

Financial Statements of the United States Government for the Years Ended September 30, 2002 and September 30, 2001

In accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 24, two new principal financial statements are included in this *Financial Report of the United States Government (Financial Report)*. They are the Reconciliations of Net Operating Cost and Unified Budget Surplus (or Deficit) and the Statements of Changes in Cash Balance from Unified Budget and Other Activities.

Statements of Net Cost

These Statements present the net cost of fiscal years 2002 and 2001 Government operations. For the purposes of this document, “Government” refers to the United States Government. It categorizes costs by Chief Financial Officer Act entities and other significant entities. Costs are presented in a similar manner as in the budget, even though the budget presents costs by obligations and outlays based on functions. In the Statements of Net Cost, the costs are divided between the corresponding departments and entities mentioned above, providing greater accountability by showing the relationship of the agencies’ net cost to the Governmentwide net cost. The focus of the budget of the United States is by agency. Budgets are prepared, defended and monitored by agency. In reporting by agency, we are assisting the external users in assessing the budget integrity, operating performance, stewardship, and systems and control of the Federal Government.

These Statements contain the following three components:

- Gross cost—This is the full cost of all the departments and entities. These costs may be traced directly, assigned on a cause-and-effect basis, or reasonably allocated to the corresponding departments and entities.
- Earned revenue—This is revenue the Government earned by providing goods and services to the public at a price.
- Net cost—This is computed by subtracting earned revenue from gross cost.

Because of their specific functions, most of the costs originally associated with the General Services Administration (GSA) and the Office of Personnel Management (OPM) have been allocated to and reflected in the costs of their user agencies. The remaining costs for GSA and OPM on the Statements of Net Cost are the administrative operating costs, the expenses from prior and past costs from plan amendments, and the actuarial gains and losses for these agencies. The interest on Treasury securities held by the public is part of the Department of the Treasury’s (Treasury) responsibilities, but because of its importance, and the dollar amounts, it is reported separately in these Statements. Net cost for Governmentwide reporting purposes includes GSA and OPM agency allocations, and is net of intragovernmental eliminations. For this reason, individual agency net cost amounts will not agree with the agency’s financial statements.

Please refer to the Management’s Discussion and Analysis section for further information concerning the mission and organization of the components of the Government of the United States.

Statements of Operations and Changes in Net Position

These Statements report the results of Government operations. They include unearned revenues that are generated principally by the Government’s sovereign power to tax, levy duties, and assess fines and penalties. These Statements also cover the cost of Government operations, net of revenue earned from the sale of goods and services to the public (earned revenues). They further include any adjustments and unreconciled transactions that affect the net position.

Revenue

Individual income tax and tax withholdings consist of Federal individual income taxes, Social Security taxes, Medicare taxes, and railroad retirement taxes, net of related refunds.

Miscellaneous earned revenues consist of earned revenues received from the public with virtually no associated cost. This category includes revenues generated by the Federal Communications Commission from the sale of spectrum licenses to promote open-air communication services to the public (spectrum auctions). It also includes rents and royalties on the Outer Continental Shelf Lands resulting from the leasing and development of mineral resources on public lands.

Net Cost of Government Operations

The net cost of Government operations (which is gross cost less earned revenue) flows through from the Statement of Net Cost.

Unreconciled Transactions

Unreconciled transactions are adjustments needed to bring the change in net position into balance due to unreconciled and unaccounted for differences in the consolidated financial statements. Please refer to Note 16—Unreconciled Transactions Affecting the Change in Net Position for detailed information.

Net Position, Beginning of Period

The net position, beginning of period reflects the net position reported on the prior year's Balance Sheet as of the end of that fiscal year.

Prior Period Adjustments

Prior period adjustments are revisions to adjust the beginning net position. Refer to Note 1B—Basis of Accounting and Revenue Recognition, and Note 17—Prior Period Adjustments for detailed information.

Net Position, End of Period

This amount reflects the net position as of the end of the fiscal year.

Reconciliations of Net Operating Cost and Unified Budget Surplus (or Deficit)

The purpose of the reconciliation is to report how the proprietary net operating cost and the unified budget surplus (or deficit) relate to each other. The premise of the reconciliation is that the accrual and budgetary accounting basis share transaction data.

These Statements report the reconciliation of the results of operations (net operating cost) on the Statements of Operations and Changes in Net Position to the unified budget surplus (or deficit) in the President's budget.

Receipts and outlays in the President's budget are measured primarily on a cash basis and, therefore, differ from the accrued cost-basis measures used in the *Financial Report*. These Statements begin with the results of operations (net operating cost), reported on an accrued cost-basis in the Statements of Operations and Changes in

Net Position, and arrive at the unified budget surplus. Reconciling items include accrued items, such as changes in liabilities for military, veteran and civilian benefits, as well as depreciation expenses on fixed assets and changes in environmental liabilities.

Components of Net Operating Cost Not Part of the Budget Surplus (or Deficit)

This information includes the operating components, such as the changes of benefits payable for veterans, military and civilian employees, and the environmental liabilities and depreciation expense not included in the budget results.

Components of the Budget Surplus (or Deficit) Not Part of Net Operating Cost

This information includes the budget components, such as capitalized fixed assets, changes in accounts receivable, and increases in other assets not included in the operating results because of their long-term nature. These items are typically part of the Balance Sheets only, and are not part of the operating results.

Statements of Changes in Cash Balance from Unified Budget and Other Activities

The primary purpose of these Statements is to report how the annual unified budget surplus (or deficit) relates to the change in the Government's cash balance and debt held by the public. It explains why the unified budget surplus (or deficit) normally would not result in an equivalent change in the Government's cash balance.

These Statements reconcile the unified budget deficit (or surplus) to the change in operating cash during the fiscal year, and explain how the budget deficit (fiscal 2002) was financed and budget surplus (fiscal 2001) was used. A budget deficit is the result of expenditures exceeding receipts (revenue) during a particular fiscal year, and a budget surplus is the result of receipts (revenue) exceeding expenditures during a particular fiscal year.

In depicting how the unified budget deficit (or surplus) affected cash, these Statements show that in fiscal 2002 the greatest amount was net new borrowings from the public, and in fiscal 2001 the greatest amount was net repayments of the debt held by the public. Other transactions also required cash disbursements and are not part of the repayments of the debt. These other transactions, such as the issuance of student loans or premiums on early buyback of public debt, required cash payments and contributed to the use of the surplus or deficit. These Statements show the differences between accrual and cash budgetary basis, mainly because of timing differences in the financial statements.

Balance Sheets

The Balance Sheets show the Government's assets and liabilities. When combined with stewardship information, this information presents a more comprehensive understanding of the Government's financial position. All of the line items on the Balance Sheets are described in the Notes to the Financial Statements. For example, Note 2—Cash and Other Monetary Assets provides information concerning the cash reported in the assets section.

Assets

Assets included on the Balance Sheets are resources of the Government that remain available to meet future needs. The most significant assets that are reported on the Balance Sheets are property, plant and equipment,

inventories, and loans receivable. There are, however, other significant resources available to the Government that extend beyond the assets presented in these Financial Statements. Those resources include stewardship assets, including natural resources (see Stewardship Information section), and the Government's sovereign powers to tax, regulate commerce, and set monetary policy.

Selected assets are highlighted in the Stewardship Information section of this report to demonstrate the Government's accountability for these assets. Stewardship assets include national defense assets, stewardship land, and heritage assets.

Liabilities and Net Position

Liabilities are obligations of the Government resulting from prior actions that will require financial resources. The most significant liabilities reported on the Balance Sheets are Federal employee and veteran benefits payable and Federal debt securities held by the public and accrued interest. Liabilities also include social insurance benefits due and payable as of the reporting date.

As with reported assets, the Government's responsibilities and policy commitments are much broader than these reported Balance Sheet liabilities. They include the social insurance programs disclosed in the Statements of Social Insurance in the Stewardship Information section, and a wide range of other programs under which the Government provides benefits and services to the people of this Nation, and certain future loss contingencies.

The magnitude and complexity of social insurance programs, coupled with the extreme sensitivity of projections relating to the many assumptions of the programs, produce a wide range of possible results. The Stewardship Responsibilities section describes the social insurance programs, reports long-range estimates that can be used to assess the financial condition of the programs, and explains some of the factors that impact the various programs. Using this information, readers can apply their own judgment as to the condition and sustainability of the individual programs.

Each of the social insurance programs has an associated trust fund to account for its activity. The taxes collected for specific use are credited to the corresponding trust fund that will use these funds to meet a particular Government purpose. If the collections from taxes and other sources exceed the payments to the beneficiaries, the excess collections are invested in Treasury securities or "loaned" to the Treasury's general fund; therefore, the trust fund balances do not represent cash. An explanation of the trust funds for social insurance and many of the other large trust funds is included in Note 19—Dedicated Collections. That note also contains information about trust fund receipts, disbursements, and assets.

A broad perspective on the Government's responsibilities is provided by the Current Services Assessment, which also can be found in the Stewardship Information section. Presented in accordance with the President's 2004 budget, this information estimates Federal expenditures and receipts for fiscal 2002 to 2008, assuming there are no changes to current law.

The Government has entered into contractual commitments requiring the future use of financial resources and has unresolved contingencies where existing conditions, situations, or circumstances create uncertainty about future losses. Commitments as well as contingencies that do not meet the criteria for recognition as liabilities on the Balance Sheets, but for which there is at least a reasonable possibility that losses have been incurred, are disclosed in Note 18—Commitments and Contingencies.

Because of its sovereign power to tax and borrow, and the country's wide economic base, the Government has unique access to financial resources through generating tax revenues and issuing Federal debt securities. This provides the Government with the ability to meet present obligations and those that are anticipated from future operations and are not reflected in net position.

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**United States Government
Statements of Net Cost
for the Years Ended September 30, 2002 and September 30, 2001**

(In billions of dollars)

| | 2002 | | | 2001 | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | Gross Cost | Earned Revenue | Net Cost | Gross Cost | Earned Revenue | Net Cost |
| Department of Agriculture | 80.5 | 9.6 | 70.9 | 83.5 | 11.1 | 72.4 |
| Department of Commerce | 7.4 | 1.2 | 6.2 | 7.4 | 1.2 | 6.2 |
| Department of Defense | 420.4 | 13.9 | 406.5 | 776.8 | 12.6 | 764.2 |
| Department of Education | 49.9 | 4.8 | 45.1 | 39.9 | 4.1 | 35.8 |
| Department of Energy | (3.0) | 4.8 | (7.8) | 27.0 | 5.2 | 21.8 |
| Department of Health & Human Services ... | 499.9 | 27.0 | 472.9 | 459.2 | 24.7 | 434.5 |
| Department of Housing & Urban Development ... | 36.3 | 2.2 | 34.1 | 34.5 | 2.4 | 32.1 |
| Department of Interior | 15.0 | 0.7 | 14.3 | 11.7 | 0.3 | 11.4 |
| Department of Justice | 29.5 | 2.3 | 27.2 | 26.5 | 2.3 | 24.2 |
| Department of Labor | 64.7 | - | 64.7 | 42.3 | - | 42.3 |
| Department of State | 10.9 | 0.9 | 10.0 | 10.0 | 1.0 | 9.0 |
| Department of Transportation | 65.4 | 1.6 | 63.8 | 63.6 | 0.3 | 63.3 |
| Department of the Treasury | 66.0 | 3.6 | 62.4 | 60.0 | 4.4 | 55.6 |
| Interest on debt held by the public | 175.4 | - | 175.4 | 217.7 | - | 217.7 |
| Department of Veterans Affairs | 218.4 | 2.6 | 215.8 | 196.0 | 2.7 | 193.3 |
| U.S. Agency for International Development ... | 8.0 | - | 8.0 | 7.1 | 0.1 | 7.0 |
| Environmental Protection Agency | 8.2 | 0.5 | 7.7 | 8.4 | 0.5 | 7.9 |
| Federal Emergency Management Agency ... | 6.2 | 1.8 | 4.4 | 6.3 | 1.6 | 4.7 |
| General Services Administration | (0.1) | 0.3 | (0.4) | 0.1 | 0.3 | (0.2) |
| National Aeronautics & Space Administration .. | 14.7 | 0.1 | 14.6 | 9.2 | 0.1 | 9.1 |
| National Science Foundation | 4.2 | - | 4.2 | 3.7 | - | 3.7 |
| U.S. Nuclear Regulatory Commission | 0.6 | 0.4 | 0.2 | 0.6 | 0.4 | 0.2 |
| Office of Personnel Management | 0.2 | - | 0.2 | 0.2 | - | 0.2 |
| Small Business Administration | 1.3 | 0.5 | 0.8 | 0.8 | 0.2 | 0.6 |
| Social Security Administration | 492.9 | 0.3 | 492.6 | 465.3 | 0.3 | 465.0 |
| Export-Import Bank of the United States | (1.2) | 0.3 | (1.5) | 0.8 | 0.3 | 0.5 |
| Federal Communications Commission | 6.8 | 1.1 | 5.7 | 14.9 | 6.7 | 8.2 |
| Federal Deposit Insurance Corporation | 1.8 | 0.7 | 1.1 | 3.1 | 0.5 | 2.6 |
| National Credit Union Administration | 0.2 | 0.5 | (0.3) | 0.3 | 0.4 | (0.1) |
| Pension Benefit Guaranty Corporation | 12.7 | 0.9 | 11.8 | 2.3 | 0.8 | 1.5 |
| Railroad Retirement Board | 9.3 | - | 9.3 | 9.0 | - | 9.0 |
| Tennessee Valley Authority | 7.9 | 6.8 | 1.1 | 11.8 | 6.9 | 4.9 |
| United States Postal Service | 83.1 | 66.4 | 16.7 | 86.2 | 65.6 | 20.6 |
| All other entities | 22.8 | 0.8 | 22.0 | 19.6 | 3.0 | 16.6 |
| Total | <u>2,416.3</u> | <u>156.6</u> | <u>2,259.7</u> | <u>2,705.8</u> | <u>160.0</u> | <u>2,545.8</u> |

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

**United States Government
Statements of Operations and Changes in Net Position
for the Years Ended September 30, 2002 and September 30, 2001**

| (In billions of dollars) | 2002 | 2001 |
|---|-------------------------|-------------------------|
| Revenue: | | |
| Individual income tax and tax withholdings | 1,538.6 | 1,663.6 |
| Corporation income taxes | 143.7 | 147.9 |
| Unemployment taxes | 26.2 | 26.7 |
| Excise taxes | 67.9 | 67.3 |
| Estate and gift taxes | 26.4 | 28.3 |
| Customs duties | 18.3 | 18.7 |
| Other taxes and receipts | 49.3 | 48.9 |
| Miscellaneous earned revenues | 7.3 | 12.3 |
| Total revenue | <u>1,877.7</u> | <u>2,013.7</u> |
| Less net cost of Government operations | 2,259.7 | 2,545.8 |
| Unreconciled transactions affecting the change in net position (Note 16) | <u>17.1</u> | <u>17.3</u> |
| Net operating cost | <u>(364.9)</u> | <u>(514.8)</u> |
| Net position, beginning of period | <u>(6,458.8)</u> | <u>(5,945.4)</u> |
| Prior period adjustments (Note 17) | 3.5 | 1.4 |
| Net operating cost | <u>(364.9)</u> | <u>(514.8)</u> |
| Net position, end of period | <u>(6,820.2)</u> | <u>(6,458.8)</u> |

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

United States Government
Reconciliations of Net Operating Cost and Unified Budget Surplus (or Deficit)
for the Years Ended September 30, 2002 and September 30, 2001

| (In billions of dollars) | 2002 | 2001 |
|---|----------------|--------------------|
| Net operating cost | (364.9) | (514.8) |
| Components of net operating cost not part of the budget surplus (or deficit): | | |
| Increase in liability for military employee benefits (Note 11): | | |
| Increase in military pension liabilities | 21.7 | 17.8 |
| Increase in military health liabilities | 11.1 | 388.6 |
| (Decrease)/increase in other military benefits | (0.4) | 0.4 |
| Increase in liability for military employee benefits | 32.4 | 406.8 |
| Increase in liability for veterans compensation and burial benefits (Note 11): | | |
| Increase in liability for veterans | 147.7 | 115.2 |
| Increase in liability for survivors | 9.0 | 24.1 |
| Increase in liability for burial benefits | 0.6 | - |
| Increase in liability for veterans compensation | 157.3 | 139.3 |
| Increase in liability for civilian employee benefits (Note 11): | | |
| Increase in civilian pension liabilities | 16.9 | 41.0 |
| Increase in civilian health liabilities | 16.2 | 7.2 |
| Increase in other civilian benefits | 5.8 | 1.9 |
| Increase in liability for civilian employee benefits | 38.9 | 50.1 |
| Decrease in environmental liabilities (Note 12): | | |
| (Decrease)/increase in energy's environmental liabilities | (28.7) | 4.1 |
| (Decrease)/increase in all others' environmental liabilities | (5.1) | 1.6 |
| (Decrease)/increase in environmental liabilities | (33.8) | 5.7 |
| Depreciation expense | 20.5 | 21.4 |
| Increase in benefits due and payable (Note 13) | 9.3 | 8.1 |
| (Increase)/decrease in taxes receivable (Note 5) | (0.3) | 2.2 |
| Increase in other liabilities (Note 14) | 13.8 | 13.1 |
| Premium on early buyback of public debt | 3.8 | 10.7 |
| Seigniorage and sale of gold | (1.0) | (1.3) |
| (Decrease)/increase in accounts payable (Note 9) | (0.4) | 9.4 ¹ |
| Components of the budget surplus (or deficit) not part of net operating cost: | | |
| Capitalized Fixed Assets: | | |
| Department of Defense | (18.1) | (11.1) |
| Civilian agencies | (22.8) | (23.3) |
| Total capitalized fixed assets | (40.9) | (34.4) |
| Decrease in accounts receivable (Note 3) | 2.2 | (1.9) |
| (Increase)/decrease in inventory (Note 6) | (8.4) | 1.4 |
| Increase in other assets (Note 8) | (2.0) | (3.7) |
| Principal repayments of precredit reform loans | 8.2 | 19.9 |
| Net amount of all other differences | 1.0 | (6.4) ¹ |
| Other: | | |
| Prior period adjustments (Note 17) | 6.6 | 1.4 ¹ |
| Unified Budget deficit (or surplus) | <u>(157.7)</u> | <u>127.0</u> |

¹ Restated.

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

United States Government
Statements of Changes in Cash Balance from Unified Budget and Other Activities
for the Years Ended September 30, 2002 and September 30, 2001

| (In billions of dollars) | 2002 | 2001 |
|--|--------------------|--------------------|
| Budget receipts—actual | 1,853.3 | 1,990.9 |
| Budget outlays—actual | <u>(2,011.0)</u> | <u>(1,863.9)</u> |
| Unified budget (deficit) or surplus | (157.7) | 127.0 |
| Adjustments for Non-Cash Outlays | | |
| Included in the Budget: | | |
| Interest accrued by Treasury on debt held by the public | (152.0) | (171.0) |
| Subsidy expense (Note 4) | 4.9 | 0.7 |
| Items Affecting the Cash Balance Not | | |
| Included in the Budget: | | |
| <i>Net Transactions from Financing Activity:</i> | | |
| Repayment of debt held by the public... | 3,570.2 | 2,620.7 |
| Borrowings from the public..... | (3,791.0) | (2,530.6) |
| Total | (220.8) | 90.1 |
| <i>Net Transactions from Monetary Activity:</i> | | |
| Increase in special drawing rights..... | .8 | 1.6 |
| Increase in other monetary assets..... | 14.3 | 8.2 |
| Increase/(decrease) in loans to the IMF | 2.5 | 4.7 |
| Total | 17.6 | 14.5 |
| <i>Net Transactions from Other Activities:</i> | | |
| Net direct loan activity | 13.7 | 18.5 |
| Interest paid by Treasury on debt held by the public | 158.6 | 175.8 |
| Premium on early buyback of public debt .. | 3.8 | 10.7 |
| Net guaranteed loan activity..... | (2.3) | 4.1 |
| Increase/(decrease) in other assets.... | (.9) | 1.6 |
| Increase in deposit fund balances | (.4) | (4.1) |
| Decrease/(increase) in other liabilities... | 3.4 | (4.1) |
| Seigniorage and other equity | (1.0) | (1.3) |
| Revisions to the prior budget results... | 1.0 | - |
| Total | <u>175.9</u> | <u>201.2</u> |
| Disposition of (Deficit) or Surplus | (174.4) | 135.5 |
| Increase/(decrease) in operating cash balance | 16.7 | (8.5) |
| Operating Cash: (Note 2) | | |
| Operating cash balance beginning of period..... | <u>44.2</u> | <u>52.7</u> |
| Operating cash balance end of period... | <u><u>60.9</u></u> | <u><u>44.2</u></u> |

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

**United States Government
Balance Sheets
as of September 30, 2002 and September 30, 2001**

| (In billions of dollars) | 2002 | 2001 |
|--|------------------|------------------|
| Assets: | | |
| Cash and other monetary assets (Note 2) | 141.6 | 108.0 |
| Accounts receivable, net (Note 3) | 32.0 | 34.2 |
| Loans receivable, net (Note 4)..... | 219.2 | 208.9 |
| Taxes receivable, net (Note 5)..... | 21.4 | 21.1 |
| Inventories and related property, net (Note 6) | 192.2 | 183.8 |
| Property, plant and equipment, net (Note 7) | 324.7 | 306.7 |
| Other assets (Note 8)..... | 65.4 | 63.4 |
| Total assets | <u>996.5</u> | <u>926.1</u> |
| Liabilities: | | |
| Accounts payable (Note 9) | 55.8 | 56.2 |
| Federal debt securities held by the public and accrued interest (Note 10) | 3,573.2 | 3,359.3 |
| Federal employee and veteran benefits payable (Note 11) | 3,589.4 | 3,360.8 |
| Environmental and disposal liabilities (Note 12) | 273.0 | 306.8 |
| Benefits due and payable (Note 13) | 95.3 | 86.0 |
| Loan guarantee liabilities (Note 4) | 28.1 | 27.7 |
| Other liabilities (Note 14)..... | 201.9 | 188.1 |
| Total liabilities | <u>7,816.7</u> | <u>7,384.9</u> |
| Commitments and contingencies (Note 18) | | |
| Net position | <u>(6,820.2)</u> | <u>(6,458.8)</u> |
| Total liabilities and net position | <u>996.5</u> | <u>926.1</u> |

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