	15,576	15,968
Total Guarantees Disbursed	\$ 688	\$ 32,312	\$ 33,000	\$ 632	\$ 28,727	\$ 29,359

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

FY 2002			
	Liabilities for Losses on Pre- 1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	\$ -	\$ 411	\$ 411
Agriculture Credit Insurance Fund (ACIF)	13	144	157
ACRD	-	2	2
Mission area total	13	557	570
Rural Development Mission Area			
Rural Community Facilities Fund	-	5	5
Rural Housing Insurance Fund	3	327	330
Rural Electrification Loans	23	-	24
Rural Business and Industry Loans	-	146	146
Rural Development Insurance Fund	3	-	3
Mission area total	30	477	507
Total Liability for Loan Guarantees	\$ 43	\$ 1,034	\$ 1,077

Table 7. Schedule for Reconciling Loan Guarantee Liability

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning balance of the loan guarantee liability	\$ 1,066	\$ 964
Add: subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	65	23
Default costs (net of recoveries)	294	338
Fees and other collections	(76)	(97)
Other subsidy costs	-	(3)
Total of the above subsidy expense components	283	260
Adjustments		
Loan modifications	-	-
Fees received	102	82
Interest supplements paid	(62)	(67)
Claim payments to lenders	(204)	(189)
Interest accumulation on the liability balance	17	114
Other	26	(71)
Ending balance of the subsidy cost allowance before reestimates	1,229	1,093
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	(392)	97
Technical/default reestimate	196	(124)
Total of the above reestimate components	(195)	(26)
Ending balance of the loan guarantee liability	\$ 1,034	\$ 1,066

Table 8. Guarantee Loan Subsidy Expense by Program and Component

Current Reporting Year	Subsidy Expense for New Loan Guarantees									
Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Current Year
Export Credit Guarantee Programs	\$ -	\$ 120	\$ (10)	\$ -	\$ 110	\$ -	\$ (588)	\$ 514	\$ (74)	\$ 36
Farm Operating—unsubsidized	-	46	(9)	-	37	-	243	(268)	(25)	11
Farm Operating—subsidized	47	20	-	-	67	-	141	(131)	10	77
Farm Ownership—unsubsidized	-	14	(10)	-	5	-	(78)	64	(13)	(9)
Rural Community Facilities	-	-	-	-	-	-	(2)	6	4	4
Rural Housing Insurance Fund	18	56	(38)	-	37	-	(45)	(47)	(92)	(55)
Rural Water and Waste Disposal Loans	-	-	-	-	-	-	-	-	-	-
Rural Business and Industry Loans	-	37	(9)	-	28	-	(75)	71	(4)	24
ARCD	-	-	-	-	-	-	13	(12)	-	-
Total Loan Guarantee Subsidy Expense	\$ 65	\$ 294	\$ (76)	\$ -	\$ 283	\$ -	\$ (392)	\$ 196	\$ (195)	\$ 88

Prior Reporting Year	Subsidy Expense for New Loan Guarantees									
Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Prior Year
Export Credit Guarantee Programs	\$ -	\$ 214	\$ (17)	\$ -	\$ 197	\$ -	\$ -	\$ (169)	\$ (170)	\$ 27
Farm Operating—unsubsidized	-	20	(7)	-	13	-	-	16	16	30
Farm Operating—subsidized	28	10	-	-	38	-	(3)	15	11	49
Farm Ownership—unsubsidized	-	12	(6)	(2)	4	-	-	13	13	17
Rural Community Facilities	-	-	-	-	(1)	-	(2)	-	(2)	(2)
Rural Housing Insurance Fund	(5)	60	(53)	-	3	-	46	-	46	49
Rural Water and Waste Disposal Loans	-	-	-	-	-	-	-	1	-	-
Rural Business and Industry Loans	-	20	(14)	(1)	6	-	58	1	58	64
Total Loan Guarantee Subsidy Expense	\$ 23	\$ 338	\$ (97)	\$ (3)	\$ 260	\$ -	\$ 97	\$ (124)	\$ (27)	\$ 234

Table 9. Guaranteed Loans Disbursed

	Current Year		Prior Year	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Guaranteed Loans				
Farm and Foreign Agricultural Services Mission Area				
Export Credit Guarantee Programs	\$ 3,340	\$ 3,131	\$ 2,974	\$ 2,892
Agriculture Credit Insurance Fund (ACIF)	2,551	2,290	2,363	2,121
Mission area total	5,891	5,421	5,337	5,014
Rural Development Mission Area				
Rural Community Facilities Fund	59	49	74	62
Rural Housing Insurance Fund	2,450	2,205	2,170	1,953
Rural Electrification Loans	54	54	92	92
Rural Water and Waste Disposal Loans	9	7	4	3
Rural Business and Industry Loans	839	658	809	636
Mission area total	3,410	2,973	3,149	2,746
Total Guaranteed Loans Disbursed	\$ 9,301	\$ 8,394	\$ 8,486	\$ 7,759

Table 10. Administrative Expenses

Direct Loan Programs	Guaranteed Loan Programs	
P.L. 480, Title 1	\$ 2	Export Credit Guarantee Programs \$ 4
Agriculture Credit Insurance Fund (ACIF)	273	Rural Development 131
Rural Development	178	
Total	\$ 452	Total \$ 135

Table 11. Subsidy Rates for Direct Loans (percentage)

	Interest	Defaults	Fees and Other	Other	Total
	Differential		Collections		
Direct Loan Programs					
Farm Storage Facility Loan Program	0.30	2.24	(0.12)	-	2.42
P.L. 480, Title 1	46.07	30.82	-	4.84	81.73
Farm Operating	0.05	12.43	-	(3.55)	8.93
Farm Ownership	2.04	4.13	-	(3.54)	2.63
Emergency Disaster	9.42	4.12	-	(0.09)	13.45
Indian Land Acquisition	5.95	-	-	(0.03)	5.92
BollWeevil Eradication	(4.42)	2.24	-	-	(2.18)
Community Facilities Loans	4.53	1.18	-	(0.28)	5.43
Modular Housing Loans	17.94	0.03	(1.64)	1.35	17.68
Section 502 Direct Single Family Housing	13.20	1.31	(7.15)	5.80	13.16
Section 504 Direct Housing Repair	29.96	2.30	(5.98)	5.85	32.13
Section 203 Credit Sales (SFH)	(20.20)	4.55	(10.51)	21.34	(4.82)
Section 514 Farm Labor Housing	46.94	0.08	(2.51)	2.80	47.31
Section 515 Rural Rental Housing	50.56	(0.03)	(30.91)	22.70	42.32
Section 524 Housing Site Development	(1.75)	1.77	(9.64)	10.17	0.55
Section 523 Self-Help Housing Land	3.54	1.03	(9.14)	9.65	5.08
Section 209 Credit Sales	50.52	(0.02)	(1.96)	(6.37)	42.17
Electric Municipal	(0.15)	0.03	-	0.03	(0.09)
FFB Electric	(1.12)	0.03	-	(0.04)	(1.13)
Direct Electric Hardship	2.92	0.03	-	0.03	2.98
Telephone Treasury	-	0.04	-	0.06	0.10
FFB Telephone	(0.92)	0.11	-	(0.04)	(0.85)
Telephone Hardship	2.27	0.03	-	0.02	2.32
Rural Telephone Bank	2.29	0.02	-	(0.17)	2.14
Direct Water and Waste Disposal	6.96	0.12	-	(0.20)	6.88
Direct Business and Industry Loans	(30.79)	58.98	-	0.28	28.47
Intermediary Relending Program	43.22	-	-	(0.01)	43.21
Rural Economic Development	24.91	0.05	-	(0.80)	24.16
Electric Treasury	(0.06)	0.03	-	(0.01)	(0.04)
Distance Learning and Telemedicine	-	0.01	-	(0.08)	(0.07)

Table 12. Subsidy Rates for Loan Guarantees (percentage)

	Interest	Defaults	Fees and Other	Other	Total
	Differential		Collections		
Guaranteed Loan Programs					
Export Credit Guarantee Program	7.41	-	(0.66)	-	6.75
Farm Operating—Unsubsidized	-	4.41	(0.90)	-	3.51
Farm Operating—Subsidized	9.55	4.01	-	-	13.56
Farm Ownership—Unsubsidized	-	1.34	(0.89)	-	0.45
Rural Community Facilities Loans	-	0.12	(0.80)	-	(0.68)
Section 502 Subsidy Repair	-	3.28	(2.00)	-	1.28
Section 539 Multiple Family	8.82	2.24	(7.13)	-	3.93
Section 502 Single Family	-	3.28	(2.00)	-	1.28
NADBANK Loans	-	5.28	(1.60)	-	3.68
Business and Industry Loans	-	5.22	(1.48)	-	3.74
Electric	-	0.08	-	-	0.08
Water and Waste Disposal Loans	-	-	(0.80)	-	(0.80)

Direct Loans

Direct loan obligation or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value.

Direct loan obligations or loan guarantee commitments made post-1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990 as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at present value for the budget. Additionally, the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The net present value of Loans Receivable and Related Foreclosed Property, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Loans Receivable and Related Foreclosed Property, Net at the end of FY 2002 were \$75.5 billion compared to \$76.4 billion at the end of FY 2001. Loans exempt from the Federal Credit Reform Act of 1990 represent \$1.9 billion of the total compared to \$2.1 billion in FY 2001. Table 1 illustrates the overall composition of the Department credit program balance sheet portfolio by mission area and credit program for FY 2002.

During the fiscal year the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications, and reestimates all contribute to the change of the subsidy cost allowance through the year. The subsidy cost allowance moved from \$7.9 billion to \$7 billion during FY 2002, a decrease of \$0.9 billion. During FY 2001, the allowance increased \$1.5 billion. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2001 to FY 2002.

Total direct loan subsidy expense for FY 2002 is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2002 was negative \$0.4 billion compared to \$1.7 billion in FY 2001. Table 3 illustrates the breakdown of total subsidy expense for FY 2002 and FY 2001 by program.

The downward subsidy expense was caused by significant downward subsidy reestimates of \$470 million for housing loans and \$529 million for foreign loans (PL 480, Food for Progress, & Debt Reduction programs). The subsidy change in housing loans was mainly caused by changes in the estimation method for interest credit in single-family housing programs in FY 2002. Additionally, in FY 2002, OMB revised the default estimation method for foreign loans. This change resulted in significantly lower default estimates. Direct loan volume increased from \$5.7 billion in FY 2001 to \$5.8 billion in FY 2002. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

The Department offers both direct and guaranteed loan products through the Farm and Foreign Agricultural Service mission area and the Rural Development mission area. Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying

criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Guaranteed loans are reflected on the balance sheet in two ways: estimated losses on loan and foreign credit guarantees must be valued and carried as a liability and defaulted guaranteed loans are carried, at net realizable value, in credit program receivables and related foreclosed property, net.

Guaranteed loans outstanding at the end of FY 2002 were \$33.0 billion in outstanding principal, and \$29.4 billion in outstanding principal guaranteed, compared to \$30.8 billion and \$27.5 billion at the end of FY 2001. Table 5 shows the outstanding balances by credit program.

During the fiscal year the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification, and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. The total liability moved from \$1.11 billion to \$1.08 billion during FY 2002, a decrease of \$33 million. The post-1991 liability moved from \$1.07 billion to \$1.03 billion, a decrease of \$0.04 billion. Table 7 shows the reconciliation of loan guarantee liability post-1991 balances and the total loan guarantee liability.

Total guaranteed loan subsidy expense for FY 2002 is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2002 was \$88 million compared to \$234 million in FY 2001. Table 8 illustrates the breakdown of total subsidy expense for FY 2002 and FY 2001 by program. The decrease in subsidy expense is largely due to downward reestimates in the housing, foreign, and farm loan programs.

Guaranteed loan volume increased from \$8.5 billion in FY 2001 to \$9.3 billion in FY 2002. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the Farm and Foreign Agricultural Services (FFAS) mission area through the Farm Service Agency (FSA) and the Commodity Credit Corporation (CCC), and in the Rural Development mission area through the Rural Housing Service (RHS), the Rural Business Service (RBS), and the Rural Utilities Service (RUS).

The Farm and Foreign Agricultural Services (FFAS) mission area

The FFAS mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the strength and stability of the agricultural economy. FFAS contributes to the vitality of the farm sector with programs that encourage the expansion of export markets for U.S. agriculture. FFAS programs are administered through the FSA and CCC.

The FSA offers direct and guaranteed loans to farmers that are temporarily unable to obtain private, commercial credit and nonprofit entities that are engaged in the improvement of the nation's agricultural community. Often, FSA borrowers are beginning farmers who cannot qualify for conventional loans because they have insufficient financial resources. In addition, the agency helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations. FSA officials also provide borrowers with supervision and credit counseling.

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, then works with the borrower on alternatives and other options to address the weaknesses and achieve success. To help keep borrowers operating, FSA is able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most needy people throughout the world. CCC offers both guarantee credit and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club (The Club). The Club is an internationally recognized organization whose sole purpose is to confront, on a case-by-case basis, liquidity problems faced by the world's most severely economically disadvantaged countries. The general premise of the Club's activities is to provide disadvantaged nations short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. Delegation and negotiations for all U.S. Agencies.

Farm and Foreign Agricultural Service list of programs

Farm Service Agency	Commodity Credit Corporation
Direct Farm Ownership Direct Farm Operating Direct Emergency Loans Direct Indian Land Acquisition Direct Boll Weevil Eradication Direct Seed Loans to Producers Guaranteed Farm Operating Subsidized/Unsubsidized Agricultural Resource Demonstration Fund (ARCD) Bureau of Reclamation Loan Fund (BRLF)	Guaranteed Sales Manager Credit Program Supplier Credit Guarantee Program Facility Program Guarantee P.L. 480 Title 1 Program

The Rural Development (RD) mission area

Each year, Rural Development (RD) programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with state, local and Indian tribal governments, as well as private and nonprofit organizations and user-owned cooperatives. RD programs are administered through three services, the Rural Housing Service (RHS), the Rural Business Service (RBS), and the Rural Utilities Service (RUS).

Through its loan and grant programs, RHS provides affordable housing and essential community facilities to rural communities. RHS programs help finance new or improved housing for moderate, low, and very low-income families each year. RHS program also help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

RBS's goal is to promote a dynamic business environment in rural America. RBS works in partnership with the private sector and community based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

The RUS helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. RUS programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD agencies are able to provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

Rural Housing Service	Rural Business Service	Rural Utilities Service
Home Ownership Direct Loans	Business and Industry Direct Loans	Water and Environmental Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans	Water and Environmental Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans	Electric Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans	Electric Guaranteed Loans
Rural Housing Site Direct Loans		Telecommunications Direct Loans
Farm Labor Housing Direct Loans		Rural Telephone Bank
Rural Rental and Rural Cooperative Housing Loans		Federal Financing Bank-Telecommunications Guaranteed
Rental Housing Guaranteed Loans		Distance Learning and Telemedicine Direct
Multi-family Housing-Nonprogram-Credit Sales		Broadband Telecommunications Services
Community Facilities Direct Loans		
Community Facilities Guaranteed Loans		

Discussion of Administrative Expenses, Subsidy Costs, and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2002 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990 as amended governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost". Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the Office of Management and Budget in order to do its calculations and analysis.

The Inter-agency Country Risk Assessment System (ICRAS) is a Federal interagency effort chaired by the Office of Management and Budget under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign

lending risks are sorted into risk categories, each associated with a default estimate. A revised default methodology developed by the Office of Management and Budget was implemented in FY 2002. The revised methodology resulted in significantly lower estimated defaults and resulting allowance balances.

The CCC delinquent debt is estimated at 100% allowance. When the foreign borrower reschedules their debt and renews their commitment to repay CCC, the allowance is estimated at less than 100 percent.

The estimation method for interest credit in single-family housing loans was changed in FY 2002. This change in estimation resulted in lower subsidy rates, downward FY 2002 reestimates, and related decreases to allowance balances.

Generally, due to the implementation of new models, new reestimate calculators, and the accumulation of prior year reestimates, it is difficult to compare current and prior period subsidy expense or the current and prior year movement in the subsidy cost allowance.

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in tables 11 and 12 pertain only to the current year FY 2002 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes reestimates.

As a result of new guidance provided by the credit reform Treasury certificate training class, the Commodity Credit Corporation chose to reflect interest on downward reestimates of \$413 million in the Statement of Changes in Net Position in line Financing Sources other than Exchange Revenues, Transfers Out. The remainder of USDA credit programs chose to reflect downward reestimates in Earned Revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

As of September 30, 2002, foreclosed property consisted of 1,114 rural single-family housing dwellings, with an average holding period of 20 months. As of September 30, 2002, Farm Service Agency-Farm Loan Program properties consist primarily of 253 farms. The average holding period for these properties in inventory for FY 2002 was 54 months. At the end of FY 2002, there were 681 borrowers for which foreclosure proceedings were in process. Certain properties can be leased to eligible individuals.

Non-performing Loans

Rural Development and FSA loan interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days.

CCC interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days or on rescheduling agreements where until such time as two consecutive payments have been made

following the rescheduling. Late interest is accrued on arrears. Interest revenue and late interest on non-performing receivables are also deferred.

Loan Modifications

The Debt Reduction Fund is used to account for CCC's "modified debt". Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled" only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the debt reduction fund and is governed by the Federal Credit Reform Act of 1990 as amended.

During FY 2002, two debts were modified. The first resulted in a \$3 million reduction in principal with the remaining amount of debt transferred from CCC's liquidating fund to CCC's Debt Reduction Fund. The discount rate used for calculating the modification expense was 6.2971 percent. The second modification reduced principal owed to CCC by \$10.6 million with the remaining amount of debt transferred from CCC's liquidating fund to CCC's Debt Reduction Fund. The discount rate used for calculating the modification expense was 5.4684 percent.

Note 8. Inventory and Related Property, Net

Operating Materials and Supplies:		
Items held for Use	\$	25
Commodities:		
	Volume (in millions)	
Corn (In Bushels):		
On hand at the beginning of the year		
Acquired during the year	22	45
Disposed of during the year	74	165
Sales	(62)	(136)
Donations	(14)	(39)
Other	(2)	(1)
On hand at the end of the year	18	33
Wheat (In Bushels):		
On hand at the beginning of the year		
Acquired during the year	118	404
Disposed of during the year	105	371
Sales	(69)	(246)
Donations	(52)	(193)
Other	-	28
On hand at the end of the year	102	364
Nonfat Dry Milk (In Pounds):		
On hand at the beginning of the year		
Acquired during the year	857	860
Disposed of during the year	626	563
Sales	(16)	(16)
Donations	(121)	(135)
Other	(14)	6
On hand at the end of the year	1,332	1,279
Sugar (In Pounds):		
On hand at the beginning of the year		
Acquired during the year	1,505	329
Disposed of during the year	17	4
Sales	(721)	(176)
Donations	(13)	(3)
Other	(274)	(52)
On hand at the end of the year	514	101
Tobacco (In Pounds):		
On hand at the beginning of the year	225	599
Acquired during the year		
Disposed of during the year	-	-
Sales	-	-
Donations	-	-
Other	-	-
On hand at the end of the year	225	599
Other (Various):		
On hand at the beginning of the year		
Acquired during the year		39
Disposed of during the year		4,496
Sales		(4,112)
Donations		(329)
Other		17
On hand at the end of the year		110
Allowance for losses		(1,763)
Total Commodities		723
Total Inventory and Related Property, Net	\$	749

Operating material and supplies consist of tree seeds for a variety of tree species, tree seedlings (nursery stock) and Smoky Bear memorabilia. The tree seeds and seedlings are used for reforestation and the Smoky Bear memorabilia promotes forest fire prevention.

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries, and price support and stabilization. Commodity donations and loan forfeitures are estimated to be \$548 million and \$69 million, respectively, in fiscal year 2003.

Note 9. General Property, Plant, and Equipment, Net

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ 77	\$ 2	\$ 75
Improvements to Land	10-50	4,827	2,337	2,489
Construction-in-Progress		95	-	95
Buildings, Improvements and Renovations	30	1,669	827	843
Other Structures and Facilities	15-50	1,607	1,002	605
Equipment	5-15	1,915	1,276	638
Leasehold Improvements	10	7	3	4
Internal-Use Software	5-8	172	76	96
Internal-Use Software in Development		13	1	12
Other General Property, Plant and Equipment	5-15	6	-	6
Total		\$ 10,386	\$ 5,524	\$ 4,862

Note 10. Other Assets

Intragovernmental:			
Advances to Others		\$	1
With the Public:			
Advances to Others			243
Other Assets			41
Total Other Asssets		\$	285

Note 11. Liabilities Not Covered By Budgetary Resources

Intragovernmental:	
Other	\$ 351
Federal employee and veterans' benefits	862
Environmental and disposal liabilities	7
Other	3,094
Total liabilities not covered by budgetary resources	4,314
Total liabilities covered by budgetary resources	108,373
Total liabilities	\$ 112,687

Other liabilities not covered by budgetary resources includes accrued rental payments under the Conservation Reserve program of \$1,600 million, unfunded leave of \$494 million, estimated losses on insurance claims of \$367 million, and contract dispute claims payable to Treasury's Judgment Fund of \$189 million.

Note 12. Debt

	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt:			
Held by the Public	\$ 87	\$ (3)	\$ 84
Total Agency Debt	87	(3)	84
Other Debt:			
Debt to the Treasury	55,433	(1,944)	53,489
Debt to the Federal Financing Bank	25,221	(2,842)	22,379
Total Other Debt	80,654	(4,786)	75,868
Total Debt	\$ 80,741	\$ (4,789)	\$ 75,952

Note 13. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. The Forest Service and Commodity Credit Corporation estimates the liability for total cleanup costs for sites known to contain hazardous waste to be \$7 million and \$15 million, respectively, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

Note 14. Other Liabilities

	Non-Current	Current	Total
Intragovernmental			
Other Accrued Liabilities	\$ 189	\$ 189	378
Employer Contributions and Payroll Taxes	-	16	16
Unfunded FECA Liability	38	120	158
Advances from Others	21	28	49
Liability for Deposit Funds, Clearing Accounts	-	1,018	1,018
Liability for Subsidy Related to Undisbursed Loans	-	990	990
Resources Payable to Treasury	-	18,598	18,598
Custodial Liability	31	23	55
Other Liabilities	-	130	130
Total Intragovernmental	280	21,112	21,393
With the Public			
Other Accrued Liabilities	107	2,634	2,741
Accrued Funded Payroll and Leave	-	25	25
Other Post-Employment Benefits Due and Payable	-	8	8
Benefit Premiums Payable to Carriers	-	36	36
Unfunded Leave	19	475	494
Other Unfunded Employment Related Liability	572	52	623
Advances from Others	(21)	35	14
Deferred Credits	-	42	42
Liability for Deposit Funds, Clearing Accounts	31	1,399	1,430
Contingent Liabilities	37	7	44
Custodial Liability	-	68	68
Other Liabilities	22	5,013	5,034
Total Other Liabilities	\$ 1,048	\$ 30,905	\$ 31,953

Other liabilities include estimated losses on insurance claims of \$2,865 million and stock payable to Rural Telephone Bank borrowers of \$1,343 million.

Note 15. Leases

Operating Leases:			
Future Payments Due:			
Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2003	\$ 71	\$ 1	72
2004	65	1	66
2005	56	-	57
2006	58	-	58
2007	51	-	51
After 5 Years	239	-	239
Total Future Lease Payments	\$ 541	\$ 2	543

Note 16. Commitments and Contingencies

The Department is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, \$38 million has been accrued in the financial statements as of September 30, 2002.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The Department's potential liability for these claims ranges from \$1,703 million to \$1,727 million.

Commitments under contractual and other commercial obligations are estimated to be \$52,800 million, primarily consisting of \$20,000 million in rental payments under the Conservation Reserve Program, \$15,000 million in undelivered orders, \$14,000 million in direct loans, and \$3,000 million in loan guarantees.

Note 17. Suborganization Program Costs/Program Costs by Segment

	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs :										
Intragovernmental Gross Costs	\$ 910	\$ 1,286	\$ 1,004	\$ 3,558	\$ 318	\$ 1,118	\$ 196	\$ 275	\$ (768)	7,897
Less: Intragovernmental Earned Revenue	1	370	299	297	57	7	2	333	(384)	983
Intragovernmental Net Costs	909	916	704	3,261	261	1,111	193	(57)	(384)	6,914
Gross Costs With the Public :										
Grants	36,036	12,620	678	1,443	974	43	43	-	-	51,837
Loan Cost Subsidies	-	(620)	-	(373)	-	-	-	-	-	(994)
Indemnities	-	3,895	12	-	-	37	-	-	-	3,945
Commodity Program Costs	594	4,813	-	-	-	-	-	-	-	5,408
Stewardship Land Acquisition	-	105	108	-	-	-	-	-	-	212
Other	187	3,176	5,287	3,077	1,297	962	643	516	-	15,145
Less: Earned Revenues from the Public	104	4,574	174	4,047	50	535	101	11	-	9,597
Net Costs with the Public	36,714	19,414	5,910	99	2,221	508	585	505	-	65,956
Net Cost of Operations	\$ 37,623	\$ 20,330	\$ 6,614	\$ 3,360	\$ 2,482	\$ 1,618	\$ 779	\$ 448	\$ (384)	72,870

Note 17. Suborganization Program Costs/Program Costs by Segment

Food, Nutrition, and Consumer Service

	Child Nutrition	Food Stamp	Food Donations	Women, Infants, and Children	Commodity Assistance	Total
Program Costs :						
Intragovernmental Gross Costs	\$ 23	\$ 56	\$ 822	\$ 9	\$ 1	910
Less: Intragovernmental Earned Revenue		1				1
Intragovernmental Net Costs	22	55	822	9	1	909
Gross Costs With the Public :						
Grants	9,698	21,662	169	4,415	92	36,036
Loan Cost Subsidies	-	-	-	-	-	-
Indemnities						
Commodity Program Costs	367	91	56		80	594
Stewardship Land Acquisition	-	-	-	-	-	-
Other	52	120	1	14		187
Less: Earned Revenues from the Public	6	78	-	15	5	104
Net Costs with the Public	10,111	21,796	225	4,414	168	36,714
Net Cost of Operations	\$ 10,133	\$ 21,851	\$ 1,047	\$ 4,422	\$ 169	\$ 37,623

Note 17. Suborganization Program Costs/Program Costs by Segment

Farm and Foreign Agricultural Services

	Commodity Operations	Income Support	Conservation Reserve	Foreign Programs	Farm Loan Programs	Crop Insurance	Other	Intra-Mission Area Elimination	Total
Program Costs :									
Intragovernmental Gross Costs	\$ 596	\$ 659	\$ 106	\$ 739	\$ 397	\$ 61	\$ (442)	\$ (842)	1,286
Less: Intragovernmental Earned Revenue	528	11	-	140	175	-	(389)	(95)	370
Intragovernmental Net Costs	68	648	106	612	222	61	(53)	(747)	916
Gross Costs With the Public :									
Grants	-	9,120	1,726	855	3	-	916	-	12,620
Loan Cost Subsidies	-	(2)	-	(552)	(67)	-	-	-	(620)
Indemnities	-	-	-	-	-	3,894	-	-	3,895
Commodity Program Costs	4,813	-	-	-	-	-	-	-	4,813
Stewardship Land Acquisition	-	-	-	-	-	-	105	-	105
Other	356	862	(2)	123	140	710	989	-	3,176
Less: Earned Revenues from the Public	2,098	71	(1)	572	601	1,199	34	-	4,574
Net Costs with the Public	3,071	9,909	1,725	(146)	(525)	3,405	1,976	-	19,414
Net Cost of Operations	\$ 3,139	\$ 10,556	\$ 1,830	\$ 466	\$ (302)	\$ 3,466	\$ 1,923	\$ (747)	20,330

Note 17. Suborganization Program Costs/Program Costs by Segment

Natural Resources and Environment

	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs :								
Intragovernmental Gross Costs	\$ 484	\$ 15	\$ 13	\$ 386	\$ (219)	\$ 328	\$ (4)	1,004
Less: Intragovernmental Earned Revenue	135	20	6	10	-	133	(4)	299
Intragovernmental Net Costs	350	(5)	8	376	(219)	195	-	704
Gross Costs With the Public :								
Grants	376	4	217	10		71	-	678
Loan Cost Subsidies	-	-			-	-	-	-
Indemnities	10			1			-	12
Commodity Program Costs	-	-			-	-	-	-
Stewardship Land Acquisition	108	-			-	-	-	108
Other	2,214	231	55	1,680	144	965	-	5,287
Less: Earned Revenues from the Public	90	3		60	-	22	-	174
Net Costs with the Public	2,618	232	272	1,631	144	1,014	-	5,910
Net Cost of Operations	\$ 2,968	\$ 227	\$ 279	\$ 2,007	\$ (76)	\$ 1,209	\$ -	6,614

Note 17. Suborganization Program Costs/Program Costs by Segment

Rural Development

	Mortgage Credit	Housing Assistance	Area and Regional Development	Energy Supply Conservation	Agricultural Research	Total
Program Costs :						
Intragovernmental Gross Costs	\$ 1,172	\$ 13	\$ 730	\$ 1,643		\$ 3,558
Less: Intragovernmental Earned Revenue	118		113	65		297
Intragovernmental Net Costs	1,054	12	617	1,578		3,261
Gross Costs With the Public :						
Grants	2	728	710	-	2	1,443
Loan Cost Subsidies	(486)	2	51	59	-	(373)
Indemnities	-	-	-	-	-	-
Commodity Program Costs	-	-	-	-	-	-
Stewardship Land Acquisition	-	-	-	-	-	-
Other	3,458	23	(668)	265		3,077
Less: Earned Revenues from the Public	1,635	-	683	1,730	-	4,047
Net Costs with the Public	1,340	753	(590)	(1,406)	3	99
Net Cost of Operations	\$ 2,394	\$ 766	\$ 26	\$ 172	\$ 3	\$ 3,360

Note 17. Suborganization Program Costs/Program Costs by Segment

Research, Education, and Economics

	Agricultural Research	Economic Research	National Agricultural Statistics	Cooperative State Research Education and Extension	Intra-Mission Area Elimination	Total
Program Costs :						
Intragovernmental Gross Costs	\$ 230	\$ 24	\$ 40	\$ 39	(15) \$	318
Less: Intragovernmental Earned Revenue	34	3	7	28	(15)	57
Intragovernmental Net Costs	196	21	33	10		261
Gross Costs With the Public :						-
Grants	17	2	-	954		974
Loan Cost Subsidies	-	-	-	-		-
Indemnities						-
Commodity Program Costs	-	-	-	-		-
Stewardship Land Acquisition	-	-	-	-		-
Other	868	55	92	282		1,297
Less: Earned Revenues from the Public	23	1	5	20		50
Net Costs with the Public	862	56	87	1,215		2,221
Net Cost of Operations	\$ 1,059	\$ 78	\$ 120	\$ 1,225	\$ -	2,482

Note 17. Suborganization Program Costs/Program Costs by Segment

Marketing and Regulatory Programs

	Agricultural Marketing	Animal and Plant Health Inspection	Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
Program Costs :					
Intragovernmental Gross Costs	\$ 854	\$ 242	\$ 32	\$ (10)	\$ 1,118
Less: Intragovernmental Earned Revenue	(7)	22	2	(10)	7
Intragovernmental Net Costs	860	220	30		1,111
Gross Costs With the Public :					-
Grants	2	41	-		43
Loan Cost Subsidies	-	-	-		-
Indemnities		37			37
Commodity Program Costs	-	-			-
Stewardship Land Acquisition	-	-	-		-
Other	119	788	56		962
Less: Earned Revenues from the Public	188	315	32		535
Net Costs with the Public	(67)	551	24		508
Net Cost of Operations	\$ 793	\$ 771	\$ 54	\$ -	\$ 1,618

Note 18. Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
050 National Defense			
150 International Affairs	\$ 1,026	\$ 229	\$ 797
270 Energy	1,967	1,795	172
300 Natural Resources and Environment	6,596	500	6,096
350 Agriculture	66,783	5,414	61,369
370 Commerce and Housing Credit	4,158	1,765	2,394
450 Community and Regional Development	855	796	63
550 Health	882	103	779
600 Income Security	682	1	681
800 General Government	500	(23)	493
Total	\$ 83,450	\$ 10,580	\$ 72,870

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
050 National Defense			
150 International Affairs	\$ 508	- \$	508
270 Energy	1,643	65	1,578
300 Natural Resources and Environment	1,013	303	709
350 Agriculture	1,847	378	1,468
370 Commerce and Housing Credit	1,173	119	1,054
450 Community and Regional Development	732	113	619
550 Health	195	2	193
600 Income Security	785	2	783
Total	\$ 7,897	\$ 983	\$ 6,914

Note 19. Prior Period Adjustments

During the year, the Department of Agriculture contracted with independent appraisers and accounting firms to determine the proper valuation of certain property. Additionally, the Department conducted an inventory of both personal and real property. The net result of these initiatives was to write-down property by approximately \$616 million.

The Department has determined that certain balances converted to the Foundation Financial Information System (FFIS) were not adequately supported. After researching these balances, the Department has made a decision to remove the balances. The net result is to increase Net Position by \$314 million.

Commodity Credit Corporation, the Forest Service and the Food and Nutrition Service prepare stand-alone financial statements and recorded adjustments to their financial records for fiscal year 2001 after the Departments fiscal year 2001 consolidated financial statements were prepared. The net amount of these adjustments is a decrease to Net Position of \$960 million.

Corrections to Fund Balance with Treasury have been made to agree with Treasury’s amounts, which resulted in an increase to Net Position of \$194 million.

Forest Service corrected accounting errors that occurred in previous fiscal years that resulted in an increase to Net Position of approximately \$372 million.

Note 20. Apportionment Categories of Obligations Incurred

	Direct	Reimbursable	Total
Category A	\$ 32,955	\$ 672	\$ 33,627
Category B	43,599	28,686	72,285
Exempt from Apportionment	173	24	197
Total Obligations Incurred	\$ 76,727	\$ 29,382	\$ 106,109

Note 21. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2002 for the Rural Development mission area, Commodity Credit Corporation, and the Farm Service Agency was \$13,200 million, \$12,334 million, and \$97 million, respectively.

Note 22. Terms of Borrowing Authority Used

USDA has a permanent indefinite borrowing authority, as defined by OMB Circular A-11, Preparation and Submission of Budget Estimates. The Secretary of Agriculture has the authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD’s insurance funds and CCC’s nonreimbursed realized losses and debt related to foreign assistance programs.

The permanent indefinite borrowing authority includes both interest bearing and non-interest notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with credit reform, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the FFB and private investors in the form of certificates of beneficial ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBO's outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB CBO's are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

Prepayments can be made on Treasury borrowings without a penalty; however, they cannot be made on FFB CBO's, without a penalty.

Funds may also be borrowed from private lending agencies and others. USDA reserves a sufficient amount of its borrowing authority to purchase, at any time, all notes and other obligations evidencing loans made by agencies and others. All bonds, notes, debentures, and similar obligations issued by the Department are subject to approval by the Secretary of the Treasury. Reservation of borrowing authority for these purposes has not been required for many years.

Note 23. Adjustments to Beginning Balance of Budgetary Resources

The beginning balance of budgetary resources decreased by \$122 million. This decrease was caused primarily by the exclusion of allocation transfer appropriations received from other federal entities that were included in prior year financial statements.

Note 24. Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, and 3) certain costs associated with FS programs. The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years.

However, they are not stated as specific amounts but are determined by specified variable factors, such as “cash needs” for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs. The permanent indefinite appropriation for FS programs are used to fund Pacific Yew, Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsey Owl, Restoration of Forest Lands and Improvements, Roads and Trails for State, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operation, Maintenance of Quarters, Construction, National Forest System, Research, and State and Private. Monies received are appropriated and made available until expended by the FS to fund the costs associated with their appropriate purpose. Federal law (16 U.S.C. Section 556d) provides that the FS may advance money from any FS appropriation to the fire fighting appropriation for the purpose of fighting fires.

Note 25. Legal Arrangements Affecting Use of Unobligated Balances

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year the authority is canceled. Thereafter, the authority is not available for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

Note 26. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The fiscal year 2004 *Budget of the United States Government* with actual numbers for fiscal year 2002 has not yet been published. It is expected to be published in February 2003 and will be available from the Government Printing Office.

Note 27. Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. The current portion of liabilities not covered by budgetary resources recognized as a component of the net cost of operations is the change in components requiring or generating resources in future periods.

Note 28. Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Allocation transfers that appear as reconciling items on the Statement of Financing include funds received from the Department of Labor for training underemployed youths; the Department of Transportation for maintenance and upkeep of federal highways traversing National Forest System lands; the Appalachian Regional Commission and Economic Development Administration for accounting services; and funds transferred to the Agency for International Development for transportation in connection with foreign commodity donations.

Note 29. Incidental Custodial Collections

Revenue Activity:	
Sources of Collections:	
Miscellaneous	\$ 83
Total Cash Collections	83
Accrual Adjustments	292
Total Custodial Revenue	375
Disposition of Collections:	
Transferred to Others:	
Treasury	(357)
(Increase)/Decrease in Amounts Yet to be Transferred	(18)
Net Custodial Activity	\$ -

The majority of custodial collections represent National Forest Fund receipts from the sale of timber and other forest products. The balance represents miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for assets and liabilities required to be reported in the financial statements. Information about these resources are important to understanding USDA's mission, operations, and financial condition at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the Statement of Net Cost in the year the costs are incurred; however, the costs and resultant resources are intended to provide long-term benefits to the public and are reported to highlight USDA's accountability over them.

The two general types of stewardship resources are investments in physical capital and investments in other than physical capital.

Investments in physical capital include stewardship land, the solid part of the surface of the earth (i.e., excluding natural depletable or renewable resources) not acquired for or in connection with items of general property, plant, and equipment. USDA's stewardship land consists of national forests and grasslands, and easements acquired for conservation purposes. These are reported in acres of land rather than dollar amounts.

Investments in other than physical capital include nonfederal physical property, where title to the property is held by State or local governments; investments in human capital for education and training; and research and development.

These stewardship investments are made for the benefit of the Nation. They are reported as expenses in the Statement of Net Cost in the year incurred, but they are also reported as supplemental stewardship information because USDA has been entrusted with and made accountable for the resources.

Stewardship Land

Description	FY 2002 Balance	Additions (+)	Withdrawals (-)	FY 2001 Balance
National Forest System Land (In acres):				
National Forests	143,796,683	-	(52,114)	143,848,797
Wilderness Areas	34,789,308	-	(23,349)	34,812,657
Primitive Areas	173,762	-	-	173,762
Wild and Scenic River Areas	946,378	1,223	-	945,155
Recreation Areas	2,910,364	-	-	2,910,364
Scenic-Research Areas	135,815	-	-	135,815
Game Refuges and Wildlife Preserve Areas	1,198,099	31,725	-	1,166,374
Monument Areas	3,840,582	-	-	3,840,582
National Grasslands	3,836,577	10	-	3,836,567
Purchase Units	357,053	6,452	-	350,601
Land Utilization Projects	1,876	-	-	1,876
Other Areas	451,261	89,716	-	361,545
Total National Forest System Land	192,437,758	129,126	(75,463)	192,384,095
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	971,680	342,615	-	629,065
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	88,020	-	-	88,020
Total Conservation Easements	1,151,859	342,615	-	809,244

National Forest System

The Forest Service manages over 192 million acres of public land, the majority of which are classified as stewardship land. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue they provide to the Federal government, states and counties. The National Forest System is comprised of the following:

National Forests

A unit formerly established and permanently set aside and reserved for National Forest purposes. The following categories of NFS lands have been set-aside for specific purposes in designated areas:

- Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- Scenic-Research Areas: Areas established by Congress to provide use and enjoyment or certain ocean headlands and to insure protection and encourage the study of the areas for research and scientific purposes.
- Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.

- **Monument Areas:** Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands

A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Act.

Purchase Units

A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the federal government to purchase lands for stream-flow protection, and maintain the acquired lands as national forests.

Land Utilization Projects

A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas

Areas administered by the Forest Service that are not included in one of the above groups.

The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis (FIA) program in 45 states covering 65 percent of the forested lands of the lower 48 states. The Forest Health Monitoring (FHM) program is active in 48 states providing surveys and evaluations of forest health conditions and trends. While most of the 192 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires.

Between 1997 and 2001, tree mortality caused by insects and diseases was detected by aerial surveys on approximately 8 million acres of NFS forestland. About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1&2 and Condition Classes 2&3). Approximately 9.5 million acres are at risk to both pest caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of, native vegetation. The National Fire Plan has focused our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.4 million acres of NFS lands in 2001 and 1.2 million acres in 2002. Insect and disease prevention and suppression treatments were completed on over one million acres of NFS lands in 2001 and nearly one million acres in 2002.

At the time of submission of this information the net change values include the net effects of Forest Service land transactions with the exception of the Northern regions 2002 transactions. This information will be updated to include the Northern Region's information as soon as it becomes available. Land that is needed to protect critical wildlife habitat, cultural and historic values; to support the purposes of congressional designation; and for recreation and conservation purposes is acquired through purchase or exchange.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or

enter into a cost-share restoration agreement with CCC in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land—and may lease the land—for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with contract requirements. At any time, a landowner may request that additional activities (such as cutting hay, grazing livestock, or harvesting wood products) be evaluated to determine if they are compatible uses for the site. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing transactions, survey, and restoration costs. Easements can be either permanent or 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

In fiscal year 2002, funding responsibility for WRP returned to NRCS; however, CCC remains responsible for obligations arising prior to 2002. Additionally, CCC acres acquired during fiscal year 2002 were purchased with CCC funds, as in the past.

Emergency Wetlands Reserve Program (EWRP)

The Emergency Wetlands Reserve Program (EWRP) administered by NRCS was established as part of the emergency restoration package following the flooding of the Mississippi River and its tributaries in 1993. EWRP provides landowners an alternative to bringing back into agricultural production lands that had been wetlands at one time. The program is patterned after the Wetlands Reserve Program. Participants in the program sell a conservation easement to USDA in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership.

To be eligible, the land must have been damaged by a natural disaster and be restorable as a wetland. Once the land is enrolled in the program, the landowner continues to control access to the land. The land is monitored to ensure if the wetland is in compliance with contract requirements, including compatible uses, such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWRP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

Emergency Watershed Protection Program (EWP)

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and to achieve greater environmental benefits where the situation

warrants and the affected landowner is willing to participate in the easement approach. The easement is to restore, protect, manage, maintain, and enhance the functions of wetlands, riparian areas, conservation buffer strips, and other lands.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to effectively achieve the purposes of the easement. The easements provide permanent restoration of the natural floodplain hydrology as an alternative to traditional attempts to restore damaged levees, lands, and structures. There are no provisions in the easement to terminate the purchase.

Stewardship Investments

(in millions)

Program	FY 2002 Expense	FY 2001 Expense	FY 2000 Expense
Non-Federal Physical Property:			
Food and Nutrition Service			
Food Stamp Program	\$ -	\$ 41	\$ 28
Special Supplemental Nutrition Program	-	18	29
Cooperative State Research, Education, and Extension Service			
Extension 1890 Facilities Program	14	12	12
Total Non-Federal Property	\$ 14	\$ 71	\$ 69
Human Capital:			
Cooperative State Research, Education, and Extension Service			
Higher Education and Extension Programs	\$ 532	\$ 479	\$ 466
Food and Nutrition Service			
Food Stamp Program	-	57	156
Child Nutrition Program	-	-	-
Forest Service			
Job Corps Program	104	101	94
Agricultural Research Service			
National Agricultural Library	20	21	19
Risk Management Agency			
Risk Management Education	-	-	1
Total Human Capital	\$ 656	\$ 658	\$ 736
Research and Development:			
Agricultural Research Service			
Plant Sciences	\$ 384	\$ 324	\$ 296
Commodity Conversion and Delivery	182	194	172
Animal Sciences	102	146	133
Soil, Water, and Air Sciences	100	98	89
Human Nutrition	80	77	72
Integration of Agricultural Systems	40	34	31
Collaborative Research Program	11	11	-
Cooperative State Research, Education, and Extension Service			
Land-grant University System	542	495	476
Forest Service			
Natural Resource Management	267	200	255
Economic Research Service			
Economic and Social Science	67	66	64
National Agricultural Statistics Service			
Statistical	5	4	4
Total Research and Development	\$ 1,780	\$ 1,649	\$ 1,592

Nonfederal Physical Property

Food and Nutrition Service

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program Expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' nonfederal physical property also consist of computer systems and other

equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

Cooperative State Research, Education, and Extension Service

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities. In FY 2002, 18 grants were awarded to support this program.

Human Capital

Cooperative State Research, Education, and Extension Service Programs

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, a capacity building program at the 1890 institutions, and an Alaska Native-Serving and Native Hawaiian-Serving institutions education grants programs. In FY 2002, approximately 200 Higher Education grants were awarded to more than 125 institutions of higher education. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences.

Food and Nutrition Service

FNS' human capital consists of employment and training (E&T) for the Food Stamp Program. The E&T program requires recipients of food stamp benefits to participate in an employment and training program as a condition to food stamp eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 621,000 work registrants subject to the 3-month Food Stamp Program participant limit and 529,000 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Forest Service

In partnership with the U.S. Department of Labor (DOL), the Forest Service operates 18 Job Corps Civilian Conservation Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people, ages 16-24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. Job Corps is funded from DOL with the program year beginning on July 1 and ending on June 30 of each year. During FY 2002 (July 1st to June 30th), there were 8,976 participants with 3,748 placements. The average starting hourly wage for our Forest Service Job Corps students was \$8.49, which is above the DOL national average rate.

Established in 1964, Job Corps has trained and educated about 219,000 young people. The program is administered in a structured, coeducational, residential environment that provides, education, vocational and life skills training, counseling, medical care, work experience, placement assistance and follow-up, recreational opportunities, and biweekly monetary stipends. Job corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operations and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenances, warehousing, and plastering. The 18 centers had 2,056 women students training in nontraditional vocations last program year. The program received the National Job Corps Association Community Partners Alpha Award for the partnership of the Frenchburg Job Corps

Center and the Hazard Community College in assisting young people earn college credits. Over 700 Job Corps students assisted the agency in its fire fighting efforts. An Interagency Agreement with the Secretaries of Interior, Labor, and Agriculture was signed for the establishment of the first National Apprentice Training Program—which will allow Job Corps students to participate. The Firefighter Apprentice of the Future representative is one of our female Job Corps students.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The Library is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The National Agricultural Library was created as the departmental library for the U.S. Department of Agriculture in 1862 and became a national library in 1962. One of four national libraries of the United States (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the National Agricultural Library serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The National Agricultural Library's collection of over 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, the FCIC has formed new partnerships with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation during fiscal year 2002 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

One of the directives of ARPA is to step up the FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that fifteen states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire, and West Virginia.

Research and Development

Agricultural Research Service

ARS is the principal in-house research agency of USDA. Its mission is to conduct research to develop the following program activities:

Plant Sciences

The research emphasis is on increasing the productivity and quality of crop plants, and improving the competitiveness of agricultural products in domestic and world markets. The research involves developing improved production practices, and methods for reducing crop losses caused by weeds, diseases, insects, and other pests. The research also includes broadening the germplasm resources of plants and beneficial organisms to ensure genetic diversity for improving productivity.

Commodity Conversion and Delivery

The research program focuses on maximizing the use of agricultural products in domestic and international markets. New agricultural products and processes are developed along with technologies for reducing or eliminating post harvest losses caused by pests, spoilage, and physical and environmental damage. Also, research is conducted on food safety to reduce pathogens, naturally-occurring toxicants, mycotoxins, and chemical residues in the food supply.

Animal Sciences

The research program places primary emphasis on increasing the productivity of animals and the quality of animal products. The research involves increasing the genetic capacity of animals for production, improving the efficiency of reproduction, improving animal nutrition and feed efficiency, and controlling or preventing losses from pathogens, diseases, parasites, and insect pests. In addition, the research includes the development of systems and technologies to better manage and utilize animal wastes.

Soil, Water, and Air Sciences

The research program is directed to managing and conserving the nation's soil, water, and air resources to maintain a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.

Human Nutrition

The research program emphasis is on promoting optimum human health and well-being through improved nutrition. Research is directed to defining the nutrient requirements of humans at all stages of the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods consumed, and establishing the bioavailability of their nutrients.

Integration of Agricultural Systems

The research integrates scientific knowledge of agricultural production, processing, and marketing into systems that optimize resources management and facilitate the transfer of technology to users.

Collaborative Research Program

Funds from the U.S. Agency for International Development (AID) allow USDA to provide short-term scientific exchanges with the new independent states of the former Soviet Union to develop market-based agricultural systems necessary to meet the food needs of their populations and develop and strengthen trade linkages between their countries and related agribusiness and agricultural enterprise in the United States.

The National Agricultural Library also provides support to ARS' research programs.

Cooperative State Research, Education, and Extension Service Program

CSREES participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and USDA. It assists in maintaining cooperation among the State institutions, and between the State institutions and their Federal research partners. CSREES administers grants and formula payments to State institutions to supplement State and local funding for agriculture research.

Forest Service

Forest Service research and development provides reliable science based information that is incorporated into natural resource decision-making. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include:

- Vegetation Management and Protection;
- Wildlife, Fish, Watershed, and Air;
- Resource Valuation and Use Research; and
- Forest Resources Inventory and Monitoring.

Research staff is involved in all areas of the Forest Service supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2002 accomplishments include:

- Estimated 316 new interagency agreements and contracts;
- Estimated 221 interagency agreements and contracts continued;
- Estimated 1,326 articles published in journals;
- Estimated 1,829 articles published in all other publications;
- six patents granted; and
- 37 rights to inventions established.

Economic Research Service

ERS provides economic and other social science research and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Research results and economic indicators on these important issues are fully disseminated through published and electronic reports and articles; special staff analyses, briefings, presentations, and papers; databases; and individual contacts. ERS' objective information and analysis helps public and private decision makers attain the goals that promote agricultural competitiveness, food safety and security, a well-nourished population, environmental quality, and a sustainable rural economy.

National Agricultural Statistics Service

Statistical research and service is conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. In addition, new products for data users are being developed with the use of technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Budgetary Resources

	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:												
Budget authority:												
Appropriations received	\$ 30,037	\$ -	\$ 4,618	\$ -	\$ 32,806	\$ 734	\$ 7,260	\$ 6,162	\$ 2,511	\$ 509	\$ 84,637	\$ -
Borrowing authority	34,054	1,586	1	8,103	-	-	-	-	-	-	34,055	9,689
Net transfers	(3,501)	-	588	-	5,173	-	(5,046)	470	15	21	(2,281)	-
Unobligated balances:												
Beginning of period	5,443	1,728	1,159	612	15,541	45	488	1,365	338	118	24,498	2,341
Net transfers, actual	(7)	-	-	-	20	-	2	110	-	-	126	-
Anticipated Transfers balances	-	-	-	-	-	-	-	-	-	-	-	-
Spending authority from offsetting collections:												
Earned												
Collected	13,762	3,548	5,877	3,634	143	101	162	1,094	81	383	21,603	7,183
Receivable from Federal sources	(479)	(68)	(12)	(694)	-	2	17	(216)	12	(20)	(695)	(762)
Change in unfilled customer orders												
Advance received	209	-	-	-	(15)	-	-	(48)	2	-	148	-
Without advance from Federal sources	(3)	(2)	-	666	-	-	-	26	10	22	55	664
Subtotal	13,489	3,478	5,866	3,606	128	103	179	856	105	385	21,112	7,084
Recoveries of prior year obligations	472	78	268	210	712	73	176	125	778	60	2,664	288
Permanently not available	(42,135)	(597)	(5,290)	(1,296)	(4,931)	(1)	(10)	(22)	(15)	(4)	(52,407)	(1,893)
Total Budgetary Resources (Note)	37,852	6,273	7,210	11,236	49,450	954	3,050	9,066	3,732	1,089	112,402	17,509

USDA Performance and Accountability Report for FY 2002

	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Status of Budgetary Resources:												
Obligations incurred (Note):												
Direct	8,419	2,085	5,242	10,160	37,614	795	2,006	6,865	3,021	519	64,482	12,245
Reimbursable	26,956	-	481	-	79	102	418	821	149	377	29,383	
Subtotal	35,375	2,085	5,723	10,160	37,693	897	2,424	7,686	3,170	896	93,864	12,245
Unobligated balance												
Apportioned	1,834	3,978	207	274	517	43	432	1,055	409	80	4,578	4,252
Exempt from apportionment	42	-	-	-	-	1	172	5	56	-	276	
Other available	299	-	-	-	-	-	-	-	-	-	299	
Unobligated balance not available	301	210	1,279	802	11,239	13	21	320	97	112	13,385	1,012
Total Status of Budgetary Resources	37,852	6,273	7,210	11,236	49,450	954	3,050	9,066	3,732	1,089	112,402	17,509
Relationship of Obligations to Outlays:												
Obligated balance, net, beginning of period	5,890	580	6,729	10,232	3,058	73	360	1,968	1,464	81	19,624	10,812
Obligated balance transferred, net	-	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, net, end of period:												
Accounts receivable	(654)	(107)	(24)	-	-	(23)	(58)	(156)	(68)	(64)	(1,048)	(107)
Unfilled customer orders from Federal sources	(6)	(10)	-	(666)	-	-	-	(156)	(77)	(28)	(267)	(676)
Undelivered orders	4,041	284	6,360	13,823	340	80	265	1,759	1,584	132	14,561	14,107
Accounts payable	2,556	437	438	-	2,546	17	118	498	56	64	6,292	438
Outlays:												
Disbursements	35,339	2,053	5,422	7,053	37,226	821	2,296	7,774	2,340	816	92,034	9,105
Collections	(13,972)	(3,548)	(5,877)	(3,634)	(128)	(101)	(162)	(1,046)	(83)	(383)	(21,751)	(7,183)
Subtotal	21,368	(1,495)	(455)	3,418	37,098	720	2,134	6,728	2,258	433	70,283	1,923
Less: Offsetting Receipts	57	130	356	-	-	1	10	852	-	-	1,275	130
Net Outlays	\$ 21,311	\$ (1,625)	\$ (811)	\$ 3,418	\$ 37,098	\$ 720	\$ 2,124	\$ 5,876	\$ 2,257	\$ 433	\$ 69,008	\$ 1,793

Deferred Maintenance

Asset Class	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Forest Service			
Roads, Bridges, and Major Culverts	\$ 4,955	\$ 1,161	\$ 3,794
Buildings	518	189	329
Developed Recreation Sites	291	99	192
Dams	30	9	21
Range Structures	491	491	-
Wildlife, Fish, and Threatened and Endangered Species Structures	4	3	1
Trails	138	51	87
Heritage Assets	73	42	31
Total Forest Service	\$ 6,501	\$ 2,047	\$ 4,454

Deferred maintenance is maintenance that was scheduled to be performed and delayed until a future period. Deferred maintenance represents a cost that the government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general Property, Plant and Equipment (PP&E), stewardship assets, and heritage assets. It is also reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance for fleet vehicles and computers that are managed through the Agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Condition of Administrative Facilities

- 22 percent of buildings are obsolete, over 50 years old
- 27 percent of buildings are in poor condition needing major alterations and renovations
- 24 percent of buildings are in fair condition needing minor alterations and renovations
- 27 percent of buildings are in good condition needing routine maintenance and repairs

Condition of Dams

The overall condition of dams is below acceptable. The condition of dams is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public, or are needed to restore functional use, correct unsightly conditions, or prevent more costly repairs.

Condition of General Property, Plant and Equipment

The standards for acceptable operating condition for various classes of general PP&E, stewardship and heritage assets are:

Buildings

Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.

Roads and Bridges

Conditions of the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of Forest Service Manuals and Handbooks.

Developed Recreation Sites

This category that includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330, Publicly Managed Recreation Opportunities) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of facility.

Range Structures

The condition assessment was based on: 1) a determination by knowledgeable range specialists or other district personnel of whether or not the structure would perform the originally intended function, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is used to gather this data.

Dams

Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

Wildlife, Fish, and Threatened and Endangered Species Structures

Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Trails

Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350, Trail, River, and Similar Recreation Opportunities) and the Forest Service Trails Management Handbook (FSH 2309.18).

Heritage Assets

These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Intragovernmental Amounts

Assets

	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Trading Partner (Code)				
Unknown (00)	\$	5	\$ 169	\$ 2
Department of Interior (14)		-	4	-
Department of Justice (15)		-	1	-
Department of Labor (16)		-	7	-
Department of State (19)		-	1	-
Department of the Treasury (20)	\$ 39,617	91	13	-
Department of the Army (21)		-	7	-
Office of Personnel Management (24)		-	2	-
General Services Administration (47)		-	7	-
Department of the Air Force (57)		-	1	-
Environmental Protection Agency (68)		-	3	-
Department of Transportation (69)		-	1	(1)
Department of Health and Human Services (75)		-	5	-
National Aeronautics and Space Administration (80)		-	1	-
Department of Energy (89)		-	17	-
U.S. Army Corps of Engineers (96)		-	1	-
Office of the Secretary of Defense-Defense Agencies (97)		-	3	-
Total Assets	\$ 39,617	\$ 96	\$ 242	\$ 1

Liabilities

	Accounts Payable	Debt	Resources Payable to Treasury	Other
Trading Partner (Code)				
Unknown (00)	\$ (17)	\$ -	\$ -	\$ 212
Department of Commerce (13)	-	-	-	1
Department of Interior (14)	-	-	-	68
Department of Justice (15)	-	-	-	8
Department of Labor (16)	-	-	-	94
Department of the Navy (17)	-	-	-	(1)
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	113	75,868	-	1,063
Department of the Army (21)	-	-	-	1
Office of Personnel Management (24)	-	-	-	20
General Services Administration (47)	-	-	-	11
Department of Transportation (69)	-	-	-	7
Agency for International Development (72)	541	-	-	4
Department of Health and Human Services (75)	-	-	-	1
National Aeronautics and Space Administration (80)	-	-	-	(1)
Department of Energy (89)	-	-	-	5
U.S. Army Corps of Engineers (96)	1	-	-	(66)
Treasury General Fund (99)	-	-	\$ 18,598	1,372
Total Liabilities	\$ 637	\$ 75,868	\$ 18,598	\$ 2,795

Earned Revenue, Federal

	Earned Revenue Federal	
Earned Revenue Federal:		
Trading Partner (Code)		
Unknown (00)	\$	97
Library of Congress (03)		1
General Accounting Office (05)		1
Department of Commerce (13)		5
Department of Interior (14)		47
Department of Justice (15)		15
Department of Labor (16)		57
U.S. Postal Service (18)		1
Department of State (19)		2
Department of the Treasury (20)		567
Department of the Army (21)		17
Office of Personnel Management (24)		5
Smithsonian Institution (33)		1
Appalachian Regional Commission (46)		11
General Services Administration (47)		73
Federal Deposit Insurance Corporation (51)		1
Department of the Air Force (57)		2
Federal Emergency Management Agency (58)		(5)
Environmental Protection Agency (68)		12
Department of Transportation (69)		16
Agency for International Development (72)		8
Small Business Administration (73)		1
Department of Health and Human Services (75)		8
National Aeronautics and Space Administration (80)		2
Department of Housing and Urban Development (86)		2
Department of Energy (89)		25
U.S. Army Corps of Engineers (96)		7
Office of the Secretary of Defense-Defense Agencies (97)		6
Total Earned Revenue Federal	\$	983

Cost to Generate Earned Revenue Federal:

	Federal and Non-Federal	
Functional Classification		
350 Agriculture	\$	440
Total Cost to Generate Revenue	\$	440

Cost, Federal

	Cost Federal	
Trading Partner (Code)		
Unknown (00)	\$	2,007
Library of Congress (03)		1
Government Printing Office (04)		12
General Accounting Office (05)		1
Department of Commerce (13)		11
Department of Interior (14)		73
Department of Justice (15)		26
Department of Labor (16)		67
Department of the Navy (17)		6
U.S. Postal Service (18)		17
Department of State (19)		18
Department of the Treasury (20)		4,129
Department of the Army (21)		2
Office of Personnel Management (24)		1,343
Social Security Administration (28)		8
Department of Veterans Affairs (36)		1
General Services Administration (47)		138
Office of Special Counsel (62)		1
Environmental Protection Agency (68)		1
Department of Health and Human Services (75)		11
National Aeronautics and Space Administration (80)		3
Department of Energy (89)		13
Independent Agencies (95)		2
U.S. Army Corps of Engineers (96)		3
Office of the Secretary of Defense-Defense Agencies (97)		4
Total Cost Federal	\$	7,897

Non-exchange Revenue Federal:

	Transfers-In	Transfers-Out
Trading Partner (Code)		
Unknown (00)	\$ 1,409	\$
Department of Interior (14)		(200)
Department of the Treasury (20)	2,619	(3,101)
Agency for International Development (72)		(611)
Treasury General Fund (99)		(1,945)
Total Non-exchange Revenue Federal	\$ 4,028	\$ (5,857)

Segment Information

The Departmental Working Capital Fund and the Forest Service Working Capital Fund are not separately reported in the consolidated financial statements. The following information summarizes the working capital funds' financial condition and results of operations as of and for the fiscal year ending September 30, 2002.

	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	\$ 74	\$ 108	\$ 182
Accounts Receivable	28	1	29
Property, Plant, and Equipment	50	338	388
Other Assets	3	22	25
Total Assets	155	469	624
Liabilities and Net Position			
Accounts Payable	3	17	20
Deferred Revenues	-	-	-
Other Liabilities	52	(38)	14
Unexpended Appropriations	26	4	30
Cumulative Results of Operations	74	486	560
Total Liabilities and Net Position	\$ 155	\$ 469	\$ 624
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	\$ 185	\$ 204	\$ (19)
Communications	5	5	0
Information Technology	74	81	(7)
Administration	26	29	(3)
Executive Secretariat	2	2	(0)
Total Departmental Working Capital Fund	292	321	(29)
Forest Service Working Capital Fund:			
Other	146	218	(72)
Total Working Capital Funds	\$ 438	\$ 539	\$ (101)

Departmental Working Capital Fund

Twenty-two activity centers performed operations and provided the following services in FY 2002:

- **Administration:** Administrative and Supply Services.
- **Communications:** Video, Teleconferencing, Graphic and Exhibit Services.
- **Finance and Management:** Payroll, Accounting and Administrative Services and Thrift Saving Plan Support.
- **Information Technology:** ADP Services, Application Development, and Telecommunications Services.
- **Executive Secretariat:** Executive correspondence control and tracking.

In FY 2002, the Departmental Working Capital Fund had two major customers that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of \$60 million. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of \$54 million.

Forest Service Working Capital Fund

Services provided by the Forest Service Working Capital Fund include: fleet services, including rental and maintenance; aircraft services, including operation and maintenance; supply services; and computer services, including the replacement of computer hardware and software. Forest Service units are the major customers of the fund.