



U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

U.S Department of Agriculture
Consolidated Financial Statements
For Fiscal Year 2001



Report No.
50401-43-FM
February 2002



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: February 26, 2002

REPLY TO

ATTN OF: 50401-43-FM

SUBJECT: U.S. Department of Agriculture
Consolidated Financial Statements for Fiscal Year 2001

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's consolidated financial statements for the fiscal year ended September 30, 2001. The report contains our disclaimer of opinion and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

/s/

JOYCE N. FLEISCHMAN
Acting Inspector General

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2001 AUDIT REPORT NO. 50401-43-FM

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations, (2) the internal control objectives were met, (3) the Department complied with laws and regulations for those transactions and events that could have a material affect on the financial statements, and (4) the information in the Management Discussion and Analysis (MD&A) and the Supplemental Financial Information sections was materially consistent with the information in the financial statements.

We conducted our audit at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center (NFC) located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

RESULTS IN BRIEF

During fiscal year 2001, the Department has achieved some major accomplishments in improving its overall financial management. OCFO has hired a new Associate Chief Financial Officer and four additional controllers to assist in improving departmental operations. In addition:

- The Credit Reform Task Force, led by the Office of the Chief Financial Officer (OCFO), was the primary factor in the successful development and validation of new cash flow models for estimating and reestimating subsidiary costs for the Department's lending agencies. As a result, we were able to remove our qualification on "Credit Program Receivables, Net."
- As of fiscal year end 2001, OCFO/National Finance Center (NFC) was able to reconcile the differences related to Financial Management

Service (FMS) Form 224 "Statement of Transactions," for the agencies it services, increasing the reliability of the Fund Balance with Treasury line item.

- As fiscal year 2002, approximately 98 percent of the Department has been implemented into the Foundation Financial Information System (FFIS), mitigating the financial management problems reported in the Central Accounting System (CAS).

In addition, other major initiatives are underway. Plans have been developed, contingent upon available funding, to address the (1) renovation of Corporate Administrative systems (2) design of department-wide cost accounting standards (3) improvement in the processes and procedures for accounting for real and personal property and (4) enhancement of overall management accountability and control.

Despite these efforts, we were unable to express, and do not express, an opinion on the Department's financial statements, as of and for the year ended September 30, 2001. The Department did not meet original timeframes for submitting the financial statements to OIG for audit and in spite of meeting subsequently agreed to timeframes, there was inadequate time for us to complete the audit and still meet the Chief Financial Officers (CFO) Act mandated audit reporting timeframes. Several USDA agencies (and their respective mission areas) were unable to provide timely and accurate financial information to the Department for incorporation into the consolidated financial statements. This condition was primarily due to significant problems with the processes for calculating and recording financial information in their accounting systems.

However, based on the audit coverage we were able to conduct, we concluded that, overall, the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements. For example:

- We were unable to obtain sufficient, competent evidential matter to validate \$ 2.9 billion of the "Fund Balance with Treasury" (FBWT) line item totaling over \$40 billion because the Forest Service had not completed reconciliations of its activity recorded in its general ledger with that recorded by Treasury.
- We were unable to determine the reliability of "General Property, Plant & Equipment, Net," totaling over \$5.6 billion, primarily because we were unable to determine the reliability of individual Forest Service real property assets the comprised \$4.4 billion of this line item.

- A material part of the Department's financial information system in fiscal year 2001 was comprised of information from OCFO/NFC's Central Accounting System (CAS) and various subsidiary "feeder" systems. For the last 11 years, we have reported numerous material internal control weaknesses in these systems, which have not yet been corrected despite plans for corrective action made by previous CFOs.

Overall, because of these and other internal control structure weaknesses (as discussed in the individual component financial statement audits for various agencies within USDA) we were unable to obtain sufficient, competent evidential matter to support the principal financial statements

In our Report on the Internal Control Structure, we reported:

- The USDA and its agencies operate at least 66 program and administrative financial management systems. The Office of the Inspector General (OIG), the General Accounting Office (GAO), and the Department have reported that USDA's financial system of records presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The OCFO has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over \$127 billion and program costs in excess of \$86 billion, actions must continue to be taken to fully resolve these problems.
- We have reported material weaknesses in the processes and procedures used by the Department's lending agencies to estimate and re-estimate loan subsidy costs since 1994. During fiscal year 1999, the Department's CFO formed a task force to assist in resolving the Department's longstanding credit reform problems. The primary accomplishment of the task force consisted of the development and validation of new cash flow models. While much progress has been made, additional efforts are needed to resolve some continuing internal control weaknesses. For example:

Enhancements are needed for estimating and re-estimating the costs of credit receivables and credit guarantees. We noted where revisions were needed in order for us to obtain reasonable assurance about the value of the line item and related footnote (for the Farm Service Agency, alone, six versions representing billions of dollars were needed).

Data used in the cash flow models for budget and financial reporting needs to be reconciled with the information contained in the general ledger.

Handbooks need to be updated as changes occur. For example, we noted where the handbook did not reflect the current automated programs used to extract data for cash flow models.

Controls need to be implemented to ensure that changes to the cash flow models are appropriate and that the most current version of the model is used.

- We noted that as of fiscal yearend 2001, OCFO/NFC was able to reconcile the differences reported on the FMS Form 6652, "Statement of Differences," for the agencies it services. This represents a major accomplishment in the Department's efforts to improve its financial management. However, more needs to be done. We noted that while the Forest Service had assumed responsibility for reconciling its FBWT as of fiscal year 2001, the reconciliations had not been performed. In addition, while OCFO/NFC was reconciling the FMS Form 6652 for the agencies it serviced, it was not reconciling the differences reported on the FMS Form 6653, "Undisbursed Appropriation Account Ledger," at the transaction level, as required.
- Material weaknesses continue to exist because of the lack of established internal control procedures and processes relating to "General Property, Plant, & Equipment, Net," valued at over \$5.6 billion which includes real and personal property within the Department.
- We also noted that improvements are needed in the Department's identification and reporting of relevant, outcome oriented performance measures, Information Technology (IT) security and the timeliness of Federal Managers' Financial Integrity Act (FMFIA) corrective actions.

In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary related to improving financial management systems, including cost accounting for user fees.

KEY RECOMMENDATIONS

The OCFO has immediate and long term plans to address the weaknesses in its and the agencies' financial management systems. The recommendations in this report are limited to those areas where prior recommendations are not outstanding.

We recommended that OCFO:

- Require agencies to establish specific guidance for authorizing, processing, approving, and documenting accounting adjustments to resolve the weaknesses noted in this report.
- Complete the final resolution of FBWT reconciliations by the end of fiscal year 2002.
- Implement a Department-wide mechanism for accounting for real property and related depreciation expense.
- Require agencies to monitor the personal property suspense database and ensure that activity is appropriately processed in a timely manner.
- Develop a comprehensive training program to assist agency management in identifying results orientated, supportable performance measures that can be linked to budget and financial reports.
- Develop a plan and strategy to facilitate agencies' compliance with cost accounting concepts and standards when accounting for user fees, ensure that agencies are reporting user fees at the program level.

AGENCY POSITION

The OCFO is working toward obtaining management decision on the recommendations made to address the weaknesses with the Department's financial management systems and generally agreed with the recommendations in this report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	i
PURPOSE	i
RESULTS IN BRIEF.....	i
KEY RECOMMENDATIONS	iv
AGENCY POSITION.....	v
TABLE OF CONTENTS	vi
REPORT OF THE OFFICE OF INSPECTOR GENERAL	1
REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE	4
FINDINGS AND RECOMMENDATIONS.....	8
I. USDA NEEDS TO IMPLEMENT FINANCIAL MANAGEMENT IMPROVEMENTS AT A CORPORATE LEVEL TO ASSURE SUCCESS	8
FINDING NO. 1.....	8
RECOMMENDATION NO. 1.....	15
II. LONGSTANDING CREDIT REFORM PROBLEMS HAVE BEEN MITIGATED – SOME INTERNAL CONTROL WEAKNESSES REMAIN	16
FINDING NO. 2.....	16
III. ADDITIONAL CORRECTIVE ACTIONS ARE NEEDED TO FULLY RECONCILE THE DEPARTMENT’S FUND BALANCE WITH TREASURY.....	18
FINDING NO. 3.....	18
RECOMMENDATION NO. 2.....	19
IV. OPERATIONAL AND SYSTEM PROBLEMS CONTINUE TO EXIST IN ACCOUNTING FOR REAL AND PERSONAL PROPERTY.....	20
FINDING NO. 4.....	20
RECOMMENDATION NO. 3.....	22
RECOMMENDATION NO. 4.....	22
V. IMPROVEMENTS ARE NEEDED IN USDA GOVERNMENT PERFORMANCE AND RESULTS ACT POLICIES.....	23
FINDING NO. 5.....	23

RECOMMENDATION NO. 5..... 24

VI. IMPROVEMENTS ARE NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY AND CONTROLS 25

FINDING NO. 6..... 25

VII. FMFIA CORRECTIVE ACTION NEEDS TO BE MORE TIMELY..... 28

FINDING NO. 7..... 28

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS 30

FINDINGS AND RECOMMENDATIONS..... 32

VIII. USER FEE COST ACCOUNTING NEEDS IMPROVEMENT..... 32

FINDING NO. 8..... 32

USDA IS NOT COMPLYING WITH MANAGERIAL COST ACCOUNTING STANDARDS..... 32

RECOMMENDATION NO. 6..... 33

RECOMMENDATION NO. 7..... 33

IX. SUBSTANTIAL NONCOMPLIANCE WITH FFMIA REQUIREMENTS..... 34

FINDING NO. 9..... 34

ABBREVIATIONS 36



REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying Consolidated Balance Sheet of the U.S. Department of Agriculture (USDA) as of September 30, 2001, and the related Consolidated Statements of Net Cost, Changes in Net Position, Financing, and the Combined Statement of Budgetary Resources for fiscal year then ended. These financial statements are the responsibility of the Department's management.

We were unable to complete the audit because the Department was unable to provide financial statements in time for us to meet the Chief Financial Officers (CFO) Act mandated audit-reporting timeframes. Several USDA agencies (and their respective mission areas) were unable to provide timely and accurate financial information to the Department for incorporation into the consolidated financial statements. This was primarily due to significant problems with the processes for calculating and recording financial information in their accounting systems.

However, based on the audit coverage we were able to conduct, we concluded that, overall, the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements. For example:

- We were unable to obtain sufficient, competent evidential matter to validate \$ 2.9 billion of the "Fund Balance With Treasury" (FBWT) line-item totaling over \$40 billion because Forest Service had not performed reconciliations of its activity recorded in its general ledger with that recorded by Treasury. In addition, the Office of the Chief Financial Officer/National Finance Center's (OCFO/NFC) adjusted its records to agree with Treasury for its serviced agencies without reconciling the differences on the Financial Management Service (FMS) Form 6653, "Undisbursed Appropriation Account Ledger," at the transaction level.
- We were unable to determine the reliability of "General Property, Plant & Equipment, Net," totaling over \$5.6 billion. Material internal controls problems existed in the accountability and valuation of personal property at agency field and Headquarter operations. The Department does not have a system for accounting

for real property. As a result, two agencies were not properly accounting for their real property assets which totaled over \$83 million, net. Moreover, despite a massive and costly contract to statistically sample real property assets belonging to the Forest Service, we noted that the lack of documentation supporting valuations was so pronounced the audit could not be conducted.

- A material part of the Department's financial information system for fiscal year 2001 was comprised of information from OCFO/NFC's Central Accounting System (CAS) and various subsidiary "feeder" systems. We have reported numerous material internal control weaknesses in these systems, which have not yet been corrected, or mitigated by the implementation of the Foundation Financial Information System (FFIS).

Because of the extent of the problems noted above, we were not able to satisfy ourselves as to the value of USDA's assets, liabilities, and net position as of September 30, 2001, as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended. Therefore, we are unable to express, and we do not express, an opinion on these financial statements.

The Management Discussion and Analysis (MD&A) and Required Stewardship Supplemental Information (RSSI) provides explanatory analysis for the users of USDA's financial statements, and summarizes fiscal year 2001 results. Some of this information is produced from the same financial systems as the financial statements. Because of the problems discussed above, we are unable to provide any assurance on this information. We also issued a report on the Department's internal control structure, which includes seven reportable conditions, and a report on the Department's compliance with laws and regulations, which includes two instances of noncompliance.

A large component of non-Federal accounts receivable consist of the Food and Nutrition Service's (FNS) Food Stamp Program (FSP) recipient claims. States establish claims against households to recover over issued food stamp benefits and report to FNS on this activity. State systems have been determined to be unreliable; accordingly, FNS does not know the balance of the gross accounts receivable, nor does it know the related bad debt (uncollectable receivables) expense. Standards permit Federal entities to estimate accounts receivable and FNS has developed an estimate based on the historical relationships between FSP issuance and recipient claims collections by States.

This report is intended solely for the information of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

JOYCE N. FLEISCHMAN
Acting Inspector General

February 8, 2002



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying financial statements of the USDA, as of, and for the fiscal year ended September 30, 2001, and have issued our report thereon, dated February 8, 2002. In planning and performing our audit of the financial statements, we considered its internal controls over financial reporting by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operation, assessed control risk, and performed tests of control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable conditions described in this report are material weaknesses.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of USDA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of the internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its "draft" fiscal year 2001 FMFIA report, the Secretary of Agriculture reported 28 material control weaknesses with its systems of management control, Section 2, "Management Accountability and Control." The Department was unable to provide assurance that its financial management systems complied with Section 4, "Financial Management Systems," because of four material deficiencies which result in a system that does not conform to certain standards, principles, and other specifications to ensure that Federal managers have relevant, consistent financial information for decision-making purposes. We concur with the Department's conclusion.

Additionally, the Department submitted its fiscal year 2001 Federal Financial Management Improvement Act (FFMIA) remediation plan, which included the corrective action necessary to bring several of its component agencies into substantial compliance with FFMIA.

OIG'S EVALUATION OF USDA'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified USDA's significant internal control structure policies and procedures into the following categories:

Administrative Costs – consists of policies and procedures associated with disbursing funds for salaries and administrative expenses.

Treasury – consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.

Financial Reporting – consists of policies and procedures associated with processing accounting entries and preparing the USDA’s annual financial statements.

Direct Loans and Grants – consists of policies and procedures associated with authorizing and disbursing loans and grants, accruing interest on loans, and collecting loan repayments.

Guaranteed Loans – consists of policies and procedures associated with authorizing and disbursing payments, authorizing guarantees, and accruing interest and collecting repayments on defaulted guaranteed loans.

Insurance Premiums and Claims – consists of policies and procedures associated with processing catastrophic risk program fees and reinsured company premiums and indemnities for these insurance policies.

Property and Inventory – consists of policies and procedures associated with acquisition, maintenance and disposition of property and/or inventory.

Food Stamp Redemption – consists of policies and procedures associated with coupons being redeemed and applied against the USDA’s fund balance at the Treasury.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of USDA’s internal control structure.

In making our risk assessment, we considered the Department’s FMFIA reports, Office of the Inspector General (OIG) audits and other independent auditor reports on financial matters and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operation that we consider being reportable conditions under standards established by the AICPA. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization’s ability to have reasonable assurance that the following objectives are met:

- (1) Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements and RSSI in accordance with generally accepted accounting principals, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;

- (2) Compliance with applicable laws and regulations – transactions are executed in accordance with (a) laws governing the use of budget authority and other laws that could have a direct and material effect on the Principal Statements or RSSI, and (b) any other laws, regulations, and Government-wide policies identified by OMB in Appendix C of OMB Bulletin No. 01-02; and
- (3) Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

We did not receive the RSSI in time to obtain an understanding of the internal controls, determine whether these internal controls had been placed in operation, assess control risk, and perform tests of controls as required by OMB Bulletin No. 01-02. Accordingly, we do not provide any assurance and/or opinion on such controls.

Matters that we consider to be reportable conditions are presented in the “Findings and Recommendations” section of this report.

FINDINGS AND RECOMMENDATIONS

I. USDA NEEDS TO IMPLEMENT FINANCIAL MANAGEMENT IMPROVEMENTS AT A CORPORATE LEVEL TO ASSURE SUCCESS
--

FINDING NO. 1

The USDA and its agencies operate at least 66 program and administrative financial management systems. The OIG, General Accounting Office (GAO), and the Department itself, have reported that USDA's financial

system of records presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The OCFO has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over \$127 billion and program costs in excess of \$86 billion, actions must continue to be taken to fully resolve these problems.

The OCFO has immediate and long term plans to address the weaknesses in its and the agencies' financial management systems. These actions include:

- Full implementation of the Foundation Financial Information System (FFIS) by October 1, 2002. Full and effective implementation of the FFIS accounting system and necessary operational changes should correct the material internal control problems we have identified with CAS.
- Working with the business process owners to address the problems with the legacy feeder systems, with the objective to provide an improved integration of the financial management architecture in the Department.
- Mitigating material credit reform accounting problems.

However, despite these significant actions, material problems continue to exist within the Department. These contribute significantly to its inability to prepare its financial statements in accordance with accounting standards

and by legislatively mandated timeframes. We have disclaimed an opinion on the Department's financial statements since the fiscal year 1994 audit. We have attributed the causes for these opinions, primarily, to the lack of an integrated financial management system within the Department and the recalcitrance of certain agencies, particularly the Forest Service, to implement rudimentary accounting requirements.

We attempted to quantify the number and operational costs for the 66 financial management systems in the Department, but the Department does not have a cost accounting system or other records to enable us to obtain this information. Therefore, we were unable to obtain and analyze the costs associated with these systems.

Problems that continue to impact the Department's accounting systems follow:

- During fiscal year 2000, the Department undertook a major initiative to improve its financial reporting processes. It contracted to develop and implement a state-of-the-art financial statement data warehouse (FSDW), entitled "CFO Vision." However, the FSDW was implemented on an aggressive schedule and unfamiliarity with the process associated with the financial statement preparation, created issues related to the timeliness of data submission for the consolidated financial statements. We noted instances where agencies did not enter data into their general ledger in a timely manner, a requirement to update the FSDW. Therefore, the Department was required to fall back to a manual process to prepare the financial statements. Additional operational problems with the FSDW during fiscal year 2001 resulted in the manual preparation and consolidation of the current year's statements.
- Because of continuing accounting operational and system implementation problems, the Commodity Credit Corporation (CCC) and the Forest Service were unable to submit complete financial statements by the Department established timeframe of November 14, 2001.
- Elimination entries and adjustments have caused problems. The problem with elimination entries was first reported as part of our fiscal year 1991 financial statement audit. The Department was to design a system to identify and automate the process. It was subsequently determined that this is a Government-wide issue and it would not be appropriate for the Department to develop its own proprietary system. However, we believe it would be feasible to establish improved policies and procedures and encourage agency CFOs to dedicate resources to

resolve this longstanding problem. We found that for fiscal year 2001 the data provided was unreliable and significant adjustments were necessary, and in other instances elimination entry data was missing. We noted where adjustments/revisions of the elimination entries continued as late as January 29, 2002.

We also noted where OCFO was making adjustments to the financial statements through mid-February because agencies were not able to complete their financial statements in a timely manner. Other problems identified with the adjustment process included the following:

CAS

In our report on USDA's fiscal year 2000 consolidated financial statements, we stated that we continue to find inadequate controls over accounting adjustments to the CAS general ledger and related subsidiary records to ensure that the adjustments affected the proper accounts, were properly researched, were authorized, were adequately documented, and were processed accurately. We continue to find instances where accounting adjustments to the CAS general ledger for fiscal year 2001 were not posted to the proper accounts, properly researched, and/or adequately documented.

Of the 21 LEDG82¹ transactions that we reviewed, two were entered incorrectly. One of these was processed to close out a 6 year old Treasury symbol based on incomplete OCFO/NFC guidance and was subsequently corrected by another LEDG82. We could not determine if an additional 7 LEDG82s had been properly calculated because they were not properly researched. Four of these adjustments were based on e-mails from the agency that stated the type of adjustment requested, the amount, and sometimes the accounts. According to OCFO/NFC personnel, the center processes agency requests without determining why the request is required or obtaining support for the amount of the adjustment as long as the adjustment does not create an over-obligation, abnormal balance, or have an incorrect accounting code. Another 2 LEDG82s were entered as part of the process to adjust the CAS general ledger to Treasury balances.

FFIS

We noted where 4 of the 20 Standard Voucher (SV) FFIS adjustments we reviewed were entered incorrectly. While two of the four SVs in our sample that were entered incorrectly were subsequently corrected by

¹ LEDG82s are the mechanism for making adjustments to the general ledger in the CAS.

other SVs, the remaining two had not been corrected as of January 18, 2002. An additional eight SVs in our sample were required to correct a previous adjustment. Altogether, 60 percent (12 of 20) SV transactions that we reviewed were either (1) calculated/researched incorrectly, (2) made to the wrong accounts, and/or (3) required to correct a previous adjustment. The incorrect transactions that were either in our sample or corrected by SVs in our sample appear to have been caused by several factors including (1) both the agency and OCFO/NFC performing the same adjustment, (2) posting model problems, (3) inadequate support for the original SV, and (4) human error.

In addition, we could not determine if 6 of the 20 (30 percent) SV adjustments were properly calculated because the support provided was not adequate. Four of these six were entered as part of the process to adjust the FFIS general ledger to Treasury balances.

The types of problems that we found could have been avoided if (1) the agencies had established specific guidance for authorizing, processing, approving, and documenting accounting adjustments made through SV documents, and (2) certain controls instituted by OCFO/NFC were operating effectively. For example, the OCFO/NFC accounting adjustment checklist had been completed for three of the four SVs in our sample that were entered incorrectly. OCFO/NFC indicated that second-party reviews had been performed for all four of these transactions. One reason for the ineffectiveness of the checklist is that the checklist is completed by the preparer rather than the reviewer/approver. The checklists for the adjustments that we reviewed always indicated that the adjustment was properly authorized, adequately supported, correctly calculated/researched, and made to the proper accounts and accounting period. However, we found instances where this was not the case. For example, our audit tests found that 8 of the 12 SV adjustments processed by OCFO/NFC were not adequately supported. Similarly, 7 of these 12 SV adjustments were made as part of the process to correct previous adjustments, but this was not mentioned in the description recorded in FFIS. While the reviewer is supposed to verify the checklist as part of the second party review, these problems were not identified during this review. In fact, none of the second party reviews performed on the SVs in our sample identified any problems.

- The “Net Position-Beginning Balance” on the fiscal year 2001 Statement of Changes in Net Position was adjusted by almost \$62 million (absolute value) to agree with the “Net Position-Ending Balance” reported on the fiscal year 2000 statement. Two mission

areas had not performed a reconciliation of these balances and as a result, OCFO made the adjustment without supporting documentation in order to comply with an agreement it had made with Treasury. Additionally, the "Obligated Balance, Net-Beginning of Period" on the fiscal year 2001 Statement of Budgetary Resources did not agree with amount reported as the ending balance on last year's statement. These line items should equal or reconcile. We were not provided explanations for the differences.

- Material dollar amounts contained in CAS have been identified as potentially invalid by some agencies. Prior to conversion into FFIS, agencies perform reviews to identify activity recorded in CAS that is not supported. This activity is converted to FFIS using "alternate" fund codes. During fiscal year 2001, we monitored agency efforts to clear alternate fund code balances by either transferring supported amounts to the correct fund code or adjusting erroneous balances, as appropriate. As of the end of field work, about \$130 million in unsupported prior year activity (absolute value) remained in these alternate fund codes, and was reported in the agency's financial statements. As additional agencies convert to FFIS, it is imperative that they clean up the data converted to the alternate fund codes, in a timely manner.
- The Department's systems have not been designed to enable them to provide sufficient and relevant data to meet SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards," effective September 30, 1996. This statement is aimed at providing reliable and timely information on the full cost of Federal programs, activities, and outputs. This information can be used by Congress and Federal executives in making decisions about allocating resources, authorizing and modifying programs, evaluating program performance, and making managerial decisions to improve economy and efficiency. USDA is unable to provide reliable and timely cost information.

Plans are being developed to address this problem.

- We noted significant despite significant efforts to reconcile suspense activity, corrective action on all outstanding balances could not be totally affected to the fiscal year 2001 account balances. An action plan has been developed to address this activity. We noted the following:

OCFO/NFC uses Treasury symbol 12F3875, "Budget Clearing Suspense," without specific procedures for reconciling transactions posted to this Treasury symbol or ensuring that the transactions clear

from the account.² Until suspense account transactions are posted to the proper appropriation account within the Department, there is the potential for incorrect accounting records, which could lead to Anti-deficiency violations and other problems. Moreover, the reported balance in suspense accounts represent the netting of collections and disbursements, thus understating the magnitude of the unrecorded amounts in suspense accounts. Based on our analysis of general ledger detail activity of related transactions for account balances as of September 30, 2001, the net unreconciled and/or uncleared differences for the FBWT account in Treasury symbol 12F3875, was \$157 million for FFIS agencies and \$(42) million for CAS agencies. Also, the general ledger within the Treasury symbol was out-of-balance. For Treasury symbol 12F3885, "OPAC Clearing Suspense," the FBWT balance was \$ (50) million.

In addition, the CAS ledger only maintains the details of the transactions for 1 month. At month-end close, all current activity is rolled up with the prior months activity and summarized into lump sum "carry forward" balances. Therefore, the data loses its identity. Some of the "carry forward" differences in this account date back to 1994.

This problem could materially impact the financial statements because the activity has not been recorded in the appropriate agencies' accounts. As noted above, OCFO/NFC is committed to reconciling the balances within these suspense accounts and has assigned a person to head up a task force to review existing suspense activity; recommend modifications to processes, where appropriate; and develop reconciliation and control procedures for transactions recorded to suspense Treasury symbols. However, due to other priorities, the cleanup was not affected for fiscal year 2001.

- As we have reported since fiscal year 1991, OCFO/NFC continues to have problems being able to reconcile its subsidiary records to its general ledger. For example, large, unidentified differences are carried for extended periods and the reliability of departmental reports is questionable.
- Abnormal balances continue to be reported in the financial statements without research and analysis to identify the potential problems with these accounts. We identified abnormal balances totaling over \$2 billion for FFIS agencies, as of fiscal year end. We were not

² Treasury budget clearing accounts are to be used as temporary holding accounts pending clearance to the applicable receipt or expenditure account in the budget. According to Treasury yearend closing procedures, budget clearing accounts along with Statements of Differences should be reconciled by the end of the fiscal year. In order to ensure that transactions are properly reconciled and cleared, transaction level detail must be maintained.

provided an explanation for these balances. These abnormal balances can distort the consolidated amounts.

- As we reported since fiscal year 1991, we continue to identify out-of-balance conditions in the ledger for certain Treasury symbols. Each Treasury symbol contains its own trial balance where debits should equal credits. The accounting system should have internal controls that preclude out-of-balance conditions from occurring.
- We continue to note that there are numerous methods of making accounting adjustments to the CAS general ledger and related subsidiary records. We continue to find inadequate controls to assure that the adjustments affected the proper accounts, were properly researched, were authorized, adequately documented and processed accurately.

These conditions hinder the ability to make informed decisions when the need for such information is a crucial factor in the management of a Department with \$127 billion in assets and program costs in excess of \$86 billion. We believe the Department must aggressively move forward in developing plans to integrate its program and administrative financial management. The fundamental problem is that USDA financial systems cannot dependably and routinely produce annual financial statements and other information needed to manage day-to-day operations.

The CFO Act of 1990 requires agencies to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control which:

- Complies with applicable accounting principles, standards, and requirements, and internal control standards;
- Complies with policies and requirements prescribed by OMB, and
- Provides for complete, reliable, consistent, and timely information, which is uniform and responsive to management's needs.

Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage the Department's vast resources. Until FFIS is successfully implemented, and planned enhancements to other agencies' financial management systems are completed, the Department will not have all of the necessary financial information to support its decision-making process. Our continued disclaimer of opinion means that no one knows whether the Department, as a whole, correctly reported the monies collected in total, how much money is collected, the full cost of its operations, or many other meaningful measures of financial performance. In essence, poor accounting and financial reporting, obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions, whether for budget purposes or operationally.

The OCFO is undertaking aggressive actions to correct its financial management system deficiencies. These actions are both immediate and long term in nature and some are contingent upon available funding. We are making no additional recommendations in this report for prior recommendations that have not yet been management decided and/or are still open.

RECOMMENDATION NO. 1

Require agencies to establish specific guidance for authorizing, processing, approving, and documenting accounting SV adjustments to the FFIS general ledger, which would include requirements for coordination between the agency and OCFO/NFC to ensure that both do not attempt to make the same adjustments.

II. LONGSTANDING CREDIT REFORM PROBLEMS HAVE BEEN MITIGATED – SOME INTERNAL CONTROL WEAKNESSES REMAIN

FINDING NO. 2

We have reported material weaknesses in the processes and procedures used by the Department's lending agencies to estimate and re-estimate loan subsidy costs since

1994. During fiscal year 1999, the Department's CFO formed a task force to assist in resolving the Department's longstanding credit reform problems. Much progress has been made and based on the efforts and accomplishments of the task force; we are able to remove our qualification on credit reform receivables for fiscal year 2001. However, while much progress was made, additional efforts are needed to resolve some continuing internal control weakness.

Effective for fiscal year 1992, the Federal Credit Reform Act of 1990 required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by this Act to mean estimated long-term cost (default, subsidy cost, etc.) to the Government of direct loans or loan guarantees, calculated on a net present value basis, excluding administrative costs and incidental effects of receipts and outlays. The primary intent was to ensure that the subsidy costs of Federal loan programs are taken into account in making budgetary decisions.

As noted above, the Department established a task force to assist in resolving the Department's credit reform problems. This CFO-led group has been the prime factor in the resolution of credit reform issues. The primary accomplishment of the task force consisted of the development and validation of new cash flow models. However, more must be done to improve the process in order to prepare required financial reports in a timely manner. Necessary actions include the following:

- Enhancements are needed for estimating and re-estimating the costs of credit receivables and credit guarantees. We noted where revisions were needed in order for us to obtain reasonable assurance about the value of the line item and related footnote (for one agency, alone, six versions representing billions of dollars were needed).
- Data used in the cash flow models for budget and financial reporting needs to be reconciled with the information contained in the general ledger.

- Handbooks need to be updated as changes occur. For example, we noted where the handbook did not reflect the current automated programs used to extract data for cash flow models.
- Controls need to be implemented to ensure that changes to the cash flow models are appropriate and that the most current version of the model is used.

In summary, the Department has made significant strides in resolving longstanding credit reform problems. Additional details and recommendations are included in the stand-alone component financial statement audits of Rural Development and CCC, Audit Report Nos. 85401-6-CH and 06401-4-KC. We are making no additional recommendations in this report.

III. ADDITIONAL CORRECTIVE ACTIONS ARE NEEDED TO FULLY RECONCILE THE DEPARTMENT'S FUND BALANCE WITH TREASURY

FINDING NO. 3

We have reported since 1992 that the Fund Balance with Treasury (FBWT) account had not been properly reconciled with Treasury records. We noted that as of fiscal yearend

2001, OCFO/NFC was able to reconcile the differences reported on the FMS Form "Statement of Differences," for the agencies it services. This represents a major accomplishment in the Department's efforts to improve its financial management. However, more needs to be done. We noted that while the Forest Service had assumed responsibility for reconciling its FBWT as of fiscal year 2001, the reconciliations had not been performed.

In addition, while OCFO/NFC was reconciling the FMS Form 6652 for the agencies it serviced, it was not reconciling the differences reported on the FMS Form 6653, "Undisbursed Appropriation Account Ledger."

The FBWT account is an asset account representing the future economic benefit of monies that can be spent for authorized transactions. At the agency level, Federal agencies accumulate their fund balance from numerous disbursement and receipt transactions, which they record in their Standard General Ledger account 1010 and related sub accounts. For each accounting month, agencies are required to report their disbursement and receipt activities to Treasury on a SF 224, "Statement of Transactions." FMS then compares the disbursements and receipts reported by agencies on the SF 224 to amounts reported by financial institutions, (via lockboxes) on the Online Payment and Collection System, and by the Regional Finance Centers. FMS reports differences on the FMS Form 6652, "Statement of Differences," and requires that Federal agencies research and resolve differences between their receipts and their FBWT accounts as reported in their general ledgers and Treasury records, as reported on the FMS Form 6652. These reconciliations are critical internal controls, which improve the integrity of various U.S. Government financial reports and provide more accurate measurement of budget results. In addition, reconciliation and related verification of financial information ensure the integrity of the accounting system.

The amounts reported by agencies' as disbursements and collections per the monthly SF-224s are used by Treasury to increase/decrease the agency's FBWT and are reported back to the agency via the FMS Form 6653. If another agency or disbursing center makes a disbursement or collection affecting a specified Treasury symbol and reports that amount via the SF-224 process this increases/decreases the respective Treasury

symbols FBWT as reported on the FMS Form 6653. In addition, non-expenditure transfers and current year authority are reflected on the FMS Form 6653. Therefore it is necessary for agencies to reconcile their general ledger FBWT with the amount being reported by Treasury. This reconciliation process should be at the transaction level to ensure that all transactions were properly recorded. Discrepancies between Treasury accounts and the agency's general ledger should be disclosed in the footnotes to the agency's financial statements along with an explanation of the causes for the discrepancies.

As noted in our opinion, we were unable to obtain sufficient, competent evidential matter to validate \$ 2.9 billion of the FBWT line-item totaling over \$40 billion because Forest Service had not performed reconciliations of its activity recorded in its general ledger with that recorded by Treasury.

In addition, OCFO/NFC adjusted its records to agree with FMS Form 6653 for its serviced agencies without reconciling the differences. We believe that the overall impact of not performing these reconciliations may be material. For example, the amount of the unreconciled net disbursements for a sample of 27 of the approximate 170 Treasury symbols OCFO/NFC attempted to reconcile was about \$(47) million, net; however, the absolute value of these differences totaled about \$177 million. We also noted for one Treasury symbol that \$89 million represented activity that was not included in the agency's general ledger. The offsetting debit/credit of these adjustments is made to accounts receivable/payable, depending on the type of activity.

These balances should not be adjusted without reconciling the details. In addition, for shared appropriations (more than one agency has authority to spend from the appropriation) there was no process in place to ensure that the total amount allocated was reconciled for purposes of reporting at the Treasury symbol level. USDA needs to comply with its procedures to ensure that the accounts are being properly reconciled.

The Department is continuing to work towards resolving these problems.

RECOMMENDATION NO. 2

Complete the final resolution of FBWT reconciliations by the end of fiscal year 2002. Obtain sufficient resources to assure this problem does not impact the fiscal year 2002 financial statement audit opinion. Require monthly reporting to the CFO on the remediation process.

IV. OPERATIONAL AND SYSTEM PROBLEMS CONTINUE TO EXIST IN ACCOUNTING FOR REAL AND PERSONAL PROPERTY

FINDING NO. 4

In our fiscal year 2000 audit report, we reported that material internal control problems existed in the accountability and valuation of personal property at agency field and Headquarter operations. During this years' audit, we noted that while progress has been made in partially correcting some previously reported problems, material weaknesses continue to exist because of the lack of established internal control procedures and processes relating to "General Property, Plant & Equipment, Net" valued at over \$5.6 billion.

The OCFO/NFC maintains the Personal Property System (PROP), which is used to record personal property information and track capitalized and non-capitalized personal property, depreciation, etc. We reviewed the internal control procedures and processes in the PROP system and personal property controls at various agencies' field and Headquarter offices. We found the following material internal control weaknesses:

- Agricultural Property Management Regulation AG 5109 Part 104-51.106, requires that physical inventories of all accountable personal and real property, except land, shall be taken by each agency every 2 years. In our fiscal year 2000 audit report, we reported that about 7 percent of USDA accountable officers were either delinquent in performing physical inventories or had never recorded that an inventory had been performed according to OCFO/NFC reports. During this years' audit, OCFO/NFC reported that the number of delinquent or unrecorded physical inventories decreased to about 5 percent. However, as a result of property testing conducted by OIG for six agencies, we question the reliability of the OCFO/NFC reports. For a judgmental sample of 1,312 personal property items reviewed at selected sites, we found that accountable officers were unable to locate over 20 percent of the personal property that was shown in the PROP system during fiscal year 2001. During our review, we also found items that should have been included in PROP (personal property valued in excess of \$5,000) that were not recorded. At one agency (ten sites) we identified over 800 unrecorded items that should have been included in PROP.

- We also noted, at the sites visited, a lack of evidence documenting the performance of physical inventories in some instances. When accountable officers were able to provide evidence that physical inventories were performed within the last 2 years the PROP system was not always updated in a timely manner to reflect changes, rendering this internal control procedure ineffective.
- USDA's policy is to capitalize property with a useful life of 2 or more years and an acquisition value of \$5,000 or more. Our review of information in the PROP system disclosed continued inconsistent application of this policy. We continue to find that large numbers of personal property items valued at less than \$5,000 were being depreciated and numerous other items valued at more than \$5,000 were not being depreciated. For one agency, we found that more than 14 percent of personal property assets were misclassified. These errors continue to adversely impact the reliability of the assets and expenses recorded in the financial statements related to personal property.
- The OCFO/NFC was unable to reconcile the personal property asset and depreciation accounts to balances in PROP for two agencies. In addition, these reconciliations were being performed as late as the date of this report.
- We noted significant balances in property suspense as reported by OCFO/NFC in September 2001. OCFO/NFC's report identifies property items that have been captured via the feeder systems but have not yet been updated and property masters created in the PROP database. Many of the items remaining in suspense were received by the agency in fiscal year 2000 and, in some cases, as far back as fiscal year 1998. Until property is cleared from suspense and a property master has been created, no accountable officer has been assigned responsibility for the asset. The assets recorded in suspense, therefore, are not subject to physical inventory. September 2001 balances for five non-major agencies judgmentally selected for review exceeded \$45 million. Approximately \$12 million of that property was acquired in fiscal year 2000 or before, meaning that it has remained in suspense for at least 1 year.

Real property is not accounted for in OCFO/NFC's PROP system. Instead, agencies are responsible for maintaining their own tracking systems. We found that two agencies did not maintain a real property

tracking system and were unable to provide supporting documentation for over \$83 million (net) of real property. As a result, we were unable to obtain assurance that real property amounts reported by the agency were accurate.

As in prior years, we were still unable to determine the reliability of individual Forest Service real property assets that comprised \$ 4.4 billion of the line item. Despite representations from management that the account was auditable for fiscal year 2001, we found that despite a massive and costly contract to statistically sample property items, the lack of adequate documentation supporting valuations was so pronounced the audit could not be conducted.

While improvements were noted in some areas, the overall management and accounting for “General Property, Plant & Equipment, Net” valued at over \$5.6 billion by the Department continues to have serious internal control problems. The weaknesses noted above make the system highly susceptible to error and calls into question the validity of the line item.

Based on recommendations still outstanding from prior audits, we are not making any additional recommendations for the areas previously reported.

RECOMMENDATION NO. 3

Implement a Department-wide mechanism for accounting for real property and related depreciation expense.

RECOMMENDATION NO. 4

Require agencies to monitor the PROP suspense database and ensure that activity is appropriately processed in a timely manner.

V. IMPROVEMENTS ARE NEEDED IN USDA GOVERNMENT PERFORMANCE AND RESULTS ACT POLICIES

FINDING NO. 5

Prior audits³ of the implementation of Government Performance and Results Act (GPRA) and reviews of the Management Discussion and Analysis (MD&A)⁴ during our fiscal year 2001 financial statement audits have disclosed that improvements are needed in USDA's identification and reporting of relevant outcome oriented performance measures. The performance measures identified did not always adequately meet GPRA requirements that agencies strategic plans set goals for program performance and report annual performance compared with those goals. For example, goals and performance measures:

- did not always reflect major functions or objectives of the agency;
- were not always goal orientated;
- did not always provide useful, valid measures of the agencies' progress towards reaching their stated goals;
- were not always linked to the budget; and
- were not always supported by accurate information produced from systems with adequate internal control structures.

This occurred because agency personnel did not always have a clear understanding on how to develop appropriate performance measures (as evidenced by linking them to the budget) that can accurately measure progress toward achieving those goals. In addition, we noted that internal controls over performance reporting were sometimes inadequate as designed and implemented. This resulted in reports that were of little or no utility.

In addition, GAO noted the following in a recent report:⁵

³ Audit Report Nos. 50601-2-CH, "Implementation of the Government Performance and Results Act in Rural Development Fiscal Year 1999 Washington, D.C.," dated March 2001 and 08001-1-HQ, "Implementation of the Government Performance and Results Act in Forest Service Fiscal Year 1999," dated June 2000.

⁴ Our review of the MD&A was limited to the form and content of the Department's draft performance measures. As noted in our opinion, we did not receive the MD&A in time to perform audit coverage of the reported results. In addition, this information should not be relied upon since many of the reported performance measures come from the financial system.

⁵ "Managing for Results: Agency Progress in Linking Performance Plans With Budgets and Financial Statement," Report No.

GAO-02-236 dated January 2002.

“Pursuing a closer alignment between performance planning, budgeting, and financial reporting is essential in supporting the transition to a more results-oriented and accountable federal government. For example, developing a discrete allocation between requested budget funding and expected performance goals are a critical first step in defining the performance consequences of budgetary decisions. Comparably, linking performance and financial information is both a key feature of sound management – reinforcing the connection between resources consumed and results achieved – and an important element in presenting to the public a useful and informative perspective on federal spending.”

Effectively identifying and achieving program performance goals is becoming even more critical because the results are being considered as part of the fiscal year 2003 budget process.

RECOMMENDATION NO. 5

financial reports.

Develop a comprehensive training program to assist agency personnel in identifying results orientated, supportable performance measures that can be linked to budget and

VI. IMPROVEMENTS ARE NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY AND CONTROLS

FINDING NO. 6

As part of our audits on the Department's IT security and controls,⁶ we identified widespread and serious weaknesses in the Department's ability to adequately protect (1) assets from fraud and misuse, (2) sensitive information from inappropriate disclosure, and (3) critical operations from disruption. Significant information security weaknesses were reported with inadequately restricted access to sensitive data being the most widely reported problem. This and other types of weaknesses identified, place critical departmental operations, as well as, the assets associated with these operations; at great risk of fraud, disruption, and inappropriate disclosures.

Our audits found that USDA had initiated actions to strengthen IT security in the Department. The Department, through its Chief Information Officer (CIO) had established a Department-wide security program, implemented a departmental security incident response program, and strengthened their oversight function through implementation of program reviews of agencies' security programs. Despite these actions, however, the Department had still not reached its goal of adequately securing its critical IT resources.

Our audits disclosed the following IT security weaknesses within the Department:

- The Department was not fully compliant with several requirements of OMB Circular A-130 and Presidential Decision Directive (PDD) 63. Agencies had not prepared and tested contingency and business continuity plans (the Department's mainframe operations had adequate disaster and contingency plans in place), had not properly certified to the security controls in place on their systems, and had not assessed the risks to their systems and established plans to mitigate those risks.
- Agencies' networks and systems were vulnerable to internal and external intrusion. Using a commercially available software program

⁶ Audit Report Nos. 50099-27-FM, "Security Over USDA Information Technology Resources Needs Improvement," dated, March 2001, and 50099-32-FM, "Government Information Security Reform Act – Fiscal Year 2001," dated, August 2001.

we identified over 3,400 high and medium-risk vulnerabilities in the nearly 1,300 systems we scanned during our audits.

- Agencies had not established adequate physical and logical access controls to ensure that only authorized users can access critical agency data. While Office of Chief Information Officer (OCIO) has begun to address these areas since our initial audits, additional progress is needed to ensure that only authorized users can access critical agency data.
- Nine of the 11 agencies reviewed had not assessed the risks to their systems and initiated a plan to eliminate or mitigate those risks. The Department's OCIO is in the process of implementing its risk assessment program by providing agencies with checklists that will assist the agencies in evaluating the risks to their systems.
- Our audit included tests at four agencies to ascertain the adequacy of training provided to employees. We found that agencies recognized the need for adequate training, but two of the four agencies were unable to provide the specific training given to their technical staff. The Department does not have a minimum standard, based on continuing education hours or other quantitative means, by which to measure the sufficiency of training given to IT personnel.
- The Department had a documented security incident response procedure in place and, based upon our review, was operating effectively at the Department level. However, the Department was not able to monitor all agencies' networks requiring additional actions at the agency level.
- We reviewed the performance measures established by OCIO and four agencies as required by the GPRA. The OCIO established a performance measure to implement a Department-level risk management program; however, there were no performance measures in place to ensure that individual agencies conduct risk assessments, implement security plans, or test and evaluate security controls and techniques.
- The Department had established a comprehensive Capital Planning and Investment Control (CPIC) program. Additional audit work in this area is ongoing; however, our initial review disclosed that the agencies were generally following the CPIC program and using Information Technology Investment Portfolio System (I-TIPS) to track their IT investments.

- Our initial review of contractor oversight at four agencies found that most do not ensure that contractors have the proper security clearances or background checks, or ensure that they are sufficiently trained in Federal security requirements. Only two of the four agencies we reviewed included Federal requirements in their statements of work, and only one of those two had a process in place to ensure that contractors understand Federal requirements before awarding the contract.

Recommendations made to correct the deficiencies were either made in prior reports, or will be made in audits currently underway. Therefore, no recommendations are made in this report.

VII. FMFIA CORRECTIVE ACTION NEEDS TO BE MORE TIMELY

FINDING NO. 7

Since our fiscal year 1991 financial statement audit, we have reported that the Department has been unable to provide reasonable assurance to the President of the United

States, that the Department's financial management systems conform to certain standards and principals. These systems account for over \$127 billion in total assets.

USDA has a longstanding history of deficiencies in its accounting and financial management systems. Since 1991, because of these deficiencies, we have issued a series of unfavorable financial audit reports on USDA and several of its component agencies. In addition, USDA ability to comply with budgetary and financial statement reporting requirements is severely hampered by its accounting and financial systems' deficiencies. Given the longstanding nature of USDA's financial management deficiencies and the lack of timely corrective actions, complete resolution will continue to be a significant challenge.

We have reported concerns with the lack of timely corrective actions on longstanding material weaknesses since our fiscal year 1991 financial statement audit. We again analyzed the USDA fiscal year 2001 draft FMFIA report, which identified 28 outstanding material Section 2 weaknesses and four outstanding Section 4 non-conformances and found the following:

- Of the 19 outstanding material Section 2 weaknesses existing prior to fiscal year 2001, we noted 5 weaknesses where the estimated completion timeframes for corrective action had been extended for at least 6 and up to 9 times.
- We found that estimated completion timeframes for 15 of the 19 outstanding material weaknesses identified prior to fiscal year 2001 had been extended in the fiscal year 2001 FMFIA report.
- We also analyzed each of the four Section 4 systems non-conformances reported in the draft fiscal year 2001 FMFIA report to determine if there were any similar "slippages" in the target completion date. Three of the Section 4 system non-conformances were first identified prior to fiscal year 1995. Based on our analysis, we determined that all of the Section 4 system non-conformances

identified prior to fiscal year 1995 had at least two extensions or slippages.

In a prior year's financial statement audit we recommended that agency administrators establish, with OCFO oversight, a task force consisting of each agency's top financial management to identify the obstacles that prevent corrective action; and develop a corrective action plan and establish realistic timeframes for achieving corrective action. The OCFO responded that it agreed with the finding in general, but believed the recommendations were not cost effective because they essentially duplicate actions already in progress. During the third quarter of fiscal year 2000, OCFO implemented a quarterly reporting process whereby agencies are required to report on the status of corrective actions. OCFO indicated that it does assist agencies in correcting crosscutting financial management issues such as credit reform and financial reporting and will elevate material weaknesses with continued slippages to agency/staff office heads or sub cabinet level officials for action, as appropriate. Since this new process was to have been only implemented by December 31, 2001, we are making no further recommendations at this time. However, we continue to believe more needs to be done in this area.

This report is intended solely for the information and use of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

JOYCE N. FLEISCHMAN
Acting Inspector General

February 8, 2002



REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying financial statements of USDA as of and for the fiscal year ended September 30, 2001, and have issued our report thereon dated February 8, 2002.

The management of USDA is responsible for compliance with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Principal Financial Statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material affect on the determination of financial amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the FFMIA of 1996. We tested compliance with:

- Anti-Deficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990;
- Debt Collection Improvement Act of 1996;
- Federal Credit Reform Act of 1990;
- Federal Financial Management Improvement Act of 1996;
- Federal Managers' Financial Integrity Act of 1982; and
- Government Performance and Results Act of 1993.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared USDA's most recent FMFIA report, with the evaluation we conducted of USDA's internal control structure. We were unable to review and test USDA policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the MD&A section because it was not submitted in time for us to review as a part of this audit. Furthermore, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) the Federal Financial Management System Requirements (FFMSR), (2) applicable accounting standards, and (3) the Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA, Section 803(a).

The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where the Department's financial management systems, as a whole, did not substantially comply with the three requirements in the preceding paragraph.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. The results of our tests of compliance with the laws and regulations described in the preceding paragraphs exclusive of FFMIA disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and OMB Bulletin 01-02. Material instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

VIII. USER FEE COST ACCOUNTING NEEDS IMPROVEMENT

The Department's systems have not been designed to provide sufficient and relevant cost information required to comply with the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards," effective September 30, 1996. This statement is aimed at providing reliable and timely information on the full cost of Federal programs, activities, and outputs. This information can be used by Congress and Federal executives in making decisions about allocating resources, authorizing and modifying programs, evaluating program performance, and making managerial decisions to improve economy and efficiency. USDA is unable to provide reliable and timely cost information. Specifically, our review⁷ of the accounting for user fees at two selected agencies disclosed that both agencies were not including the full costs of their user fee programs when determining fees. In addition, the Things of Value⁸ as reported to the OCFO were reported at the summary level, in some cases, rather than individually.

FINDING NO. 8

USDA IS NOT COMPLYING WITH MANAGERIAL COST ACCOUNTING STANDARDS

We noted that the agencies were not recovering the full costs of performing services for each of their individual programs because they viewed the cost recovery at the fund level rather than at the individual program level. We noted that for fiscal year 2000, two of the three funds showed revenues in excess of obligations, although several of the individual programs within the funds showed losses.

In addition, we noted that the agencies were not including all costs of the programs such as "Imputed unfunded pension costs," and "Imputed unfunded other retirement benefits," which are specifically cited in SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," and the Forms and Instructions issued by the OCFO as costs to be included in accounting for the full cost⁹ of services.

⁷ We reviewed the most current user fees review performed by the agencies.

⁸ Things of Value are defined as tangible and intangible goods, services, benefits, commercial functions, programs, and reimbursable activities provided to nonfederal entities and people.

⁹ Full cost is defined as the sum of costs of resources consumed by an agency that directly or indirectly contribute to producing things of value, and the costs of identifiable support services provided by other Federal organizations.

Agency officials stated they do not believe these type costs are actual costs to the agency, since the agency does not get billed for them. They further stated that they do not believe that they have the legal authority to include imputed costs in the user fee calculations.

We also noted where Things of Value as reported to the OCFO were reported at the fund level rather than at the program level. For example: the User Fee Fund was reported as a single Thing of Value although it consisted of four different fee programs, each of which could be considered a Thing of Value. In total, these three funds contained 16 individual programs.

RECOMMENDATION NO. 6

Develop a plan and strategy to facilitate agencies' compliance with SSFAS No. 4 when accounting for user fees. Provide training as necessary.

RECOMMENDATION NO. 7

Ensure that agencies are reporting user fees at the appropriate level (e.g., program).

IX. SUBSTANTIAL NONCOMPLIANCE WITH FFMIA REQUIREMENTS

FINDING NO. 9

USDA's financial management systems, as a whole, do not substantially comply with the requirements of the FFMIA. This lack of compliance is due to a plethora of legacy, stove-pipe, disparate accounting systems that are not integrated; longstanding material internal control weaknesses; substantial noncompliance with FFMSR; and the inability to prepare auditable financial statements in a timely manner. As a result, Department and agency officials do not have the critical financial management information to manage over \$127 billion in assets.

The FFMIA provides that an agency of the Federal Government will be considered to be in substantial compliance with financial management system requirements if among other issues:

- Agency financial management systems meet the OMB Circular A-127 requirements.
- The agency can prepare audited financial statements in accordance with applicable accounting standards.
- The agency can comply with the SGL.

According to the FFMIA, substantial noncompliance with the requirements in any one or more of the three areas included in FFMIA would result in substantial noncompliance with the Act.

Beginning with our fiscal year 1991 audit report on the USDA consolidated financial statements, we have reported that the Department has been unable to provide reasonable assurance to the President of the United States, that the Department's financial management systems conform with applicable standards and principals. The USDA's financial management systems do not meet the OMB Circular A-127 requirement that each agency establish and maintain a single, integrated financial management system. The financial management systems also do not follow requirements published in JFMIP's FFMSR series, which prescribe the functions that must be performed by systems to capture information for financial statement preparation.

USDA's draft FFMIA Remediation Plan, dated September 30, 2001, identified three agencies and the OCFO/NFC that are in need of substantial financial management system improvements, including areas of planned remedial actions, along with planned completion dates, to resolve their financial management problems. Last year's plan showed that remedial actions were to be completed by the end of fiscal year 2003. This date has been extended to the end of fiscal year 2004 in the current plan.

We considered these material instances of noncompliance in forming our opinion on whether the fiscal year 2001 Principal Financial Statements of USDA are presented fairly, in all material respects, and this report does not modify the disclaimer of opinion expressed in our report, dated February 8, 2002.

This report is intended solely for the information of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

/s/

JOYCE N. FLEISCHMAN
Acting Inspector General

February 8, 2002

ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
CAS	Central Accounting System
CCC	Commodity Credit Corporation
CFO	Chief Financial Officers Act
CIO	Chief Information Officer
CPA	Certified Public Account
DR	Departmental Regulation
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FMS	Financial Management Service
FS	Forest Service
FSDW	Financial Statement Data Warehouse
GAO	General Accounting Office
GPRA	Government Performance and Results Act
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
MD&A	Management Discussion and Analysis
NFC	National Finance Center
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PROP	Personal Property Management System
RSSI	Required Stewardship Supplement Information
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards

Fiscal Year 2001 Annual Financial Statements

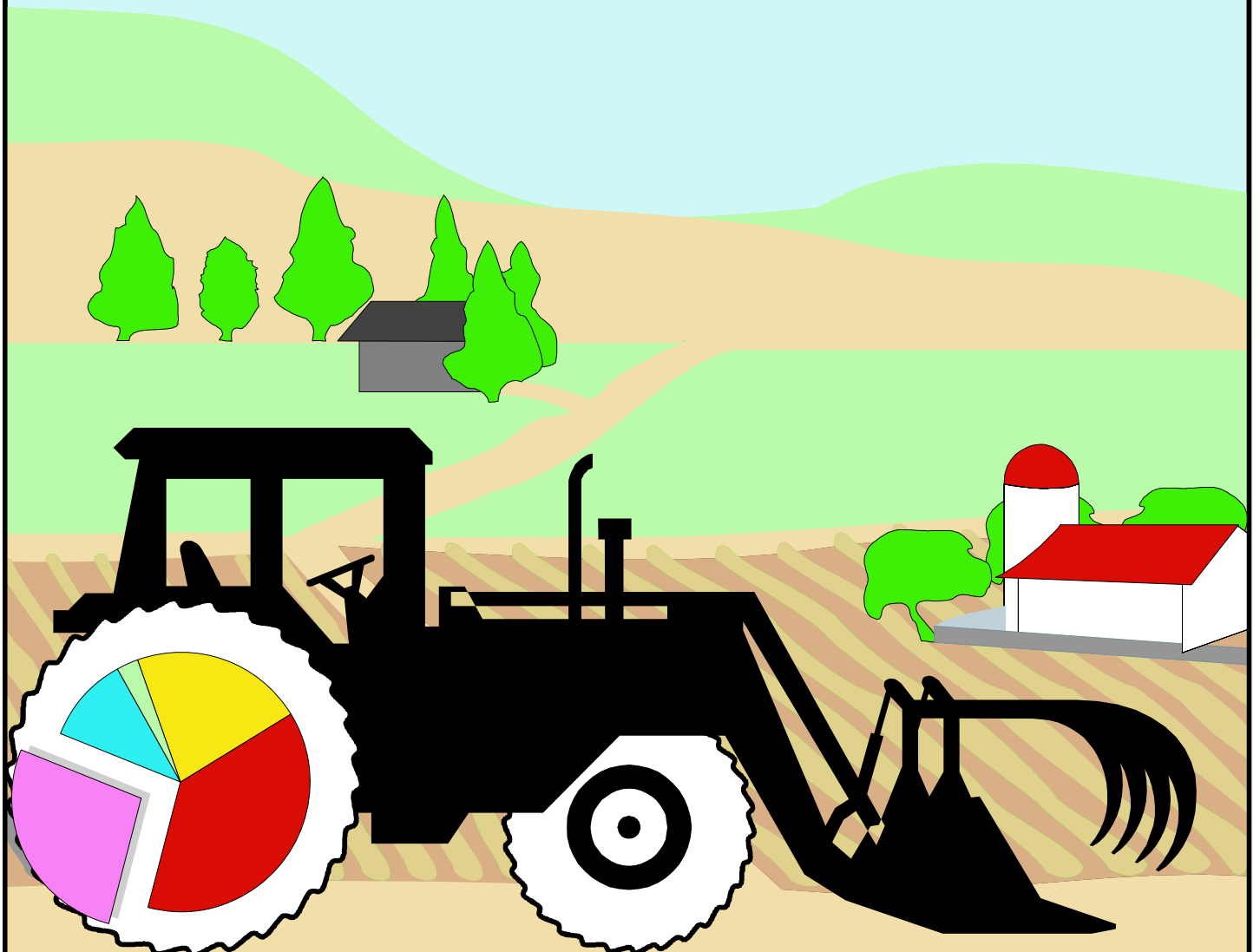


Table of Contents

Management Discussion and Analysis

Management Discussion and Analysis	1
--	---

Principal Statements

Consolidated Balance Sheet	28
Consolidated Statement of Net Cost	30
Consolidated Statement of Changes in Net Position	31
Combined Statement of Budgetary Resources	32
Combined Statement of Financing	33

Notes to Principal Statements

Notes	35
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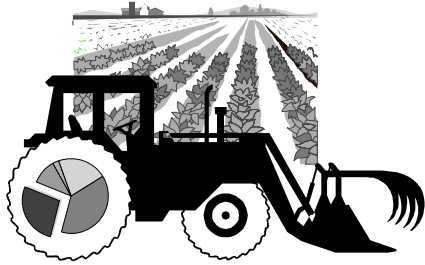
Required Supplementary Stewardship Information

Stewardship Information	119
-------------------------------	-----

Required Supplementary Information

Supplementary Information	129
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Management's Discussion and Analysis

Management's Discussion And Analysis

Introduction

When founding the Department of Agriculture (USDA) in 1862, Abraham Lincoln called it “the people’s department.” In Lincoln’s day, 90% of the “people” were farmers who needed good seed and information to grow their crops. Today, with fewer than 2% of our Nation’s population working the land, USDA serves not only farmers but also everyone who eats food, wears clothes, lives in a house, or visits a rural area or a National forest. The heart of the Department remains production agriculture, helping farmers feed America and the world in a sustainable way. But, USDA also:

- Promotes open markets for U.S. agricultural products;
- Leads the federal anti-hunger effort by providing food stamps to hungry families; school meals to children; and nutritious food and health referrals for pregnant women, new mothers, and their young children;
- Is the Nation’s largest conservation agency - helping people protect soil, water, and wildlife on the 70% of land that is privately owned;
- Manages 192 million acres of America’s forests and grasslands;
- Is the Federal Government’s largest direct lender, providing loans to farmers and investors in rural America;
- Brings housing, telecommunications, safe drinking water, business opportunities, and other essential services to the Nation’s rural communities;
- Ensures the safety of meat, poultry, and egg products;
- Safeguards America’s animal and plant resources from invasive pests and diseases;
- Leads research on a range of topics, from human nutrition to new crop technologies that allow farmers to grow more food using fewer chemicals; and
- Provides food to needy people overseas.

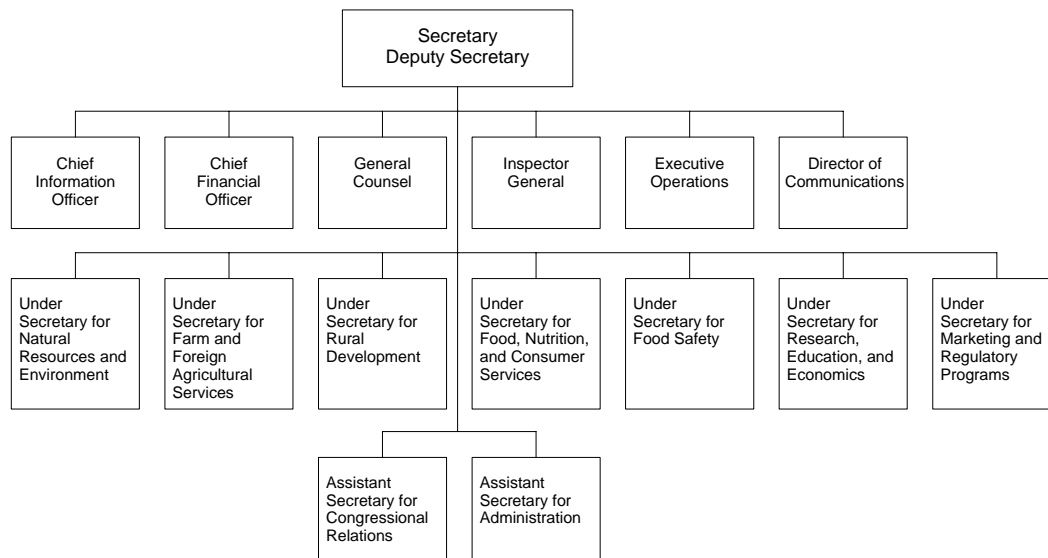
Mission

The mission of USDA is to enhance the quality of life for the American people by supporting agriculture production; ensuring a safe, affordable, nutritious, and accessible food supply; caring for public lands and helping people care for private lands; supporting sound sustainable development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world.

Organization

The Department’s mission is carried out through seven mission areas described below:

Organization Chart



Farm and Foreign Agricultural Services (FFAS) Mission Area

The Farm and Foreign Agricultural Services mission area, comprised of the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), the Commodity Credit Corporation (CCC), the Risk Management Agency (RMA) and the Federal Crop Insurance Corporation (FCIC), helps keep America’s farmers and ranchers in business as they face the uncertainties of weather and markets. These agencies deliver commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength 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. In cooperation with the private sector, this mission area offers broad-based crop insurance programs and other risk management tools.

Food, Nutrition, and Consumer Services (FNCS) Mission Area

The Food, Nutrition, and Consumer Services mission area works to harness the Nation’s agricultural abundance to end hunger and improve nutrition and health in the United States. It operates through two agencies, the Food and Nutrition Service (FNS), which administers the Federal domestic nutrition assistance programs, and the Center for Nutrition Policy and Promotion (CNPP), which links scientific research to the nutrition needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education and promotion.

Food Safety Mission Area

The Food Safety Mission Area ensures that the Nation’s commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled and packaged. The mission area also plays a key role in the President’s Council on Food Safety and is instrumental in coordinating a National food safety strategic plan among various partner agencies including the Department of Health and Human Services, the Environmental Protection Agency, and others.

Marketing and Regulatory Programs (MRP) Mission Area

The Marketing and Regulatory Programs mission area facilitates the domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP agencies are active participants in international and national standards setting, through international organizations and Federal-State cooperation. Three agencies operate under the MRP mission area: the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS), and the Grain Inspection, Packers and Stockyards Administration (GIPSA).

Natural Resources and Environment (NRE) Mission Area

The goal of the Natural Resources and Environment mission area is to ensure the health of the land through sustainable management. To achieve this goal, NRE agencies work to: prevent damage to natural resources and the environment; restore the resource base and environment to a healthy and sustainable condition where it is impaired; and promote good land management to conserve resource health and ensure the maximum return from investment in conservation. NRE is composed of the Forest Service (FS) and the Natural Resources Conservation Service (NRCS). Both agencies also assist with rural development and help communities with natural resource concerns, such as erosion control, watershed protection, and forestry.

Research, Education, and Economics (REE) Mission Area

The Research, Education, and Economics mission area is dedicated to the creation of a safe, sustainable, competitive U.S. food and fiber system and strong communities, families, and youth through integrated research, analysis, and education. Through the Agricultural Research Service (ARS), the Cooperative State Research, Education, and Extension Service (CSREES), the Economic Research Service (ERS), and the National Agricultural Statistics Service (NASS), REE provides research, analysis, and data to benefit consumers and promote agricultural prosperity and sustainable agricultural practices.

Rural Development (RD) Mission Area

Rural Development programs enhance the ability of rural communities to develop, grow, and improve their quality of life by targeting financial and technical resources to areas of greatest need, through activities of greatest potential. The Rural Development mission area consists of three agencies: the Rural Business - Cooperative Service (RBS), the Rural Housing Service (RHS), and the Rural Utilities Service (RUS), plus the Office of Community Development, which administers the Administration's Rural Enterprise Zones/Enterprise Communities initiative, and the National Rural Development Partnership, a Nationwide network of rural development leaders and officials committed to the vitality of rural areas.

Departmental Offices

Department-level offices provide centralized leadership, coordination, and support for the policy and administrative functions of the Department, helping program agencies deliver services to all USDA customers and stakeholders.

Performance Goals And Results

In June 2001, USDA issued its first department-wide annual performance plan. The USDA Fiscal Year (FY) 2002 Annual Performance Plan and Revised Plan for FY 2001 marked the continuation of a new corporate approach to performance management that began with the preparation of the USDA FY 2000–2005 Strategic Plan. The annual performance plan builds on that effort by setting out measurable goals that define what will be accomplished during the fiscal year in support of the broader goals contained in the strategic plan.

In February 2002, USDA will issue its first department-wide annual performance report. The USDA FY 2001 Annual Performance Report provides information on actual performance and progress in achieving the goals and objectives in the strategic plan and annual performance plan.

USDA uses a variety of tools to measure the progress it makes toward achieving its strategic goals. These tools include:

- Program Evaluations;
- Advisory Committees;
- Inspector General, General Accounting Office, and Other External Reviews; and
- Internal Management Studies and Performance Management Systems.

Because the Department works with a range of partners to achieve many of its goals, USDA does not always gather the performance data used in its plans. As a result, the Department cannot always control the timeliness and/or accuracy of this data. Where USDA does maintain the performance data, every effort is made to ensure the data is timely and reliable.

The key performance goals and results that follow were selected from the USDA FY 2001 Annual Performance Report and are presented in relation to USDA's five strategic goals:

STRATEGIC GOAL 1: Expand economic and trade opportunities for U.S. agricultural producers.

Objective 1.1: Provide an effective safety net and promote a strong, sustainable U.S. farm economy.

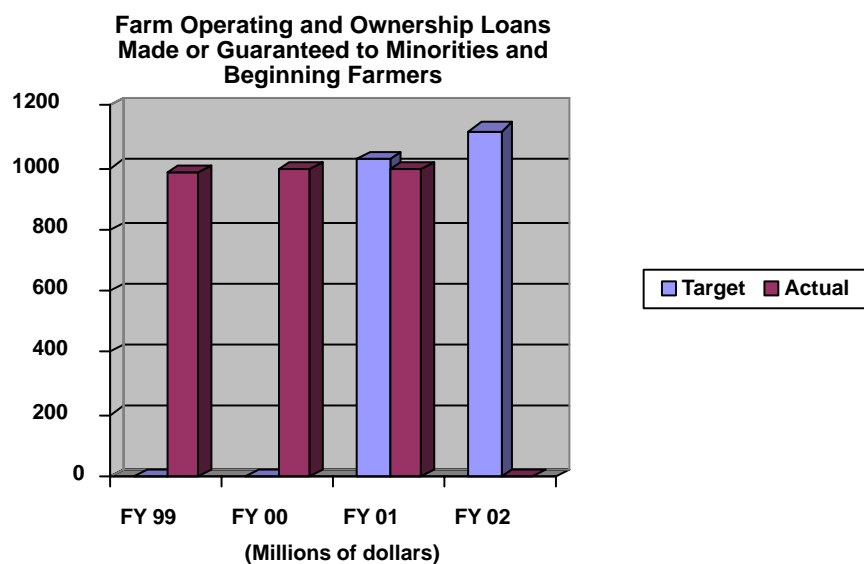
Maintaining profitable operations is the only avenue to running a successful farm or ranch. While factors such as market conditions, weather, and plant and animal diseases can play an important role, the efficiency of a farm's production system largely determines whether the operation will be economically viable. For this reason, helping farmers and ranchers increase the profitability of their operations and decrease the dependence on governmental assistance is a primary USDA objective.

In difficult times, USDA must provide an effective, efficient farm safety net to protect the men and women who feed this country and much of the world. Today, the primary components of the safety net are farm loans and other forms of income support, as well as crop insurance and other risk management tools designed to help mitigate the inherent risks of farming that are outside an individual producer's control. The safety net also includes a broad range of activities that are heavily reliant on research—from increasing the efficiency and sustainability of farming and ranching operations to protecting U.S. agriculture from invasive species and diseases that can threaten regional farm economies.

Farm Loans

FSA’s loan programs are designed to help family farmers who are temporarily unable to obtain private, commercial credit. In many cases, loans are issued to beginning farmers who have insufficient net worth to qualify for commercial credit. In other cases, credit is provided to farmers who have suffered financial setbacks from natural disasters, or who have limited resources with which to establish and maintain profitable farming operations.

Some farmers obtain their credit needs through the use of loan guarantees. Under a guaranteed loan, a local agricultural lender makes and services the loan, and FSA guarantees it against loss up to a maximum of 90 percent in most cases. FSA has the responsibility of approving all loan guarantees and providing oversight of lenders’ activities. By focusing outreach efforts on increasing the number of loans made to minorities and beginning farmers, FSA wants to increase the number of loans made to these producers through aggressive outreach efforts.

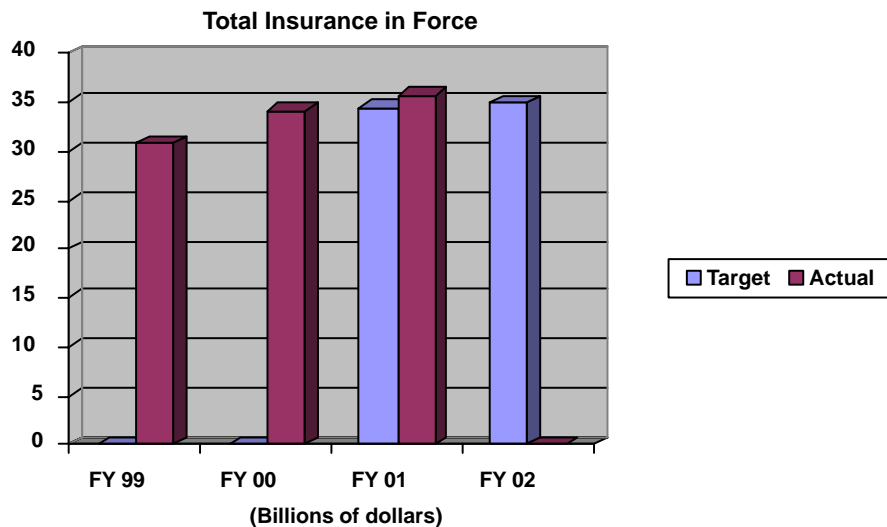


Analysis of Results: USDA continued the trend of providing more financial assistance to underserved groups. USDA made \$996 million in loans to Socially Disadvantaged Farmers and Beginning Farmer applicants in 2001. However, despite the \$3 million increase from FY 2000 to 2001, USDA fell short of its overall target of \$1,026 million. This was primarily due to a \$65 million decrease in funding for the direct ownership loan program in FY 2001 as compared to FY 2000. In FY 2001, 65 percent of the direct ownership loans were made to beginning farmers; had the program been funded at FY 2000 levels and a comparable percentage been made to beginning farmers, the target would have been exceeded by \$15 million. The levels of direct and guaranteed operating loans and guaranteed ownership loans to underserved groups all increased in FY 2001, as compared to FY 2000.

Crop Insurance

The purpose of Federal crop insurance is to provide an actuarially sound risk management program to protect producers against losses due to unavoidable causes such as drought, excessive moisture, hail, wind, hurricane, tornado, lightening, insects, etc., or to protect against loss of revenue due to reduced process, reduced yields, or a combination of both. Crop insurance is available to producers as either Catastrophic Coverage or varying levels of additional coverage. Participation in the crop insurance

program has increased significantly in the last decade. One measure of this increased participation rate is the liability (or value of insurance in force) of the Federal crop insurance program. The insurance in force is the total amount of coverage provided to producers who participate in the program.



Analysis of Results: As evidenced in value of “total insurance in force,” efforts to provide producers with economically sound risk management tools have succeeded, as producers are utilizing risk management tools to a greater extent. In 1994, producers were protected by \$13 billion in insurance liability. For 2001, participation levels have risen to more than \$35 billion in insurance liability.

Pests and Diseases

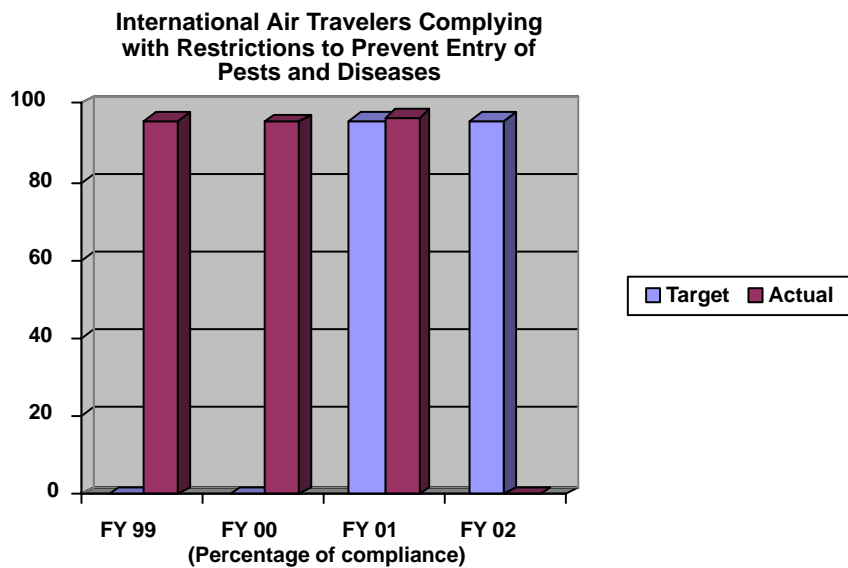
One key way that APHIS helps protect the livelihood of our country’s farmers and ranchers is by working to prevent invasive pests and diseases from crossing the borders into our country. Such pests and diseases have caused severe losses to agricultural resources in the past. For example, if APHIS were not working to exclude Mediterranean fruit fly or foot-and-mouth disease from our country, our country could potentially suffer production and marketing losses of several billion dollars annually.

APHIS’ animal and plant health programs exclude exotic pests from the U.S. and quickly detect and respond to those that are introduced, minimizing agricultural production losses, maintaining market viability, and minimizing environmental damage. In partnership with federal and state agencies, other countries, industries, and professional organizations, APHIS works to develop and maintain an effective capability to detect, respond to, and eliminate outbreaks of invasive pests and diseases. The management of these activities, which includes animal and plant health, human health, trade and national security impacts, has become increasingly complex.

APHIS uses a number of strategies to deal with the myriad pathways by which exotic agricultural pests and diseases could enter the U.S. One of the key strategies is to assess which agricultural products are likely to be carrying exotic invasive pests and diseases and then to use the Agency’s regulatory authority to prohibit those products from being brought to the U.S. This strategy enables the Agency to monitor and inspect for the most significant agricultural health threats more easily, many of which are difficult to detect among the thousands of international travelers approaching our borders every day.

APHIS uses a number of methods to encourage compliance with its quarantine regulations, including public awareness campaigns to help the public and importers understand the need for compliance, inspections of passenger baggage and cargo at points of origin, posting inspectors at ports of entry, and expediting inspection activities in coordination with other Federal Inspection Service agencies.

APHIS also seizes prohibited products at ports of entry and imposes penalties on those who are caught carrying prohibited products. To intercept as many of these potential threats to U.S. agricultural health, inspectors use a number of enforcement strategies, including participating in Passenger Analytical Units at airports to target high-risk passengers, monitoring dedicated commuter lanes at land border ports of entry on the northern and southern borders, working with the U.S. Army to develop new x-ray technology to detect agricultural products in baggage based on atomic makeup and shape, and participating in inspection “blitzes” as part of multi-agency Trade Compliance teams to search for prohibited items in U.S. markets.



Analysis of Results: USDA’s Plant Protection and Quarantine (PPQ) program exceeded its FY 2001 performance goal of international air travelers who comply with restrictions to prevent the entry of pests and diseases. By virtue of a 96.6 % compliance rate, PPQ’s efforts to safeguard US plant and animal resources against introductions of foreign pests and diseases were successful. The FY 2001 target was exceeded due to the additional inspectional and outreach activities at the Ports of Entry to address the outbreaks of Foot and Mouth Disease (FMD) in the United Kingdom and other parts of Europe. PPQ, through extensive educational, communication, and public awareness efforts, increased the international traveler’s knowledge of USDA’s quarantine regulations. Additional resources were also devoted to inspecting all passengers from the countries that have FMD, resulting in the compliance of a significantly higher percentage of passengers.

Objective 1.2: Expand market opportunities for U.S. agriculture.

Expanding market opportunities, both at home and abroad, for U.S. agriculture is central to USDA’s goal of improving the economic livelihood of farmers and ranchers. Given that 96% of American agriculture’s potential customers reside outside the Nation’s borders, international trade presents an immense opportunity to strengthen the U.S. farm economy.

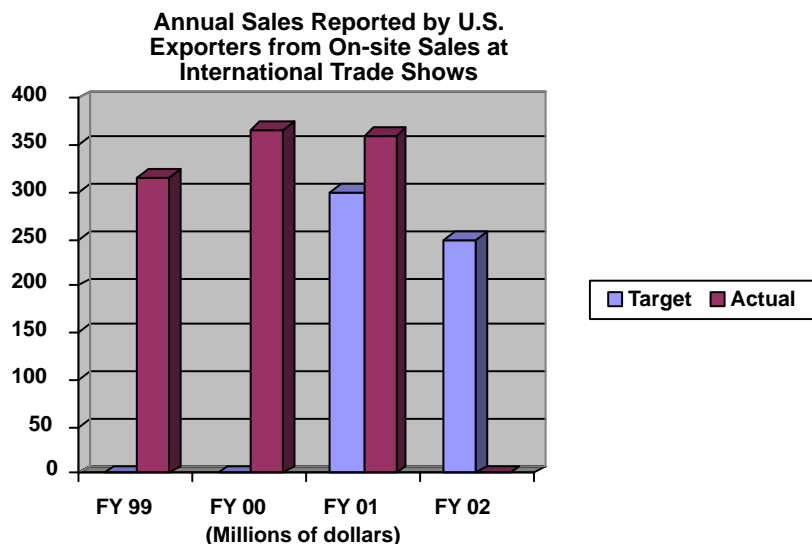
Sales at International Trade Shows

A key way USDA assists U.S. agriculture in expanding the U.S. presence in foreign markets is through its sponsorship of international trade shows that feature American food and agricultural products. The Department also has an on-ground presence in approximately 130 countries around the world, collecting and relaying back to U.S. participants up-to-the-minute market intelligence on foreign trade leads and buyer alerts, and providing country importer listings to interested U.S. exporters. Additionally, USDA’s overseas agricultural trade officers and attaches work with foreign public and private sector groups to arrange marketing events such as in-store brand promotions for U.S. foods, and wine-tasting contests that feature U.S. wines. The combined result of this work is summarized below:

Analysis of Results: FY 2001 was a productive year for U.S. agriculture. Exports turned the corner in FY 2000 after a disappointing year in FY 1999, registering nearly a billion dollars in sales growth. This trend was continued in FY 2001, with agricultural exports reaching nearly \$53 billion—up \$2.1 billion over FY 2000. World trade for FY 2001, while not yet officially estimated by the United Nations, Food and Agricultural Organization until 2003, is expected to be about \$287 billion. At this estimate, FY 2001 exports by the U.S. climbed to 18.45 %. A simple trend-line estimate of market growth to reach 22% market share by FY 2010 set the U.S. FY 2001 goal at 18.5% market share. U.S. agricultural exporters were therefore “on track” during FY 2001 to reach the FY 2010 goal.

Much of the FY 2001 gain was in Asia, as that region’s economic growth continues to rebound from the financial crisis of 1997–99. Export prospects are promising in both value and volume terms for most major commodities, including corn, wheat, soybeans, soybean meal, livestock products, and horticultural products. While U.S. agriculture has made progress, there still remains much work ahead. Reversing the long-term negative trend in U.S. market share in global markets must continue to be a major priority. Reclaiming the 22 % share of the world market that USDA had in the early 1990s is an ambitious but achievable goal. However, it will require additional commitment and a shift in focus towards targeting and aggressively pursuing opportunities in the growth markets where U.S. companies need to be in order to increase their market share over the next decade.

However, this new focus must be balanced with the need to maintain U.S. presence in those mature markets that U.S. companies have established over the last 20 years. An example of this shift is represented by the performance indicator for trade shows.



USDA is shifting its support to assist U.S. firms attending shows in emerging, higher-risk growth markets. Exporters will continue to attend established shows in the mature markets, but need assistance in the emerging ones to offset the initial costs and risks in capturing new markets. Additional exports are expected to result from U.S. participation in trade shows in both mature and emerging markets. However, the full benefit is likely to be under-estimated in the report because USDA only tracks on-site sales at the events. Sales that occur after the events as a result of follow-up contacts are not currently reported.

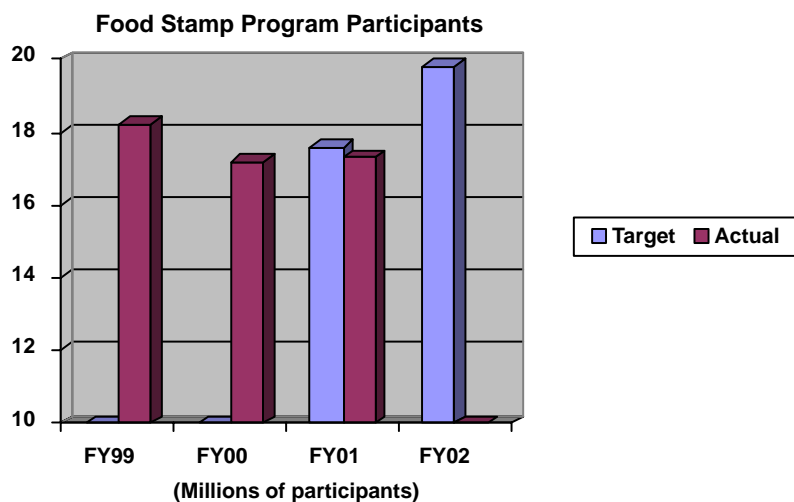
STRATEGIC GOAL 2: Promote health by providing access to safe, affordable, and nutritious food.

Objective 2.1: Reduce hunger and improve nutrition among children and low-income people in the United States.

Nutrition Assistance Programs

USDA’s domestic nutrition assistance programs work in communities across the country to reduce hunger and improve nutrition by providing children and low-income people with access to food, a healthful diet, and nutrition education. These efforts touch the lives of one in six Americans and account for nearly one-half of USDA’s expenditures.

One of the largest programs is the Food Stamp Program (FSP). This program increases the food purchasing power of low-income households across the country, helping them to purchase and enjoy a more nutritious diet.



Analysis of Results: In general, nutrition assistance program participation in FY 2001 reached the levels projected in the FY 2001 performance plan. As program participation is voluntary, performance projections related to participation are estimated based on assumptions about economic and other factors that impact the likely behavior of eligible populations.

The FSP did not reach its projected average monthly participation level in FY 2001. This reflects lower-than anticipated participation at the beginning of the year; participation increased in 10 out of 12 months in FY 2001, reaching 17.85 million in September.

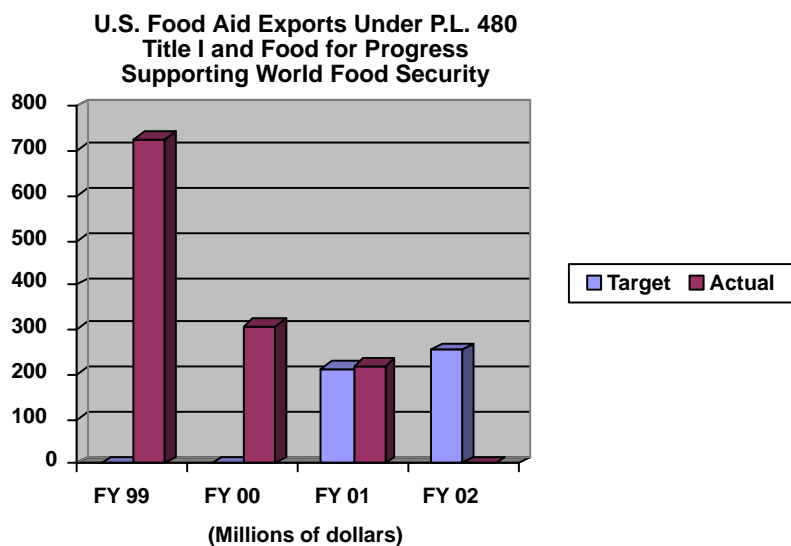
The FY 2001 level, while not as high as anticipated, reflects an end to the annual declines in FSP participation that have occurred each year since the program’s peak annual average participation level of 27.5 million in FY 1994. The FY 2001 increase resulted largely from weakening economic conditions, demonstrating the program’s ability to respond automatically to a changing economy.

Objective 2.2: Reduce hunger and malnutrition around the world.

While hunger is a profoundly important domestic issue, it is an even larger challenge around the world.

Food Aid Exports

USDA is contributing in a major way to helping the U.S. live up to its commitment to reduce the number of hungry and malnourished people in the world through its continued participation in foreign aid activities. While helping developing countries with food deficits feed their people, these activities also provide long-term benefits to the U.S. economy by cultivating tastes and preferences for U.S. food and agricultural products through their introduction to consumers in developing countries. USDA supports the attainment of this outcome by prioritizing and targeting its food aid exports to the most needy populations in developing countries.



Analysis of Results: FAS shipped a total of about \$227 million worth of commodities under the P.L. 480, Title I, Food for Progress, and Section 416(b) programs combined-exceeding the FY 2001 performance target.

Availability of surplus commodities and donations under the Section 416(b) program provided FAS with critical flexibility in tailoring programs to meet the needs of recipients as the year progressed. Forward planning is difficult, but remains a baseline for comparison. FAS successfully used the

Section 416(b) program to accomplish key items such as helping to respond to the earthquakes in El Salvador, giving continued support to the Afghan refugees, and addressing the HIV/AIDS epidemic in many African countries.

Under Section 416(b) authority, USDA implemented the pilot Global Food for Education Initiative in FY 2001. Through this initiative, USDA donated \$147.6 million of surplus U.S. agricultural commodities for use in school feeding and nutrition projects in developing countries. School feeding programs help to ensure that children attend and remain in school, and improve childhood development and achievement, thereby contributes to more self-reliant, productive societies.

Objective 2.3: Protect the public health by significantly reducing the prevalence of foodborne hazards.

Foodborne Illness

USDA works effectively every day to achieve the greatest possible reduction in the risk of foodborne illness associated with meat, poultry, and egg products, over which USDA has jurisdiction. In recent years, the Department, in conjunction with other Federal agencies, has made significant progress in reducing foodborne illnesses by overhauling USDA's inspection system and taking a more science-based approach. Via targeted research, specifications for purchased commodities, inspection, and education, the Department is continually enhancing food safety. Foodborne illness surveillance data for 1999 compared with data from 1996 suggest that significant reductions in the incidence of foodborne illnesses have occurred. The Centers for Disease Control and Prevention (CDC) has stated that the declines in *Salmonellosis* and *Campylobacteriosis* may reflect changes in meat and poultry plants mandated by USDA.

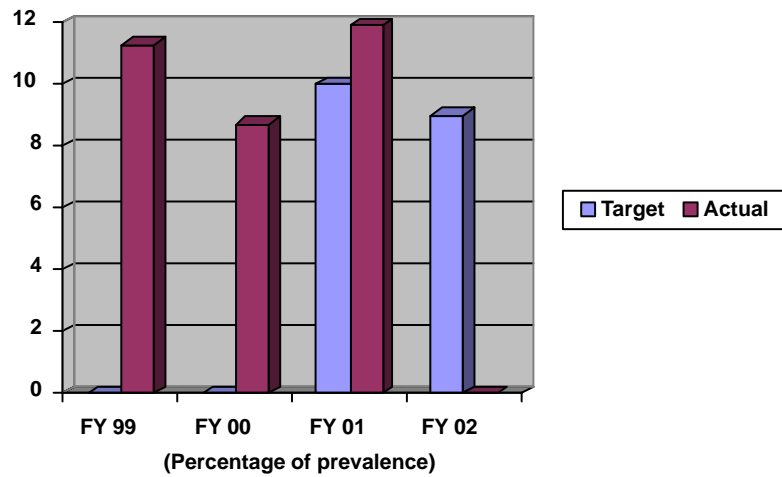
Although the United States has one of the safest food supplies in the world, foodborne illness continues to impact consumers. According to USDA research, illness caused by unsafe food could cost the United States as much as \$8 billion annually in increased medical expenditures and lost productivity. Food products are exposed to a large variety of chemical residues that may pose acute and long-term risks to consumers.

In order to improve public health and safety, USDA is committed to reducing the prevalence of foodborne hazards from farm to table through coordinated, science-based programs. The scientific data generated by these programs is providing the foundation for improving food safety practices during production, processing, and consumer handling of food.

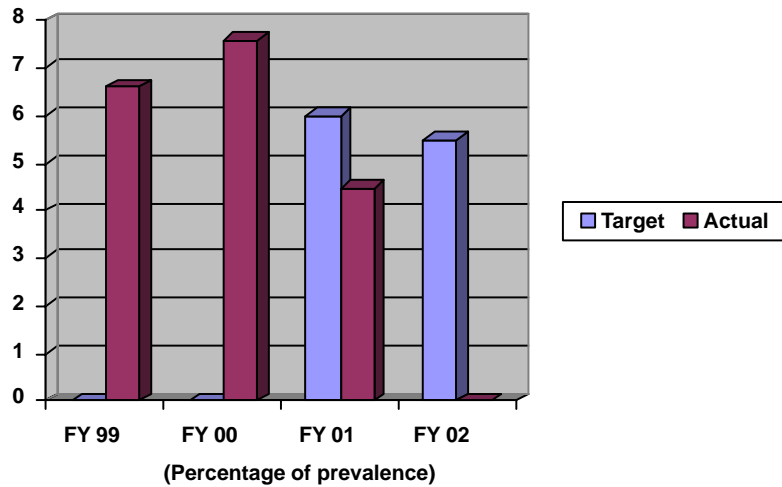
Meat, Poultry, and Egg Products Inspection: Because of its food safety responsibilities and its presence in so many plants, the FSIS depends upon a large and dedicated workforce of professional, scientific, and technical personnel to inspect the Nation's commercial supply of meat, poultry, and egg products. FSIS provides inspection at approximately 6,000 plants that slaughter cattle, swine, sheep, goats, horses, chickens, and turkeys, as well as plants that process a wide range of processed products including hams, sausage, stews, eggs, and frozen dinners. In addition, FSIS oversees approximately 26 State inspection programs, conducts compliance reviews of Federally inspected or exempted products at warehouses, distributors, retail stores, etc., and inspects imported products through a comprehensive system of import controls.

While USDA inspects a variety of meat, poultry, and egg products, broiler chickens, market hogs, and ground beef have been selected as representative samples to illustrate *Salmonella* reductions.

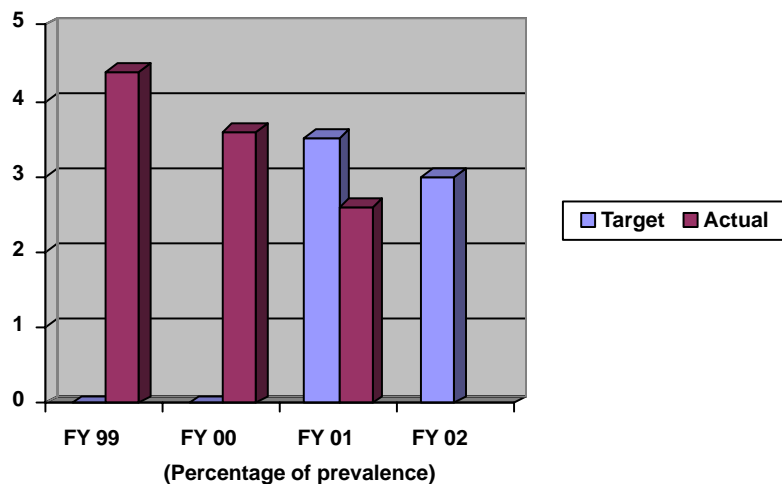
Prevalence of *Salmonella* on broiler chickens.



Prevalence of *Salmonella* on market hogs.



Prevalence of *Salmonella* on ground beef.



Analysis of Results: In two out of three indicators, USDA exceeded its targets for reducing the prevalence of *Salmonella*. Many factors can influence prevalence data on a year-to-year basis. However, USDA is encouraged by these results. If these trends continue, USDA will be accomplishing most of the targets set forth in its Strategic Plan ahead of schedule. USDA has already exceeded the FY 2005 target set for *Salmonella* prevalence for ground beef.

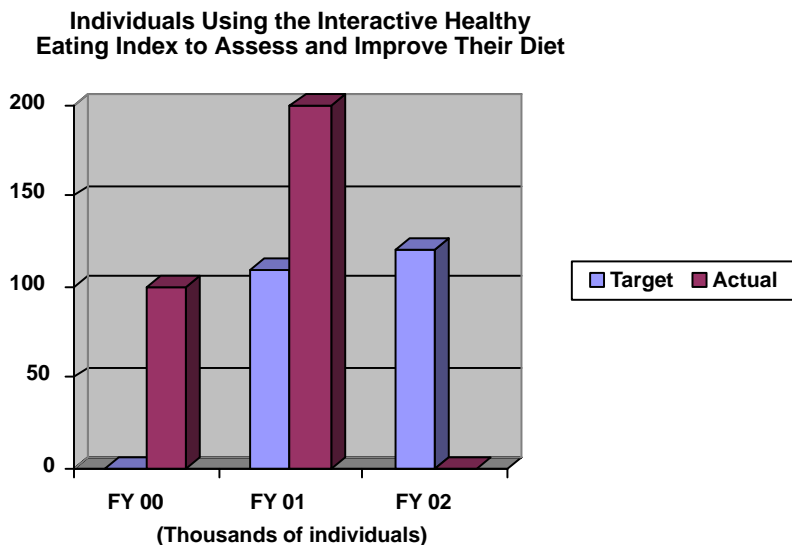
The prevalence of *Salmonella* on broiler chickens continues to be problematic, and USDA is looking into the causes as to why the rates continue to fluctuate. One such rationale is the fact that testing is conducted randomly, and depending upon the entity tested in any given year, results can vary. Preliminary analysis of the data indicates that a number of plants tested during FY 2001 did not meet the performance standard set for broiler chickens, and therefore resulted in a perceived higher prevalence rate. Given the problems of the plants in question, USDA is giving serious consideration to increasing its activities to include not only random sampling but also sampling when there is an indication that problems exist. For this reason, USDA is also giving serious consideration to deleting this indicator, as the additional sampling results would skew the *Salmonella* prevalence targets.

Objective 2.4: Improve public health through nutrition education, promotion, and research.

Promoting healthy eating is vital to improving the health of the American people.

Interactive Healthy Eating Index

The CNPP develops and provides several tools containing dietary guidance that can be used to help Americans improve their dietary status. One tool is the Interactive Healthy Eating Index (IHEI) at www.usda.gov/cnpp. This tool allows people to go directly to the Internet to assess their diet quality and receive recommendations for improvement.



Analysis of Results: The targets for FY 2001 were exceeded by about 80 % for the IHEI.

STRATEGIC GOAL 3: Maintain and enhance the Nation’s natural resources and environment.

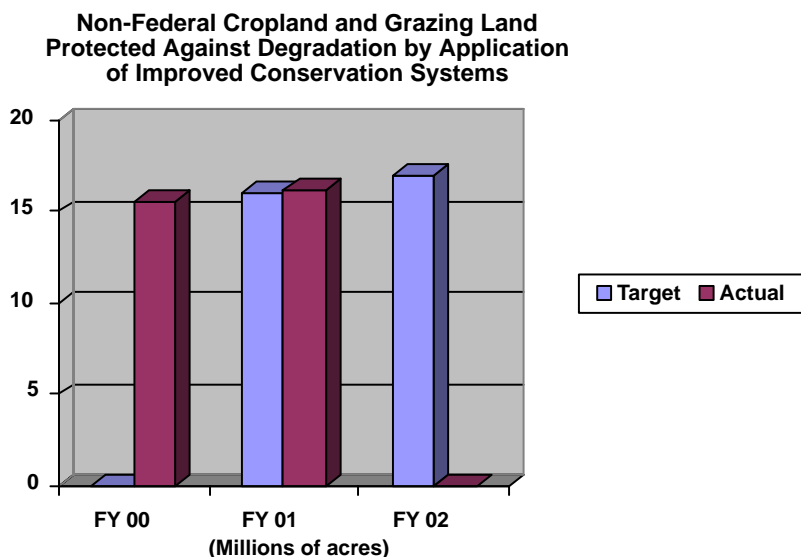
Objective 3.1: Maintain the productive capacity of the natural resource base for future generations.

One of the most important responsibilities of the USDA is safeguarding the productive capacity of America’s natural resources to ensure that the Nation continues to enjoy an abundant food supply and vibrant agricultural economy. USDA provides assistance in conserving soil, water and related resources on the Nation’s 1.5 billion acres of non-federal lands and manages 192 million acres of national forests and grasslands for the American people.

Conservation Technical Assistance

Healthy cropland, grazing lands, and forestland are essential to the Nation’s agricultural economy. Maintaining and improving the quality of the Nation’s soils and plant communities can increase farm productivity, minimize the use of nutrients and pesticides, improve water and air quality, and help store greenhouse gases. Farmers and ranchers, who manage the majority of the Nation’s rural land, need assistance in achieving these multiple benefits. In spite of their efforts to be good stewards, more than 800 million acres of cropland, pastureland, rangeland, and private non-industrial forestland need additional conservation to fully protect its health and productivity.

NRCS activities to help managers of non-federal lands to manage their natural resources well include providing technical assistance directly to agricultural producers and other natural resource managers; sharing the costs of applying conservation practices; and conducting inventories, research, and technology development activities. These efforts are conducted as cooperative activities with other federal agencies and in partnership with tribal, State, and local governmental agencies and grassroots organizations. NRCS’s Conservation Technical Assistance program is the department’s primary means for dispensing accurate technical information and services to those who need them. USDA’s major financial assistance program that assists producers to protect land used for crop and livestock production is the Environmental Quality Incentives Program.



Analysis of Results: The indicator includes only land on which the producer completed application of a conservation system that considered all the resource concerns of the site: soil, water, air, plants, and animals. (Conservationists call this a “resource management system.”) On the land where a resource management system has been applied, all problems identified on the site have been addressed. In addition to assisting producers in applying conservation to this level, USDA provides assistance on additional acres where resource concerns are treated to a less comprehensive level. The conservation on these acres, although not complete, provides significant environmental benefits.

In FY 2001, grazing land made up slightly more than 11 million acres of the 16.2 million acres of working land on which USDA provided assistance to the resource management level. About 60 % of these grazing land acres received financial as well as technical assistance. Financial assistance was primarily through USDA’s Environmental Quality Incentives Program (EQIP). Of the 4.6 million acres of working cropland where treatment was applied to the full resource management system level, about 16 % received financial assistance under EQIP and 8 % under State and local cost-share programs.

Wildfires

Wildland fire presents increasing risks to communities and the environment. Investments in hazardous fuel treatments are required to reduce this risk. Prescribed fire and other fuel reduction treatments reduce this risk as well as enhance forest and range health by reducing the intensity of wildfires, promoting forage production, maintaining fire dependant ecosystems, and protecting vulnerable urban-wildland interfaces, the area where the urban sprawl encroaches on forested wildlands.

After the September 11th attacks, the FS provided incident management teams to provide logistical, planning, communications, and distribution support. These teams have years of experience managing large-scale firefighting operations and are experts at moving and distributing supplies, providing food and temporary shelter, setting up communications systems, planning operations, and keeping financial accounts. Team members provided logistics support at both the World Trade Center and the Pentagon at the request of the Federal Emergency Management Agency.

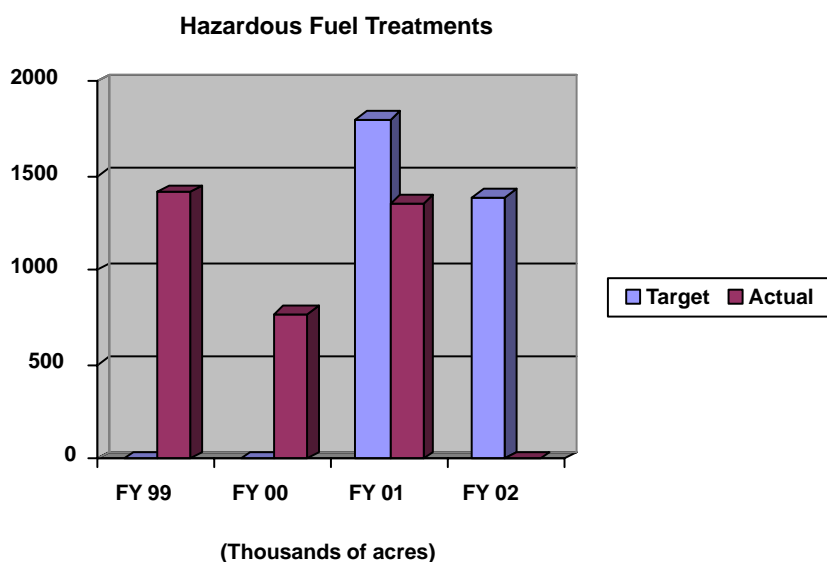
Analysis of Results: As a result of the extreme fire season in the year 2000, the National Fire Plan (NFP) was developed. A combined Department of Interior and FS end-of-year report will be released in January 2002 and will provide a detailed accounting of accomplishments under the NFP. Two critical components of the NFP are community assistance and hazardous fuel treatments.

As the nation’s demographics change, developed areas and individual home sites increasingly extend into wildland areas. Community involvement is a critical element in restoring damaged landscapes and reducing fire hazards near homes and communities. Community assistance programs focus on building community capacity to develop and implement citizen-driven solutions that will lessen local vulnerability to risks associated with wildland fires. Assistance to communities and volunteer fire departments is a crucial activity that increases their ability to protect the natural resources. Data for this item are submitted by States and the States are still in the process of finalizing the FY 2001 data for this performance measure.

In FY 2001, with NFP funding, the FS hired 3,311 new firefighters. To accomplish this extra hiring, agency staff hosted comprehensive recruitment programs. In addition to local recruitment efforts, agency staffs held more than 35 job fairs across the country to help assure diversity within the workforce. New hires were often recruited from non-traditional sources. In addition to firefighting

positions, personnel were hired to support contracting, fuels programs, planning staff and administrative support positions. Through workforce hiring and development efforts, the FS achieved 97 % of the normal year readiness in FY 2001. An additional 500 leadership developmental positions were filled in anticipation of projected retirements over the next few years.

Prescribed fire and other fuel reduction treatments enhance forest and range health by reducing the intensity of wildfires, protecting vulnerable urban-wildland interface areas, promoting forage production, and maintaining fire-dependant ecosystems.



Hazardous fuels reduction was below target because an unusually dry fall further reduced the time available for burning. Those acres scheduled for treatment but which did not receive treatment in FY 2001 will be scheduled for completion in FY 2002. Due to the uncontrollable variables associated with hazardous fuels treatment, there will always be a certain level of unpredictability in assigning targets.

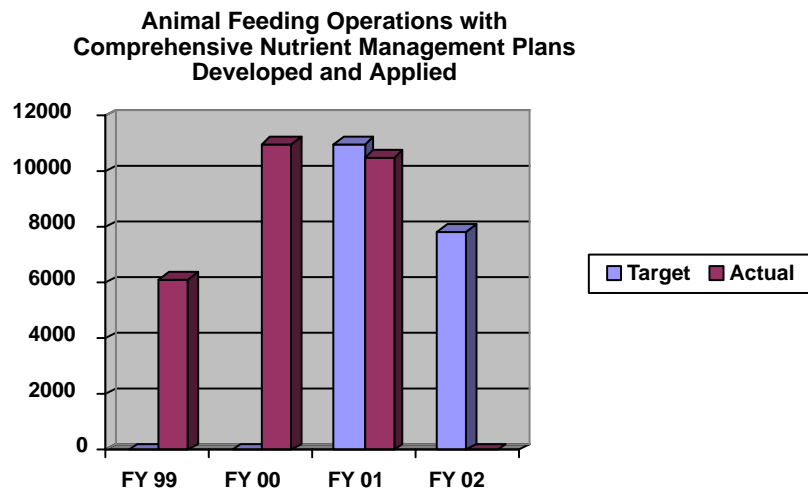
Objective 3.2: Protect the quality of the environment.

Americans expect their environment to provide adequate supplies of clean water, clean air, and pleasant and healthy places in which to live. Farmers, ranchers, and forest owners help to protect the quality of water and air and to improve the environment for everyone when they apply conservation systems that reduce the risk of erosion, fire, and other threats to their land. In many cases, producers are also expected to take action beyond what is necessary to protect their own interests in order to protect the public or to enhance the broader environment. USDA plays a major role in helping them to meet these expectations by developing improved production and conservation technology, providing on-site technical assistance, and providing financial assistance for adopting expensive measures.

Animal Feeding Operations

If not managed well, animal agriculture operations can be the source of silt, nutrients, organic matter, and pathogens that can impair water quality and pose risks to human and environmental health. Rapid

increases in animal feeding operations are causing serious concerns in some parts of the country. Animal feeding operations are agricultural enterprises where animals are kept and raised in confined situations so that large numbers of animals and their feed, manure and urine, dead animals, and all operations are confined to a small land area. In response to these concerns, USDA and EPA jointly developed a Unified National Strategy for Animal Feeding Operations; the strategy established a national expectation that, by 2009, all animal-feeding operations will develop and be implementing comprehensive nutrient management plans to manage animal waste properly. Many states have developed more stringent requirements than the national expectation in order to address public concerns. NRCS provides technical and financial assistance that enable producers to manage the collection, storage, and disposal of animal wastes in ways that minimize the potential for damage to the environment.



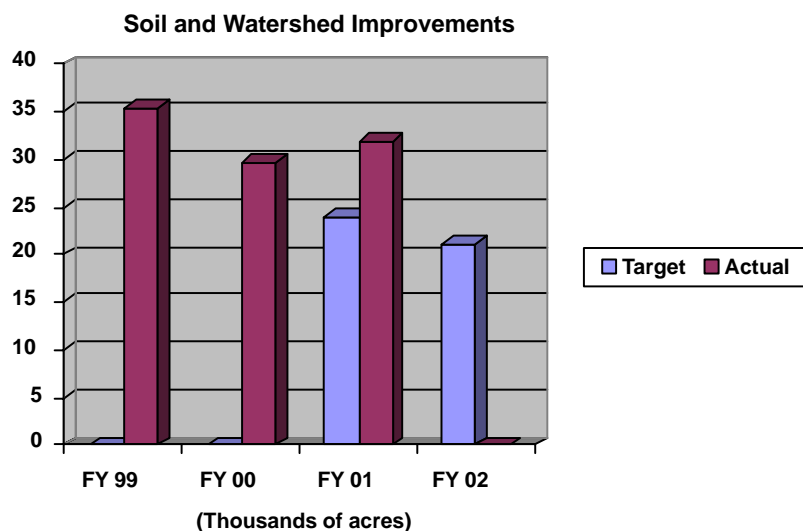
Analysis of Results: In FY 2001, USDA and its local partners provided assistance in developing plans for 6,205 waste management systems and for installing 4,315 systems. This level of performance was 96 % of the target, and is almost 500 fewer systems than were assisted in FY 2000. Performance on this indicator is strongly affected by the regulations and programs enacted by State governments and by the economy. In areas where fewer than expected systems were completed, the economic situation of producers and the absence of cost-share assistance were cited as factors.

Reducing the potential for off-site pollution by nutrients involves management of both manures produced by livestock production operations and nutrient in commercial fertilizers. Because animal feeding operations are concentrated in some areas of the country, almost 80 % of the 1.2 million acres on which animal feeding operations related nutrient management was applied with USDA assistance is located in eastern and mid-western states. Land on which other nutrient management was applied is distributed more broadly across the Nation. Management of nutrients, regardless of their origin, is important for protecting water quality. About half of acres with nutrient management applied received assistance through USDA cost share programs.

Healthy Watersheds

Healthy watersheds are vital to protecting the quality of the environment, absorbing rain and recharging underground aquifers. Watersheds control the quality, quantity, and timing of water and

serve as habitat for thousands of species of fish, wildlife, and rare plants. Watersheds dissipate floods across floodplains, increase soil fertility, and minimize damage to lives, property, and streams. Clean water that flows from watersheds is consumed, helps produce food, develops agriculture, creates jobs, generates power, and provides recreational opportunities. Most watersheds are healthy. Soil and watershed improvements are one of several actions that are aimed at restoring watershed health, to those that are deteriorating.



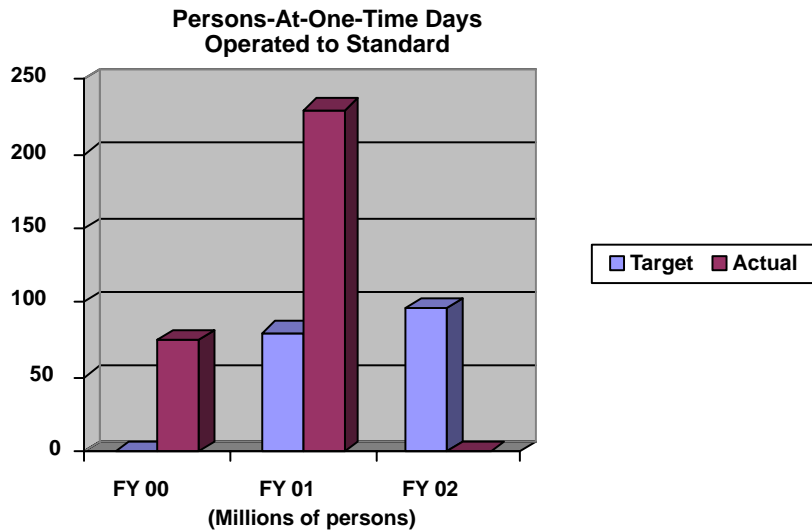
Analysis of Results: Soil and watershed improvements contribute to healthy, stable watersheds, diverse aquatic ecosystems and properly functioning riparian areas. Improvement of watershed conditions on National Forests and Grasslands restores the landscapes that support healthy lakes, streams and aquatic ecosystems.

The FS exceeded its target for acres of watershed improvements by 33 %. In addition to the acres accomplished using appropriated funds, an additional 7,276 acres of soil and watershed improvements were accomplished through partnerships and cooperative agreements.

Objective 3.3: Provide multiple benefits to people from the Nation’s natural resources.

Recreation User Satisfaction

Forests and rangelands together make up almost two-thirds of the total area of the United States. These lands offer the single largest source of outdoor recreation opportunities in the United States. From downhill skiing at Vail, to backcountry expeditions into the Frank Church Wilderness, to family outings on the national forests that surround 20 million of California’s residents, USDA provides an incredible range of outdoor opportunities. Measuring recreation visitor satisfaction will allow the FS to build on information in the past and strive to meet the increasing demand for recreation opportunities.



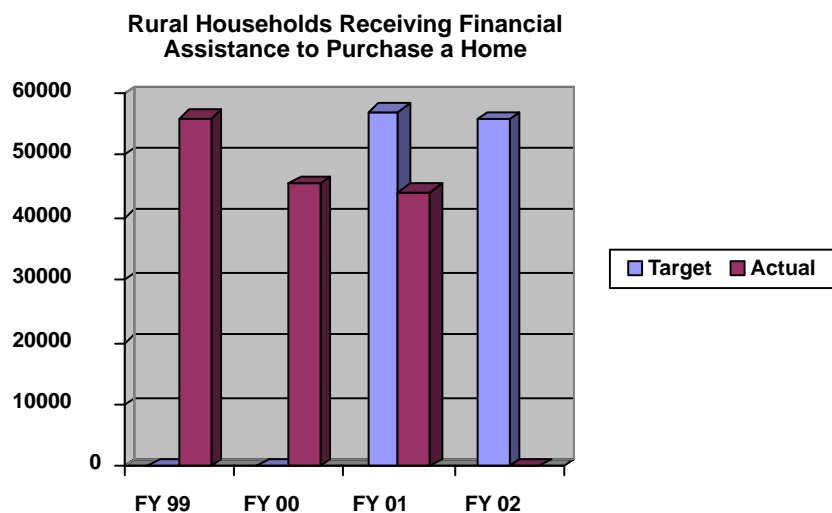
Analysis of Results: The FS accomplished the goal of operating developed sites. Public use at developed recreation sites is increasing. A greater emphasis on reconstruction of existing sites along with higher levels of road maintenance, rather than new construction, will allow the agency to improve the quality of the recreation experience. Reconstructing and repairing existing trail tread, bridges, cribbing, water bars, and other components better serves the backcountry user and allows for increased user capacity.

Both the recreation facility infrastructure and our recreation customers are demanding more attention. To address these concerns, the FS developed the Recreation Agenda. The agenda is a framework for defining principles, processes, and priorities for the long term. It provides a 5-point blueprint, which includes providing safe, natural, well designed, accessible and well-maintained recreation opportunities for all visitors. Implementation began in FY 2001.

STRATEGIC GOAL 4: Enhance the capacity of all rural residents, communities, and businesses to prosper.

Objective 4.1: Expand job opportunities and improve the standard of living in rural communities.

Rural America is characterized by great diversity in the resources and needs of its communities. USDA, in partnership with a variety of public and private organizations, is a key provider of technical and financial assistance that is tailored to the needs of each rural community. From helping create and save jobs in America’s country communities, to assisting rural citizens buy their first homes, to providing essential services, such as safe running water, USDA’s efforts reflect the Nation’s commitment to ensuring a vibrant future for rural America.



Analysis of Results: The target was not met, and the shortfall is in the guaranteed loan program. A target of 42,000 for the guaranteed loan program assumed the use of all of the funds allocated for the program. This situation did not occur because the number of loans closed for the whole year under the Section 502 guaranteed loan program (29,236) was 30.2 %, or 12,674 loans, fewer than the 42,000 target for the Section 502 guaranteed loan program. This decline is the opposite of the increase in home mortgages originated throughout the country and is attributable to factors in the RHS program such as the lack of an automated underwriting capability, the lack of a refinancing capability for much of the year, and the prohibition on cash-out or equity withdrawal financing.

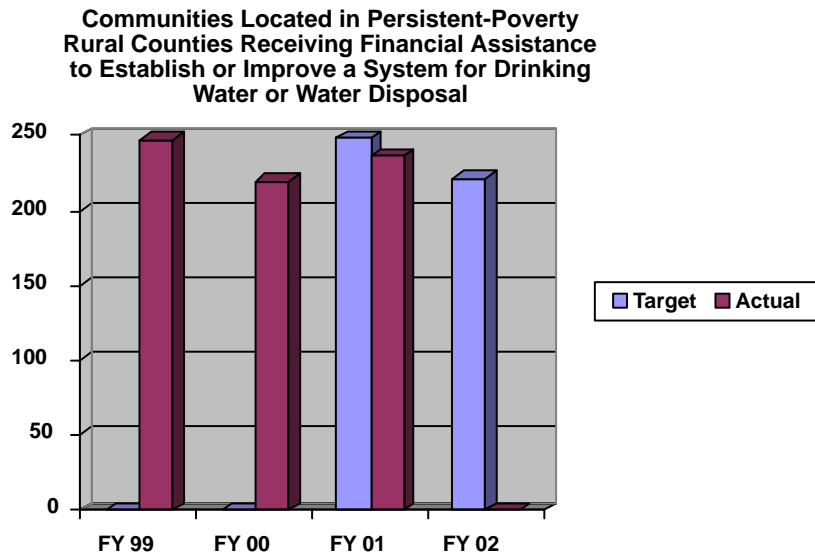
Although increasing rural homeownership is only one way in which RHS assists rural residents and communities, it provides a valid measure of the success of USDA programs. Without USDA assistance, fewer rural residents would become homeowners and more rural residents would be living in substandard dwellings. Not only is homeownership a life-long goal of many Americans, but also it is an accomplishment that supports rural economies. Home construction provides jobs for rural workers. Homeowners pay taxes that help support their communities. Because they have a financial interest in the communities, they are less likely to leave the community in times of economic downturn.

Objective 4.2: Ensure the neediest rural residents and communities have equal access to the USDA programs that will help them succeed.

Economic growth in rural areas has not occurred evenly throughout the country. Across America there are pockets of severe poverty, often populated by minorities. There are 535 rural counties that have had poverty rates above 20% in every census since 1960. An estimated 8.5 million rural residents live in poverty. More than 2.5 million of the rural poor live in substandard housing units. While clean water is immediately available to most Americans, an estimated 690,000 rural residents have no running water in their homes.

A solution for many of these problems is greater investment in public services and jobs in the local community. Unfortunately, while recent strides have been made, USDA technical assistance and credit programs have not been evenly distributed in the past. If these persistent poverty communities

are to succeed, they need substantial technical help tailored to their unique community challenges. These communities also need help obtaining financial assistance. USDA is committed to ensuring that all rural communities are given an equal opportunity to prosper.



Analysis of Results: The number of water and waste systems in persistent-poverty counties was slightly below its target, but within 5%, which is considered acceptable.

STRATEGIC GOAL 5: Operate an efficient, effective, and discrimination-free organization.

Objective 5.1: Ensure that USDA provides fair and equitable service to all customers and upholds the civil rights of its employees.

USDA’s continuing effort with ensuring equity in services and equal opportunity in employment is well documented. The work done by USDA is critical to farmers and ranchers, low-income families, rural communities, and every American who trusts that the food on their plate is safe. With all of these important responsibilities, the Department simply cannot afford civil rights shortcomings that compromise the important work of its diverse and talented staff. Ensuring that all employees and managers are fully aware of and comply with civil rights policies is difficult in any large, decentralized organization. Building on the historic progress made in recent years, USDA continues its journey to becoming a Federal civil rights leader. One key focus is building a workforce for the future that reflects the diversity of this country and USDA customers.

Minority Participation in USDA Programs

As part of USDA’s ongoing efforts to improve its civil rights record, outreach plans were established in every agency during FY 1999. Efforts are now underway to increase participation of traditionally underserved groups in all department programs. Tracking actual participation by race, sex, and national origin has proved to be a challenge due to the lack of reliable data.

Analysis of Results: The results depend entirely on establishing a baseline and securing the accurate collection of data by all USDA agencies. Sufficient data has not been available and a portion of the data that is available has not been proven reliable. As a result, an accurate measurement cannot be taken at this time. USDA agencies that presently lack or have inaccurate methods of data collection must develop a system of reporting.

Objective 5.2: Improve organizational productivity, accountability, and performance.

Rapid changes in technology have raised customers' expectations for more, better, faster, and cheaper service in every facet of their lives. Customers expect no less from USDA. About 30% of farmers use the Internet, and nearly half of them use a computer for their farm business. These numbers are expected to grow. Delivering government services through technology or "e-Government" represents a fundamental change in the way USDA conducts business. It will transform interactions with customers, employees, and partners and create the potential for vastly more efficient and less costly business practices.

Meet Legislative Mandates of the Freedom of E-File Act and GPEA

Legislative mandates of the Freedom of E-File Act and GPEA include (1) establishing an e-Government Program, and (2) establishing a senior-level executive position to provide leadership and oversight for USDA's planning and implementation of e-Government. The e-Government Program is responsible for the Government Paperwork Elimination Act, Freedom to E-File Act, the Paperwork Reduction Act, and USDA's information infrastructure.

Analysis of Results: The legislative mandates of the Freedom of E-file Act and GPEA were met in FY 2001. In addition, USDA established a governance structure for e-Government that includes a senior-level executive council and working group.

Future Opportunities And Challenges

USDA's goals and strategies reflect and anticipate changes and trends in the economy and society at large. Five recurring themes have an impact that cuts across many USDA objectives. USDA seeks to address the challenges and seize the opportunities that these broader forces present:

Market Globalization

Growing international markets for U.S. food and fiber hold the promise of great gains for America's farmers, rural communities, timber producers, and consumers. With these rewards come risks. Tight connections among the world's agricultural markets can result in greater volatility for U.S. farmers. The increasingly global nature of our Nation's food supply also raises the risk of imports carrying crop-destroying invasive species or foodborne pathogens. The globalization of agricultural markets promises substantial dividends - a greater ability to feed a growing world population, stronger economies around the world, and greater global stability. As a result, USDA's goals and strategies reflect a commitment to opening and expanding world markets while ensuring an abundant, safe, and affordable food supply.

Environmental Quality

Increasing public awareness of the importance of the environment's health holds both opportunities and challenges for U.S. agriculture. Recent scientific discoveries provide new tools to help manage resources more sustainably. USDA programs offer technical and financial help to farmers who want to protect soil, air, water, and wildlife habitat. Producers also must comply with an increasing number of regulations issued by various authorities and often intended to achieve differing goals. Beyond agriculture, management of public lands also has grown more complex due to the increasing demand to balance differing visions of how our Nation's natural resources should be protected and/or used to support local economies. Many natural resource issues also have the added complexity of spanning international boundaries. Our goals and strategies address the increasing need for USDA leadership to ensure that policies and programs at all levels, that affect the environment and agriculture, are based on sound science and balance the need to conserve and sustainably use our Nation's natural resource base.

Technology

The rapid pace of advances in technology will continue to change virtually every aspect of American life. Technology can yield great efficiencies in agricultural production and marketing and can provide disease-resistant crops and more nutritious foods. These advances sometimes raise concerns about consumer health, the environment, and the future viability of small farming and ranching operations. Technology also can help rural businesses access the economic opportunities of a global marketplace, and enable USDA to address the management challenge of serving more customers with a smaller staff. Effective investment in technology can bridge the digital divide both in rural America and at USDA. Our goals and strategies anticipate that the Department will make steady progress in providing needed technology to its customers and employees and that USDA will continue to promote safe and effective agricultural technologies.

Diversity

As our country grows more diverse, so does USDA's customer and employee base. This diversity brings with it a wealth of new ideas and resources. It also calls for greater efforts to ensure that programs and services reach all who need them and that USDA can attract and retain a diverse and talented team to serve all of its customers. Building on the strong progress of recent years, USDA's strategy will reflect an unwavering commitment to providing fair and equitable service while treating every customer and employee with dignity and respect.

Discovery

The success of U.S. agriculture in the 21st century depends on continuing the proud record of cutting-edge research on which modern agriculture is built. The many discoveries that increased agricultural production and quality in the 20th century are likely to be surpassed by new and more dramatic discoveries in the years to come. Biotechnology can help the world meet the challenge of global food security, holding the promise of foods that promote health and combat disease. The search for economically feasible and renewable fuel sources will create markets for agricultural products and reduce America's dependence on foreign oil. While these advances are underway, the possibilities remain vast for new discoveries not yet dreamed of that will open up promising avenues for agriculture and human health. Our goals and strategies reflect USDA's strong commitment to pushing the frontiers of scientific knowledge to solve today's problems and tap into tomorrow's opportunities.

Financial Highlights

The Department has prepared its financial statements in accordance with generally accepted accounting principles, and the form and content requirements contained in the Office of Management and Budget (OMB) Bulletin No. 97-01 as amended and sections of OMB Bulletin No. 01-09, as applicable.

Budgetary Resources and Outlays

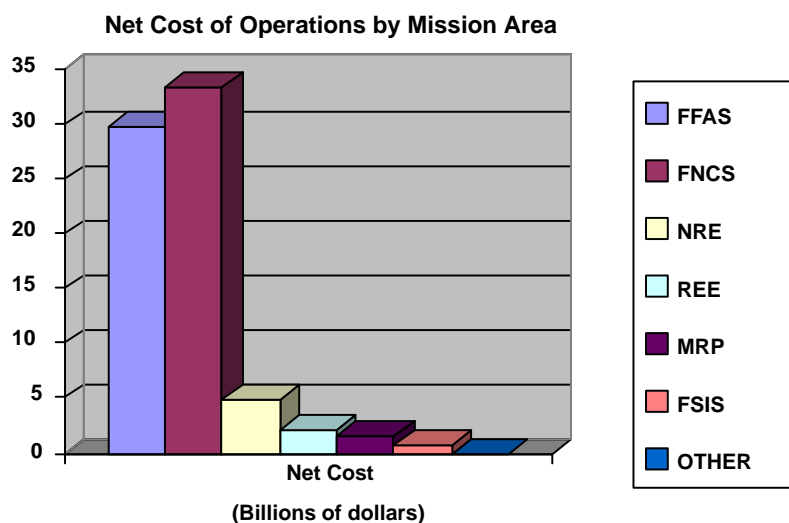
Appropriations, combined with other budgetary resources made available and adjustments, totaled \$137.2 billion in FY 2001, while total outlays were \$76.5 billion.

Assets and Liabilities

USDA's total assets and liabilities as of September 30, 2001 were \$127.8 billion and \$117.5 billion, respectively. Credit Program Receivables, including Related Foreclosed Property and Fund Balance with Treasury, \$74.3 billion and \$41 billion, respectively, are 90% of total assets. The majority of liabilities consisted of Debt and Resources Payable to Treasury, \$80.1 billion and \$19.7 billion, respectively.

Net Cost of Operations

USDA's net cost of operations for FY 2001 was \$74.9 billion. The net cost of operations for the FFAS and FNCS mission areas, \$29.9 billion and \$33.4 billion, respectively, are 84% of USDA's net cost of operations.



Debt Collection

USDA is the Federal government's single largest provider of direct credit. USDA's \$103 billion in receivables as of September 30, 2001, represents 36 % of the non-tax debt owed to the Federal

government. USDA has long used many available tools to collect delinquent debt. USDA has reduced delinquent receivables by about 29 % to a current \$6.2 billion from \$8.7 billion in 1996. This amount equates to a delinquency rate of about 6 %, compared to the Government-wide average of about 19 %. Of this \$6.2 billion, only 25 % or \$1.6 billion is eligible for collection through Debt Collection Improvement Act tools. The remainder, about \$4.6 billion is precluded from these tools due to statutory or administrative requirements, such as bankruptcy, litigation, or debt owed by foreign and sovereign entities (of the \$4.6 billion, \$3.4 billion is foreign debt).

During FY 2001, USDA agencies collected \$583 million using internal tools, which represents 9.4 % of delinquent debt. Another \$287 million was collected using the Treasury Administrative Offset Program and other Debt Collection Improvement Act tools, which represents 4.6 % of delinquent debt. Annual USDA collections of delinquent debt using Debt Collection Improvement Act tools have more than quadrupled since 1996.

Limitation on Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Management Controls

Federal Managers' Financial Integrity Act (FMFIA)

The USDA has reported 32 outstanding material deficiencies for FY 2001. Twenty-eight of these deficiencies relate to material weaknesses in internal controls and four relate to financial management system nonconformances. While six new material weaknesses were identified during FY 2001, the USDA completed action on 10 material weaknesses identified in the prior year's Federal Managers' Financial Integrity Act Report (FMFIA). There were no completed or newly identified nonconformances reported for FY 2001.

Although material weaknesses have been identified within our programs and operations, USDA, as a whole, is reporting reasonable assurance that its systems of internal control comply with the objectives of Section 2 of FMFIA. Some of the most significant issues reported in the FY 2001 FMFIA report include:

- Administration of the Food Stamp Program by State agencies

This weakness has resulted in the loss of program dollars due to the over/under issuance of program benefits. During FY 2001, the Department conducted targeted interventions in six States and provided technical assistance to the State agencies. In addition, resources were allocated to special error rate reduction and State exchange funds. In our efforts to correct the

food stamp weakness, USDA plans to continue focused interventions in high risk States as well as design and implement a Payment Accuracy Intranet web page during FY 2002.

- Lack of effective internal controls to validate the quality of performance information

For FY 2002, specific USDA agencies have been tasked to implement a new set of performance measures.

- Information security issues

The Department has not been fully successful in protecting its assets from fraud, misuse, disclosure, and disruption. Additional personnel were hired during FY 2001 to provide expertise and experience to implement our cybersecurity plan. In addition, the Department finalized and issued security policies on incident reporting, security planning, security requirements for the use of private Internet access providers, server and firewall security, and privacy policy on the use of customer information. Corrective actions have been planned that include the establishment of the Information Survivability Program and the Sensitive Systems Certification Program by FY 2003.

USDA is unable to provide assurance that financial systems conform with the prescribed standards of Section 4 of FMFIA. While there has been significant and steady progress, USDA's Foundation Financial Information System was not fully implemented by fiscal year-end. Full compliance with the provisions of Section 4 is expected when the system's implementation is substantially completed by the end of FY 2002.

Federal Financial Management Improvement Act (FFMIA)

The FFMIA requires that agencies implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. government standard general ledger at the transaction level. If an agency is not in compliance with the FFMIA, a remediation plan to bring the agency's financial management systems into substantial compliance is required.

As of September 30, 2001, the USDA's financial management systems, as a whole, do not comply substantially with the Federal financial management systems requirements. Remediation plans to bring agency's financial management systems into substantial compliance have been developed and are monitored by the Department's Office of Inspector General.



Principal Statements

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**U.S. Department Of Agriculture
Consolidated Balance Sheet****As of September 30, 2001***(in millions)***Assets** (Note 2)

Intragovernmental

Fund Balance with Treasury (Note 3)	\$ 40,991
Investments (Note 5)	30
Accounts Receivable, Net (Note 6)	417
Other Assets (Note 7)	<u>47</u>

Total Intragovernmental 41,485

Investments (Note 5)	144
Accounts Receivable, Net (Note 6)	2,317
Credit Program Rec. & Related Foreclosed Property, Net (Note 8)	74,346
Domestic Commodity Loans, Net (Note 8)	1,693
Other Foreign Receivables, Net (Note 8)	361
Cash and Other Monetary Assets (Note 4)	458
Inventory and Related Property, Net (Note 9)	920
General Property, Plant, and Equipment, Net (Note 10)	5,667
Other Assets (Note 7)	<u>360</u>

Total Assets \$ 127,751

U.S. Department Of Agriculture
Consolidated Balance Sheet
As of September 30, 2001
(in millions)

Liabilities (Note 13A)

Intragovernmental	
Accounts Payable	\$ 1,290
Debt (Note 11)	80,090
Resources Payable to Treasury (Note 1)	19,673
Accrued Federal Employees Compensation Act Bills (Note 1)	159
Other Liabilities (Note 13B)	<u>1,457</u>
Total Intragovernmental	102,669
Accounts Payable	3,445
Debt (Note 11)	87
Estimated Losses on Loan and Foreign Credit Guarantees (Note 8)	1,108
Environmental & Disposal Liabilities (Note 12)	
Federal Employees Compensation Act Liability (Note 1)	902
Annual Leave	557
Other Liabilities (Note 13B)	<u>8,722</u>
Total Liabilities	<u>117,490</u>
Commitments and Contingencies (Note 16)	
Net Position	
Unexpended Appropriations (Note 15)	31,638
Cumulative Results of Operations	<u>(21,377)</u>
Total Net Position	<u>10,261</u>
Total Liabilities and Net Position	<u>\$127,751</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, 2001
(in millions)

Program Costs (Note 17A, 17C)	
Intragovernmental	\$ 7,907
With the Public	
Grants and Transfers	
Grants and Payments	55,132
Indemnities	3,507
Loan Subsidy Costs	1,031
Commodity Inventory Costs	3,888
Other Program Costs	<u>15,504</u>
Total Program Production Costs	86,969
Less Earned Revenues (Note 17B)	<u>12,339</u>
Excess Production Costs Over Revenues	74,630
Non-Production Costs	
Acquisition Cost of Stewardship Land	219
Other Nonproduction Costs	<u>27</u>
Net Program Costs	<u>74,876</u>
Costs Not Assigned to Program	49
Net Cost of Operations	<u>\$ 74,925</u>

Deferred Maintenance (See Required Supplementary Information)
The accompanying notes are an integral part of these statements.

U.S. Department Of Agriculture
Consolidated Statement Of Changes In Net Position
For the year ended September 30, 2001
(in millions)

Net Cost of Operations (Note 17A, 17C)	\$ 74,925
Financing Sources (Other Than Exchange Revenues)	
Appropriations Used	76,109
Taxes (and Other Non-Exchange Revenues)	11
Donations (Non-Exchange Revenue)	9
Imputed Financing	1,266
Transfers-In	16
Transfers-Out	(1,003)
Other Financing Sources	<u>(708)</u>
Net Results of Operations	775
Net Results Not Affecting Net Position	(2,229)
Prior Period Adjustments (Note 18)	<u>1,358</u>
Net Change in Cumulative Results of Operations	(96)
Increase (Decrease) in Unexpended Appropriations	<u>1,844</u>
Change in Net Position	1,748
Net Position-Beginning of Period	<u>8,513</u>
Net Position-End of Period (Note 18)	<u>\$ 10,261</u>

The accompanying notes are an integral part of these statements.

U.S. Department Of Agriculture
Combined Statement Of Budgetary Resources
For the year ended September 30, 2001
(in millions)

Budgetary Resources

Budget Authority	\$ 128,652
Unobligated Balances – Beginning of Period	36,815
Spending Authority From Offsetting Collections	29,434
Adjustments (Note 19)	<u>(57,675)</u>
Total Budgetary Resources	<u><u>137,226</u></u>

Status of Budgetary Resources

Obligations Incurred	110,932
Unobligated Balances – Available	8,650
Unobligated Balances – Not Available	<u>17,644</u>
Total Status of Budgetary Resources	<u><u>137,226</u></u>

Outlays

Obligations Incurred	110,932
Less: Actual Spending Authority From Offsetting Collections and Actual Adjustments	31,622
Obligated Balance, Net – Beginning of Period	28,322
Less: Obligated Balance, Net – End of Period	<u>31,102</u>
Total Outlays	<u><u>\$ 76,530</u></u>

The accompanying notes are an integral part of these statements.

**U.S. Department Of Agriculture
Combined Statement Of Financing
For the year ended September 30, 2001**
(in millions)

Resources Used to Finance Operations

Budgetary	
Budgetary Resources Obligated for Items To Be Received or Provided to Others	\$ 110,932
Less: Offsetting Collections, Recoveries of Prior-Year Authority, and Changes in Unfilled Customer Orders	<u>31,493</u>
Net Budgetary Resources Used to Finance Operations	79,439
Non-Budgetary	
Property Received from Others Without Reimbursement	169
Less: Property Given to Others Without Reimbursement	305
Costs Incurred by Others Without Reimbursement	1,266
Other Non-Budgetary Resources (Note 20)	<u>(1,500)</u>
Net Non-Budgetary Resources Used to Finance Operations	<u>(370)</u>
Total Resources Used to Finance Operations	<u>79,069</u>
Resources Used to Fund Items Not Part of the Net Cost of Operations	
Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received	3,888
Budgetary Offsetting Collections Not increasing Earned Revenue or Decreasing Expense	(9,577)
Less: Adjustment Made to Compute Net Budgetary Resources Not Affecting Net Cost Operations	(4,516)
Resources Funding Expenses Recognized in Prior Periods	2,468
Resources Financing the Acquisition of Assets or Liquidation of Liabilities	8,985
Other Resources Used to Fund items Not Part of the Net Cost (Note 20)	<u>(9)</u>
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	<u>10,271</u>
Resources Used to Finance the Net Cost of Operations	68,798
Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	
Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost Over Time	3,020
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods	3,573
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period (Note 20)	<u>(466)</u>
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	<u>6,127</u>
Net Cost of Operations	<u>\$ 74,925</u>

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Notes to the Principal Statements

Notes To Principal Financial Statements As Of September 30, 2001

Note 1. Significant Accounting Policies

Reporting Entity

The Department is comprised of various agencies, corporations, and offices through which it implements its programs. All USDA entities are referred to as agencies in the financial statements unless otherwise noted. As of the end of the fiscal year FY 2001, USDA employed over 97 thousand full-time employees.

The USDA mission areas, agencies, and corporations are as follows:

- Farm and Foreign Agricultural Services (FFAS) mission area
 - ♦ Farm Service Agency (FSA)
 - ♦ Commodity Credit Corporation (CCC)
 - ♦ Foreign Agricultural Service (FAS)
 - ♦ Risk Management Agency (RMA)
 - ♦ Federal Crop Insurance Corporation (FCIC)
- Food, Nutrition, and Consumer Services (FNCS) mission area
 - ♦ Center for Nutrition Policy and Promotion (CNPP)
 - ♦ Food and Nutrition Service (FNS)
- Food Safety mission area
 - ♦ Food Safety and Inspection Service (FSIS)
- Marketing and Regulatory Programs (MRP) mission area
 - ♦ Agricultural Marketing Service (AMS)
 - ♦ Animal and Plant Health Inspection Service (APHIS)
 - ♦ Grain Inspection, Packers and Stockyards Administration (GIPSA)
- Natural Resources and Environment (NRE) mission area
 - ♦ Forest Service (FS)
 - ♦ Natural Resources Conservation Service (NRCS)
- Research, Education, and Economics (REE) mission area
 - ♦ Agricultural Research Service (ARS)
 - ♦ Cooperative State Research, Education, and Extension Service (CSREES)

- ♦ Economic Research Service (ERS)
- ♦ National Agricultural Statistics Service (NASS)
- Rural Development (RD) mission area
 - ♦ Rural Business – Cooperative Service (RBS)
 - ♦ Rural Housing Service (RHS)
 - ♦ Rural Utilities Service (RUS)
 - ♦ Rural Telephone Bank (RTB)
- Other
 - ♦ Assistant Secretary for Congressional Relations
 - ♦ Assistant Secretary for Administration
 - ♦ Executive Operations
 - ♦ Chief Information Officer
 - ♦ Chief Financial Officer
 - ♦ Inspector General
 - ♦ Director of Communications
 - ♦ General Counsel

Basis of Presentation

USDA consolidated and combined financial statements include data for all agencies previously described under the Reporting Entity section. Consolidated statements are presented net of material activity between USDA entities.

The Statements of Budgetary Resources and Financing are prepared on a combined basis because budgetary elimination entries are not reflected for intra-USDA transactions.

The statements have been prepared to report the financial position and results of operations of USDA, as required by the Chief Financial Officers (CFO) Act of 1990. They have been prepared from the books and records of USDA agencies in accordance with the form and content of entity financial statements specified by the Office of Management and Budget (OMB) and modified by USDA's accounting policies, which are summarized in these notes. As a result of preparing the financial statements in accordance with the prescribed form and content, they differ from the reports that are used to monitor and control USDA's use of budgetary resources.

Basis of Accounting

The financial statements have been prepared pursuant to the requirements of the CFO Act of 1990, and in accordance with a comprehensive basis of accounting that USDA financial managers have concluded is most appropriate for presenting significant assets, liabilities, net position, and results of operations. USDA's hierarchy of accounting policies is as follows:

1. Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus American Institute of Certified Public Accountants (AICPA), and Financial Accounting Standards Board (FASB) pronouncements specific to federal entities;

2. ASAB Technical Bulletins, and AICPA Industry Audit and Accounting Guides, and Statements of Position specific to federal entities;
3. Accounting and Auditing Policy Committee (AAPC) Technical Releases, and AICPA Practice Bulletins specific to federal entities;
4. FASAB Implementation Guides, and widely recognized and prevalent practices in the federal government; and
5. Other accounting literature (includes FASAB Concept Statements).

The accounting structure of federal government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls.

Accrued Interest Payable

Accrued interest payable is primarily the interest due on borrowings from the Treasury and the Federal Financing Bank (FFB) at fiscal year-end, and is included with accounts payable in the financial statements. USDA is required to make periodic interest payments to Treasury based on its debt to the Treasury.

Appropriations

USDA receives the majority of the funding needed to support its programs through appropriations. Appropriations are provided on an annual, multi-year, and no-year basis and are used to fund programs and other operating expenses. Such expenses include personnel compensation and fringe benefits, rents, communications, utilities, and other administrative expenses. Appropriations are also used to fund capital investments. Additional funds are obtained through reimbursements for goods and services provided to other government and non-government entities.

Direct Loans and Loan Guarantees

In accordance with the Credit Reform Act of 1990, USDA records most direct loans and loan guarantees committed after September 30, 1991, based on the present value of net cash flows estimated over the life of the loan or guarantee. Direct loans made prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the outstanding principal reduced by an allowance for uncollectible amounts when it is more likely than not that the loans will not be collected in full). Liabilities related to loan guarantees committed prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the amount the agency estimates will more likely than not require a future cash outflow to pay default claims).

USDA's commodity loans are exempt from the Credit Reform Act. These loans differ from commercial (foreign) credit and credit guarantees because of the repayment terms. In the case of non-recourse commodity loans, producers have the option of either repaying the principal plus interest or, at maturity, forfeiting the collateral (commodity) in full satisfaction of the loan.

Interest income on loans is accrued at the contractual rate on the outstanding principal amount. Interest is not accrued on delinquent loans. Interest on delinquent loans is usually restored to loans

receivable, with an offsetting credit to the allowance for loan losses, when borrowers enter troubled debt restructuring arrangements. Interest income recognition subsequent to the restructuring is generally limited to actual cash interest received from these borrowers. Various departmental lending programs provide for interest rates significantly less than the Treasury average interest rate.

In some instances, interest is not accrued on commodity loans because the amount and timing of interest payments to be received are uncertain. In these cases, the Department realizes interest income at the time interest payments are received.

Other sources of financing include long-term and interim borrowings from the Treasury, the FFB, and private lending agencies. Borrowings payable to the Treasury result from the Secretary of Agriculture's authority to make and issue notes for the purpose of discharging obligations for RD's insurance funds and CCC's unreimbursed realized losses and debt related to the foreign assistance programs.

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 8 provides additional information concerning direct loans and loan guarantee programs.

Exchange and Nonexchange Revenue

In accordance with federal government accounting guidance, USDA classifies revenue as either "exchange revenue" or "nonexchange revenue". Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. In most cases, USDA agencies are required to remit exchange revenue receipts to the U. S. Department of the Treasury (Treasury). Some agencies are authorized to use a portion of their exchange revenues for specific purposes. Nonexchange revenue is revenue the federal government is able to demand or receive due to its sovereign powers.

Full Cost

In accordance with federal government accounting guidance, USDA measures, and reports the full costs of products and services generated from the consumption of resources. Full cost is the total amount of resources used to produce a product or provide a service unless otherwise noted. For FY 2001, Treasury Judgment Fund costs not associated with a particular mission area (responsibility segment) are presented in an adjustment column on the Statement of Net Cost.

Imputed Pension and Other Retirement Benefits

In accordance with federal government accounting guidance, USDA recognizes the liability and associated expense for employee pensions and other retirement benefits (including health care and other post-employment benefits) at the time the employee's services are rendered.

Pension expense, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions made by, and for covered employees. Other post-employment benefit expenses and related liabilities are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

Insurance Premium Revenue

Insurance premium revenue (including premium subsidies) relate to a crop's risk of loss incurred by FCIC. It is recognized and earned on a pro rate basis over each crop's growing season. The portion of premium (unearned premium) and premium subsidy not recognized during a fiscal year is classified as nonfederal unearned revenue and federal unearned revenue, respectively.

Liabilities for claims payable and related claims adjustment expenses are established using estimates based on historical experience adjusted for changes in crop growing conditions. As a result, the ultimate liabilities may differ significantly from the recorded estimates.

Liabilities

Liabilities represent the amount of monies or other resources that is likely to be paid by USDA as the result of a transaction or event that has already occurred; however, no liability can be paid by USDA, absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities and there is no certainty that the appropriations will be enacted.

Related Party Transactions

CCC's domestic programs are carried out primarily through FSA personnel. CCC issues checks for many FSA programs, which are funded through allocation transfers from FSA. During fiscal year 2001, FSA transferred to CCC \$193 million to cover payments made by CCC.

The Corporation also provides and uses the services of other USDA agencies to carry out its authorities and responsibilities. AMS and FNS fund the purchase of some commodities. As of September 30, 2001, the related deposit and trust liability for AMS and FNS was \$698 million.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal year ended September 30, 2001 was \$55 million.

Under Credit Reform, CCC transferred \$4 million to FAS and an additional \$2 million to FSA during fiscal year 2001, for salaries and expenses of the foreign programs.

During fiscal year 2001, outlays under reimbursable agreements with other USDA agencies amounted to \$19 million. Interagency accruals, reflecting amounts due and payable as of September 30, 2001, on reimbursable agreements amounted to \$3 million.

During the fiscal year ended September 30, 2001, the Corporation transferred \$335 million to APHIS for the eradication of animal and plant diseases.

CCC paid RMA and NRCS \$1 million each for technical assistance relating to the Agricultural Management Assistance Program. In addition, CCC paid \$30 million to NRCS for technical assistance for the Conservation Reserve Program (CRP), \$38 million for technical assistance for the Environmental Quality Incentives Program (EQIP), \$1 million for the Farmland Protection Program (FPP), \$14 million for the Wetlands Reserve Program (WRP), and \$4 million for the Soil and Water Conservation Assistance Program.

Also, CCC transferred \$13 million to NRCS for the Wildlife Habitat Incentives Program (WHIP).

Resources Payable to Treasury

Resources Payable to Treasury represents the net resources of pre-Credit Reform programs, payments due to Treasury for excess funds not being transferred to working capital, and payments of

residual timber and grassland revenue after making required transfers to states and counties. The liability related to pre-Credit Reform programs' net resources is increased (or decreased) by net gains (or losses) incurred in these funds.

Retirement Benefits

USDA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

USDA makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

Under the FERS plan, USDA contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 11 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of six percent of their gross earnings and receive no matching contribution from USDA. Contributions limits will increase by one percentage point each year through calendar year 2005, to a maximum of \$15,000.

The Office of Personnel Management is responsible for reporting the assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government wide, including USDA employees.

Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Consequently, the Department recognizes a liability for this compensation that is comprised of two components: (1) an accrued liability which represents money owed for claims paid through the current fiscal year and (2) an actuarial liability which represents the expected liability for approved compensation cases beyond the current fiscal year. Claims incurred for benefits for the Department's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Department of Agriculture.

Note 2. Non Entity Assets

(U.S. dollars in millions)

Intragovernmental	
Fund Balance with Treasury	203
Accounts Receivable	86
Other	<u>55</u>
Total Intragovernmental	344
Cash and Other Monetary Assets	62
Accounts Receivables	70
Other	<u>1</u>
Total Non Entity	477
Total Entity Assets	<u>127,274</u>
Total Assets	<u>127,751</u>

CCC has non entity assets of \$96 million, which represents the general fund receipt account receivables for downward re-estimates for the P.L. 480 programs. These receivables are offset (i.e., eliminated) by liabilities covered by budgetary resources, and thus, do not appear on the Balance Sheet.

The portion of USDA's assets that are not available for use in its operations is summarized below:

Note 3. Fund Balance with Treasury

(U.S. dollars in millions)

	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds	Total
Obligated	13,019	4,120	214	150	17,503
Unobligated – Available	6,013	2,265	175	78	8,531
Unobligated – Expired Authority	14,630	(15)	50	19	14,684
Unobligated – Restricted	<u>188</u>	<u>161</u>	<u> </u>	<u>(76)</u>	<u>273</u>
Total	<u>33,850</u>	<u>6,531</u>	<u>439</u>	<u>171</u>	<u>40,991</u>

USDA, does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Department of Treasury. Fund Balance with Treasury represents the appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments. Unobligated balances that are available may be used for new obligations.

Note 4. Cash and Other Monetary Assets

(U.S. dollars in millions)

Cash	436
Other Monetary Assets	
Miscellaneous	<u>22</u>
Total Cash and Other Monetary Assets	<u>458</u>

RHS collects escrow payments (i.e., insurance and taxes) from Single Family Housing borrowers. Existing Borrowers, which were delinquent and require servicing actions, must also submit these escrow payments. The escrow payments are deposited with the Trustee, Firststar Bank, who as Trustee is required to invest these funds and disburse them as stipulated in the Trust Agreement. The balance in this account as of September 30, 2001, was \$62 millions.

CCC reported collections in transit at September 30, 2001, of \$379 million. Treasury reporting requirements for the Federal Agencies Centralized Trial Balance System II (FACTS II), for the preparation of Treasury and OMB year end reports, requires that the Fund Balance With Treasury amount reported via FACTS II be in agreement with what is reflected in Treasury's records. To adhere to these requirements, it is necessary to report cash timing differences as "in-transit". This balance consists of these cash-in-transit timing differences as a result of varying processing times and cut-off dates.

Note 5. Investments

(U.S. dollars in millions)

	Cost	Amortization Method	Unamortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Marketable	<u>28</u>	N/A	<u>2</u>	<u>30</u>	<u>30</u>
Other Securities					
Certificates of Deposit	129			129	129
Miscellaneous	15			15	15
Subtotal	<u>144</u>			<u>144</u>	<u>144</u>
Total	<u>172</u>		<u>2</u>	<u>174</u>	<u>174</u>

The Native American Institution Endowment authorized by Public Law 103-382, established an endowment fund for the 1994 land-grant institutions. CSREES is authorized to invest the funds of the Native American Institution Endowment in interest-bearing obligations of the United States.

AMS has the authority to invest in interest-bearing instruments. AMS invests its cash in excess of its short-term and mid-term needs, in the fully-collateralized Certificates of Deposit, in a variety of banks with maturities and rates negotiated daily.

Note 6. Accounts Receivable

(U.S. dollars in millions)

	<i>Allowance for Uncollectible Accounts</i>				Net Accounts Receivable
	Gross Accounts Receivable	Beginning Balance	Additions (Reductions)	Ending Balance	
<i>Accounts Receivable</i>					
<i>Intragovernmental</i>					
A/R Revenue, Refund, Reimbursements	440				440
Collections in Transit	27				27
Treasury & Other Federal Agencies	73				73
General Funds (FAS Use Only)	2				2
Others	5				5
Eliminations	<u>(130)</u>				<u>(130)</u>
Subtotal	417				417
<i>With the Public</i>					
A/R Revenue, Refund, Reimbursements	743	34	45	79	664
Claims Receivable	375	3	(1)	2	373
Interest Receivable	214	67	(8)	59	155
Producer Overpayments & Other Claims	24	35	(14)	21	3
Reinsured Companies	1,033	4		4	1,029
Producers		1	(1)		
General Funds (OICD Use Only)	3				3
Miscellaneous	30	1		1	29
Other (CCC Use Only)	<u>160</u>	<u>60</u>	<u>39</u>	<u>99</u>	<u>61</u>
Subtotal	<u>2,582</u>	<u>204</u>	<u>61</u>	<u>265</u>	<u>2,317</u>
Total Accounts Receivable	<u>2,999</u>	<u>204</u>	<u>61</u>	<u>265</u>	<u>2,734</u>

Accounts receivable are monies due from individuals, nonfederal parties, and other federal entities, adjusted by an allowance for uncollectible amounts. The receivables result from reimbursable, revenue, and refund activities. Receivables related to direct or guaranteed loans are reported separately on the Balance Sheet and details are reported in Note 8.

Nonfederal receivables are adjusted by a valuation allowance, based on historical collection and write-off information, which reduces the receivables to their net realizable value.

Note 7. Other Assets

(U.S. dollars in millions)

Other Assets	
Intragovernmental	
Internal USDA Agency Advances	596
Advances and Prepayments	125
NFC OPAC Suspense	56
Eliminations	<u>(730)</u>
Total	<u>47</u>
With the Public	
Investment and Loan Sale Asset Trust	35
Advances and Prepayments	323
Other	<u>2</u>
Total	<u>360</u>

Other Assets as of September 30, 2001, include advances to other Federal agencies as well as advances to individuals and other nonfederal parties.

Note 8. Credit Program Receivables and Related Foreclosed Property

Direct loan obligation or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or loan guarantees are reported at net present value or net realizable value.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act. 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.

Direct Loan and Loan Guarantee Program Descriptions

Farm and Foreign Agricultural Service

The Farm and Foreign Agricultural Services (FFAS) mission area, comprised of the Farm Service Agency, the Foreign Agricultural Service, and the Risk Management Agency, helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. They deliver commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength 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. In cooperation

with the private sector, this mission area offers broad-based crop insurance programs and other risk management tools. The FFAS credit program receivables are administered by Farm Service Agency (FSA) and the Commodity Credit Corporation (CCC).

FSA Farm Loan Programs

FSA offers direct and guaranteed farm ownership and operating loans to farmers who are temporarily unable to obtain private, commercial credit. Often, FSA borrowers are beginning farmers who can't qualify for conventional loans because they have insufficient financial resources. The Agency also helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited to maintain profitable farming operations.

Under the guaranteed loan program, FSA guarantees loans made by conventional agricultural lenders for up to 95 percent of the principal loan amount. The lender is responsible for servicing the borrower's account for the life of the loan. All loans must meet certain qualifying criteria to be eligible for guarantees, and FSA has the right and responsibility to monitor the lender's servicing activities. Farmers interested in guaranteed loans must apply to a conventional lender, which then arranges for the FSA guarantee.

Applicants unable to qualify for a guaranteed loan may be eligible for a direct loan from FSA. Direct loans are made and serviced by FSA officials, who also provide borrowers with supervision and credit counseling. Funding for direct loans is limited, and applicants sometimes have to wait for funds to become available. To qualify for a direct farm ownership or operating loan, the applicant must be able to show sufficient repayment ability and pledge enough collateral to fully secure the loan.

Direct Farm Ownership Loans

Direct Farm Ownership loans can be used to purchase farmland (including inventory property), construct or repair buildings and other fixtures, and promote soil and water conservation.

The maximum loan amount is \$200,000. The maximum repayment term is 40 years.

Applicants may choose to participate in a joint financing plan. In this program, FSA lends up to 50 percent of the amount financed, and another lender provides the balance. FSA may charge an interest rate of not less than 4%.

Direct Farm Operating Loans

Direct Farm Operating loans may be used to purchase items needed for a successful farm operation, such as livestock, farm equipment, feed, seed, fuel, farm chemicals, insurance, and other operating expenses. Also, operating loans can be used for minor improvements to buildings, costs associated with land and water development, family subsistence, and to refinance debts under certain conditions.

The maximum loan amount for is \$200,000. The repayment term may vary, but typically, it will not exceed 7 years for intermediate-term purposes. Annual operating loans are generally repaid within 12 months or when the commodities produced are sold.

Direct Emergency Loans

Emergency loans help cover production and physical losses in counties declared as disaster areas by the President, designated by the Secretary of Agriculture, or named (for physical losses only) by the FSA Administrator.

The producer must be an established farmer who suffered a qualifying physical loss, or a production loss of at least 30 percent in any essential farm or ranch enterprise.

The emergency loan limit is up to 80% of actual production loss or 100% of the actual physical loss, with a maximum indebtedness of \$500,000.

Applications for emergency loans must be received within 8 months of the disaster designation date.

Direct Indian Land Acquisition

These loans are limited to the acquisition of the land within the defined boundaries of a tribe's reservation. This program allows Native Americans to repurchase tribal lands and maintain ownership for future generations.

The tribe must be unable to obtain sufficient credit elsewhere at reasonable rates and terms and must be able to show reasonable prospects of repaying the loan as determined by an acceptable repayment plan. The maximum loan term is to 40 years.

Direct Boll Weevil Eradication

All applicants must be nonprofit entities, authorized to operate under the appropriate State law and for the specific purpose of eradicating boll weevils from the nation's agricultural community. Applicants must be determined eligible if the organization: Meets the Animal and Plant Health Inspection Service (APHIS) cost-sharing requirements; possesses a legal nonprofit corporate authority; possesses the legal authority to enter into a contract; operates in an area approved by a majority of cotton producers via referendum; is unable to obtain funds elsewhere; and may pledge producer assets as loan collateral.

Direct Seed Loans to Producers

Seed Producers Program was designed to make no-interest loans to producers of the 1999 crop of grass, forage, vegetable, and sorghum seed who have not received payments from AgriBiotech, one of the largest turf, forage, and alfalfa seed companies in the U.S., as a result of bankruptcy proceedings. This program was authorized by the Agricultural Risk Protection Act of 2000. Eligible producers can receive up to 65 percent of the value of the proof of claim against AgriBiotech, minus any proceeds received for seed sold (that was included in the original claim) since the claim was filed. Emergency loans for seed producers are interest free for 18 months or until the final distribution of the bankruptcy, whichever comes first. After that time, the principal remaining will be amortized at the interest rate for an FSA operating loan over an additional 7 years, for a maximum term of 8.5 years. FSA will take an assignment of the borrower's monetary claim in the bankruptcy to secure the loan. A first lien is also taken on seed remaining in the applicant's possession that was produced in 1999 under contract to AgriBiotech.

Loan Servicing Credit Policies

The Farm Service Agency's mission is not limited to providing just credit — it is to provide supervised credit. This means that 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. Effective supervised credit is the difference between success and failure for many farm families.

To help keep borrowers on the farm, FSA may be able to provide certain loan servicing

benefits to borrowers whose accounts are distressed or delinquent due to circumstances beyond their control. These benefits include:

- Reamortization, restructuring, and/or deferral of loans;
- Rescheduling at the Limited Resource (lower interest) rate;
- Acceptance of conservation easements on environmentally sensitive land in exchange for reduction of debt;
- Writing down the debt to its current market value (delinquent borrowers only).
- If none of these options results in a feasible farming operation, borrowers may be offered the opportunity to purchase their debt at its current market value. If this is not possible, FSA can consider debt settlement based on the producer's inability to repay. In some cases, where a successful operation cannot be developed, FSA works with the borrower to help him or her retain the homestead and up to 10 acres of land.

Farms that come into FSA ownership are sold at market value, with a preference to beginning farmers and ranchers.

The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit. Once a farmer is able to obtain credit from the commercial lending sector, the Agency's mission of providing temporary, supervised credit is complete.

Guaranteed Farm Operating: Unsubsidized & Subsidized

Operating Loans (OL) may be used to purchase items needed for a successful farm operation. These items include livestock, farm equipment, feed, seed, fuel, farm chemicals, repairs, insurance, and other operating expenses. Also, Operating Loans can be used to pay for minor improvements to buildings, costs associated with land and water development, family living expenses, and to refinance debts under certain conditions.

FSA can guarantee OL loans up to \$759,000 (amount adjusted annually based on inflation).

The Guaranteed loan interest rate and payment terms are negotiated between the lender and the borrower. Interest rates on these loans may not exceed the rate charged the lender's average farm customer.

The repayment term may vary, but typically, it will not exceed 7 years for intermediate-term purposes.

Under the Interest Assistance Program, FSA will subsidize 4 percent of the interest rate on loans to qualifying borrowers. Loans that receive interest assistance make up the subsidized program.

Guaranteed Farm Ownership Unsubsidized

Farm Ownership (FO) Loans may be made to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation, or to refinance debt. FSA can guarantee FO loans up to \$759,000 (amount adjusted annually based on inflation). The maximum repayment term is 40 years. The Guaranteed loan interest rate and payment terms are negotiated between the lender and the borrower. Interest rates on these loans may not exceed the rate charged the lender's average farm customer.

Agricultural Resource Conservation Demonstration Program (ARCD)

The purpose is to assist states in financing a farmland protection effort to preserve our vital farmland resources for future generations. This purpose is achieved through guaranteeing of prompt payments and interest assistance on loans used to purchase development rights' easements and other types of easements on farmland, the purchase of farmland in fee simple, and related activities.

Bureau of Reclamation Loan Fund (BRLF)

BRLF was authorized by Section 1 of the 1977 Drought Emergency Act, to make loans to irrigators for the purpose of undertaking construction, management, conservation activities, or the acquisition and transportation of water, which can be expected to have an effect in mitigating losses and damages resulting from the 1976–1977 drought period.

Commodity Credit Corporation Foreign Programs

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.

Guaranteed Sales Manager (GSM) Credit Programs

CCC's export credit guarantee programs encourage exports of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees. The Corporation underwrites credit extended by the private banking sector in the United States (or, less commonly, by the exporter) under the GSM–102 (credit terms up to three years) and GSM–103 (credit terms up to ten years) programs. Under these programs, CCC does not provide financing, but guarantees payments due from foreign banks. Typically, 98 percent of principal and a portion of interest at an adjustable rate are covered. All guarantees under these programs are denominated in U.S. Dollars.

Supplier Credit Program

Under the Supplier Credit Guarantee Program, CCC guarantees a portion of payments due from importers under short-term financing arrangements (up to 180 days) that exporters have extended directly to the importers for the purchase of U.S. agricultural products. All guarantees under this program are denominated in U.S. dollars.

Facility Program

The Facility Program promotes the export of U.S. agricultural commodities or products to emerging markets, and guarantees coverage up to 10 years. All guarantees under this program are denominated in U.S. dollars.

PI–480 Title I Program

CCC provides U.S. agricultural commodities to countries in need of food assistance on favorable credit terms (at low rates of interest for up to 30 years with grace periods of up to 5 years). PI–480 Title I provides for government-to-governments (and some government to private entity) sales of U.S. agricultural commodities to developing countries on credit terms or for local currencies. Priority goes to countries with greatest need for food that are undertaking economic development to improve food security and agricultural development, alleviate poverty, and promote broad based, equitable and sustainable development. All credits under this program are denominated in U.S. dollars.

The Food for Progress Program provides for a responsive food aid mechanism to encourage and support the expansion of private enterprise in recipient countries and is meant to help countries seeking to implement democratic and market reforms.

Loan Servicing Credit Policies

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. While the Club has no charter or formal operating procedures, it has been operating since 1978 under the leadership of the French Ministry of Economics and Finance. The general premise of the Club's activities is to provide disadvantaged countries 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. Only country-to-country debt is considered. For CCC this includes PL-480 direct credits and claims paid under the GSM programs for which a sovereign entity is liable.

Treasury and State may also negotiate bi-lateral agreements with sovereign debtors for debt not qualifying for treatment by the Paris Club.

In the event that CCC pays a claim under a guarantee program, CCC assumes the debt and treats it as a credit receivable for accounting and collection purposes.

Rural Development

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

Rural Housing Service (RHS)

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. No rural community can thrive without adequate community facilities, so RHS programs also help rural communities finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities. Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RHS.

Home Ownership Direct Loans

Purpose: Home ownership loans are available to purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. For direct loans, RHS can provide up to 100% of the financing to the borrower.

Eligibility: Applicants for home ownership loans must have very low- or low-incomes. Very low-income is defined as below 50% of the area median income and low income is between 50 and

80% of area median income. Applicants must be without adequate housing, but be able to afford mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories.

Servicing options: Payment assistance is available to eligible borrowers to reduce the effective interest rate of the loan to as low as 1%. A borrower's eligibility for payment assistance is based on the amount of their adjusted gross income that is used to pay the principal, interest, taxes, and insurance on their home. Borrowers who have difficulty keeping their accounts current may also be eligible for one or more available servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums for up to 2 years, and reamortization of the loan.

Home Ownership Guaranteed Loans

Purpose: Home ownership guaranteed loans are primarily used to help low-income individuals or households purchase homes in rural areas. Funds can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. The program guarantees loans made by private lenders. The maximum amount of the loan guarantee is 90% of the principal amount of the loan.

Eligibility: Applicants for loans may have an income of up to 115% of the median income for the area in which they reside. Families must be without adequate housing, but be able to afford the mortgage payments, including taxes and insurance. In addition, applicants must be unable to obtain credit elsewhere without a guarantee, yet have reasonable credit histories.

RHS can guarantee loans to approved lenders such as State housing agencies; Housing and Urban Development, U.S. Veterans Administration, Fannie Mae, Freddie Mac, or Farm Credit System approved lenders; and any lender participating in other USDA Rural Development and/or Consolidated Farm Service Agency guaranteed loan programs.

The lender pays a nonrefundable guarantee fee equal to 2% of the loan amount. This fee may be passed on to the borrower.

Servicing options: The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans. Loans guaranteed may be sold to entities which meet the required lender eligibility qualifications.

If the lender concludes the liquidation of a guaranteed loan account is necessary because of default or actions that the borrower cannot or will not cure or eliminate within a reasonable period of time, the lender will notify RHS of the decision to liquidate.

Home Improvement and Repair Direct Loans

Purpose: Home improvement and repair loans are available to very low-income homeowners to repair, improve, or modernize their dwellings or to remove health and safety hazards.

Eligibility: To obtain a loan, homeowner-occupants must be unable to obtain affordable credit elsewhere and must have very low incomes, defined as below 50% of the area median income.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for servicing options that include delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan.

Home Ownership and Home Improvement and Repair Direct Loans – Nonprogram Loans

Purpose: Loans on nonprogram terms may be offered to expedite sale of property in Rural Development's inventory. Loan funds may be used to assume an existing program loan on new rates and terms, convert a program loan that has received unauthorized assistance, or continue a loan on a portion of a security property when the remainder is being transferred and the RHS debt is not paid in full.

Eligibility: Nonprogram terms may be extended in nontypical cases to applicants who do not qualify for program credit, or for properties that do not qualify as program properties when it is in the best interest of the government.

Servicing options: Nonprogram loans are serviced according to the requirements for program loans except that nonprogram borrowers are not eligible for payment assistance or a moratorium.

Rural Housing Site Direct Loans

Purpose: Rural housing site loans are made to assist public or private nonprofit organizations purchase and develop housing sites for low- and moderate-income families. Section 523 rural housing site loans are made to acquire and develop sites only for housing to be constructed by the self-help method. The self-help method enables groups of six to ten low-income families to build their homes by providing materials and skilled labor they cannot furnish themselves. Section 524 rural housing site loans are made to acquire and develop sites for any low- or moderate-income family.

Eligibility: Both Section 523 and 524 rural housing site loans are limited to private or public nonprofit organizations. Section 524 sites may be sold to low or moderate income families utilizing RHS or any other mortgage financing program which serves the same eligible families.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for one or more servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan.

Farm Labor Housing Direct Loans

Purpose: The farm labor housing program is designed to provide decent, safe, and sanitary housing for domestic farm labor in areas where a need for farm labor exists. These loans are used to build, buy, or repair farm labor housing in either dormitory or multi-family apartment style.

Eligibility: Loans are made to farmers, associations of farmers, family farm corporations, Indian Tribes, nonprofit organizations, public agencies, and associations of farm workers. Typically, loan applicants are unable to obtain credit elsewhere.

Servicing options: Borrowers who have difficulty keeping their accounts current may be eligible for one or more servicing options including: delinquency workout agreements that temporarily modify payment terms, payment moratoriums, and reamortization of the loan.

Rental assistance may be provided to eligible tenants with the objective to reduce rents paid by low-income households. RHS pays the owner of a farm labor-housing complex the difference between the tenant's contribution (30% of adjusted income) and the monthly rental rate.

Rural Rental and Rural Cooperative Housing Direct Loans

Purpose: The rural rental and rural cooperative housing program allows individuals or organizations to build or rehabilitate rental units for low- and medium-income people. It also provides rental

assistance for those renters who otherwise would be unable to afford to rent those units. In new housing projects, 95% of tenants must have very low incomes. In existing projects 75% of new tenants must have very low incomes.

Eligibility: Individuals, partnerships, limited partnerships, for-profit corporations, nonprofit organizations, limited equity cooperatives, Native American tribes, and public agencies are eligible to apply for rural rental housing loans. For-profit applicants must agree to operate on a limited-profit basis (currently 8% on initial investment). Applicants must be unable to obtain credit elsewhere that will allow them to charge rents affordable to low- and moderate-income tenants.

The tenants of rural rental housing units include very low-, low-, and moderate-income families; the elderly; and persons with disabilities.

Servicing options: Interest credit is available to borrowers who agree to operate on a limited profit basis. Interest credit reduces the effective interest rate of the loan to as low as 1%.

Rental assistance may be provided to eligible tenants with the objective to reduce rents paid by low-income households. RHS pays the owner of a multi-family housing complex the difference between the tenant's contribution (30% of adjusted income) and the monthly rental rate.

Rental Housing Guaranteed Loans

Purpose: Loan guarantees are provided for the construction, acquisition, or rehabilitation of rural multi-family housing for very low-, low-, or moderate-income households, elderly, or disabled persons. The program guarantees loans that would not otherwise be made by private lenders. The maximum amount of loan guarantee is 90% of the principal amount of the loan.

Eligibility: An applicant for a rental housing guaranteed loan must be a for-profit corporation or a nonprofit organization such as a local government, community development group, or Federally recognized Indian tribe. Applicants must be unable to obtain credit elsewhere without the guarantee.

Eligible lenders are those currently approved and considered eligible by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank members, the Department of Housing and Urban Development, and State Housing Finance Agencies. The lender pays an initial guarantee fee equal to 1% of the guarantee amount, and an annual guarantee fee of 1/2% of the unpaid principal balance.

The tenants of rental housing units include very- low-, low- or moderate-income households, elderly, handicapped, or disabled persons with income not in excess of 115% of the area median income. Maximum rent is 30% of 115% of median income, and average rent of all units is 30% of 100% of the median income adjusted for family size.

Servicing options: For at least 20% of the loans made during each fiscal year, RHS will provide assistance in the form of interest credit, to the extent necessary to reduce the agreed-upon rate of interest to the RHS maximum rate. The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans.

Multi-Family Housing – Nonprogram Terms – Credit Sales

Purpose: These loans are for the sale of inventory property acquired through liquidation of farm labor housing, rural rental and rural cooperative housing, and rural housing site direct loans. Sales efforts will be initiated as soon as property is acquired in order to effect sale at the earliest practicable time. Nonprogram property includes rental units acquired through foreclosure that cannot be used by a borrower to effectively carry out the objectives of the respective loan program.

Eligibility: Nonprogram terms may be extended to applicants who do not qualify for program credit, or for properties that do not qualify as program properties. Preference will be given to program applicants when a property is of a nature that it will enable a qualified applicant for one of the applicable loan programs to meet the objectives of that loan program.

Servicing options: Nonprogram loans are serviced according to the requirements for program loans except nonprogram borrowers are not eligible for interest credit or a moratorium.

Community Facilities Direct Loans

Purpose: Community facility loan funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services such as hospitals, health care clinics, child care facilities, fire stations, or to refinance existing debt for eligible loan purposes in rural areas and towns of up to 20,000 in population.

Eligibility: Applicants for community facility loans must be public entities such as municipalities, counties, and special-purpose districts, or non-profit corporations and tribal governments. Applicants must have the legal authority to borrow. They must also be financially sound and able to organize and manage the facility effectively. There are three levels of interest rates available as determined by the median household income of the area being served and the type of project. The intermediate and market interest rates are adjusted quarterly.

Servicing options: Workout agreements may be implemented for delinquent loans. The total outstanding principal and interest balances may be reamortized rather than only the delinquent amount.

Community Facilities Guaranteed Loans

Purpose: Community facility guaranteed loans may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services such as hospitals, health care clinics, child care facilities, fire stations, or to refinance existing debt for eligible loan purposes in rural areas and towns of up to 20,000 in population. The program guarantees loans made by private financial institutions which would not otherwise be made without a guarantee. The maximum amount of loan guarantee is 90% of the principal amount of the loan.

Eligibility: Applicants for community facility loan guarantees include public entities such as municipalities, counties, special-purpose districts, non-profit corporations, and Federally recognized Indian tribes. Applicants must have the legal authority to borrow and be financially sound and able to organize and manage the facility effectively.

Lenders that are eligible to make community facility guaranteed loans include banks, savings and loans, mortgage companies, banks of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners.

The lender pays a nonrefundable guarantee fee equal to 1% of the loan amount. The fee may be passed on to the borrower.

Servicing options: The lender is responsible for servicing the entire loan in accordance with the lender's agreement.

RHS at a Glance		
Repayment Period and Interest Rates: RHS offers loans at the following rates and terms.		
Program	Repayment Period	Interest Rate
Home Ownership	<ul style="list-style-type: none"> ▫ Maximum 33 years for conventional construction ▫ Maximum 30 years for manufactured homes ▫ Maximum 38 years for those with income below 60% of area median income 	Based on current Treasury rate
Home Ownership Guaranteed	Maximum 30 years	Lender rate
Home Improvement and Repair	Maximum 20 years	1%
Home Ownership and Home Improvement Direct – Nonprogram	Maximum 30 years	1/2 of 1% higher than the full note interest rate available to program applicants
Rural Housing Site Loans	2 years	<ul style="list-style-type: none"> ▫ Section 523 loans fixed at 3% ▫ Section 524 loans based on current Treasury rate
Farm Labor Housing	Maximum of 33 years	1%
Rural Rental/Rural Cooperative Housing	<ul style="list-style-type: none"> ▫ Prior to November 18, 1997, maximum of 50 years ▫ On or after November 18, 1997, 50 year amortization with a 30 year repayment and final balloon payment 	Based on current Treasury rate
Rental Housing Guaranteed	Maximum 40 years	Rates of the loans guaranteed must be fixed, as negotiated between lender and borrower, within the RHS maximum rate. The maximum rate is based on the 30-year Treasury Bond rate on the day prior to date of loan closing.
Multi-Family Housing - Nonprogram – Credit Sales	Maximum of 10 years	Rural Rental Housing interest rate plus 1/2%
Community Facilities	Maximum of 40 years	<ul style="list-style-type: none"> ▫ The poverty rate is set at 4.5%. ▫ The market rate is indexed to the eleventh bond buyers rate as determined by the U. S. Treasury Department. ▫ The intermediate rate is set halfway between the market and the poverty rates. <p>All are on a fixed basis.</p>
Community Facilities Guaranteed	Maximum of 40 years.	The interest rate is the lender's customary interest rate for similar projects. The interest rates for guaranteed loans may be fixed or variable and are determined by the lender and borrower, subject to RHS review and approval.

Rural Business Service (RBS)

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 events of September 11, 2001, adversely impacted the economic structure of urban and rural America. The downturn in air travel, tourism, manufacturing, and service industries will impact rural borrowers considerably. Rural borrowers have always and will continue to be directly impacted by the uncertainty/stability of the economy. Specifics on how the downturn in the economy and the events of September 11, 2001, may impact our borrowers cannot be documented at this point. However, these events may negatively impact the repayment of outstanding loans or the losses paid on loan guarantees.

Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RBS.

Business and Industry Direct Loans

Purpose: Business and industry loans are made to public entities and private parties in rural areas to include all areas other than cities or unincorporated areas of more than 50,000 people and their immediately adjacent urban areas. Loans to private parties can be made to improve, develop, or finance businesses and industries, to create jobs, and improve the economic and environmental climate in rural communities. Loans to public bodies will only be used to finance community facilities that are designed to aid in the development of private businesses and industry, and to construct and equip industrial plants for lease to private businesses.

Eligibility: Eligible applicants include cooperatives, corporations, partnerships, trusts; Indian tribes or Federally recognized tribal groups; public bodies such as cities or counties; or individuals. Loans are available to those who cannot obtain credit elsewhere.

Servicing options: Available options to eligible borrowers include reamortization of the loan, subordination of the Agency lien position, and transfer and assumption of the loan by an eligible borrower.

Business and Industry Guaranteed Loans

Purpose: The purpose of the business and industry guaranteed program is to develop business, industry, and employment and improve the economic and environmental climate in rural communities. This includes all areas other than cities or unincorporated areas of more than 50,000 people and their immediately adjacent urban areas. Funds may be used for business and industrial acquisitions; construction, repair, or modernization; purchase of land or machinery; housing sites; processing and marketing facilities; pollution control; aquaculture; forestry; tourist and recreation facilities, educational or training facilities; and eligible community projects. The program guarantees loans made by private lenders. The percentage of guarantee is a matter of negotiation between the lender and RBS. The maximum percentage of guarantee is 80% for loans of \$5 million or less, 70% for loans between \$5 and \$10 million, and 60% for loans exceeding \$10 million.

Eligibility: Applicants for business and industry guaranteed loans must be engaged in or propose to engage in a business. Applications for assistance are accepted without regard to availability of credit from other sources. Assistance under the business and industry guaranteed loan program is available to virtually any legally organized entity, including a cooperative, corporation, partnership, trust or other profit or nonprofit entity, Federally recognized tribal group, municipality, county, or other political subdivision of a State.

Business and industry loan guarantees can be made by approved lenders in rural areas. The lender pays a nonrefundable guarantee fee equal to 2% of the amount of the guaranteed portion of the loan.

Servicing options: The lender is responsible for the processing, servicing, and liquidation (if necessary) of loans. Loans guaranteed may be sold to entities that meet the required lender eligibility qualifications. If the lender concludes the liquidation of a guaranteed loan account is necessary because of default or actions that the borrower cannot or will not cure or eliminate within a reasonable period of time, the lender will notify RBS of the decision to liquidate.

Intermediary Relending Program Direct Loans

Purpose: The intermediary relending program finances business and community development projects through loans made by RBS to intermediaries. Intermediaries re-lend funds to third-party recipients (e.g., private or public organizations or individuals) for business facilities or community development. Intermediaries establish revolving loan funds so collections from loans made to third-party recipients in excess of necessary operating expenses and debt payments will be used for more loans to third-party recipients.

Eligibility: Intermediaries may be private non-profit corporations, public agencies, Indian groups, or cooperatives. Intermediaries must have legal authority to carry out the proposed loan purposes and to incur and repay the debt; have a record of successfully assisting rural business and industry, normally including experience in making and servicing commercial loans; and provide adequate assurance of repayment. Both intermediaries and third-party recipients must be unable to obtain the proposed loan elsewhere at reasonable rates and terms.

Servicing options: The loan agreement between the Agency and the intermediary will set out the provisions regarding default. In the event that RBS takes over the servicing of the recipient of an intermediary, those loans will be serviced in accordance with the contractual arrangement between the intermediary and the recipient.

If it is necessary for RBS to protect its interests in connection with defaults or breach of conditions under any loan made, the RBS may declare that the loan is immediately due and payable, liquidate the collateral securing the loan, or adjust interest rates or grant moratoriums on repayment of principal and interest.

Rural Economic Development Direct Loans

Purpose: Rural economic development loans are provided interest-free to electric and telephone utilities that have previously received financing from RUS. This loan program promotes rural economic development and job creation projects by providing loans to businesses or community development organizations including hospitals, advanced telecommunication facilities for medical or educational purposes, and job training.

Eligibility: Loans can be made to any RUS electric or telephone borrower that is not delinquent on Federal debt or in bankruptcy proceedings. The borrower is required to re-lend, at 0% interest, the loan proceeds to an eligible "third-party recipient" for the purpose of financing job creation projects and sustainable economic development within rural areas. Priority is given to financing third-party recipient projects that are physically located in rural areas having a population of less than 2,500 people. The borrower receiving the interest-free loan is responsible for repaying the loan to RBS in the event of delinquency or default by the third-party recipient. The borrower may charge the third-party recipient reasonable loan servicing fees, not to exceed 1% a year on the unpaid principal balance of the loan.

Servicing options: The terms of the note may include deferment of principal payments. The deferment period for an established business will be limited to 1 year; for a startup business or community infrastructure project, 2 years.

RBS at a Glance		
Repayment Period and Interest Rates: RBS offers loans at the following rates and terms.		
Program	Repayment Period	Interest Rate
Business and Industry	Maximum of 40 years	Equal to the Wall Street Journal prime rate
Business and Industry Guaranteed	Maximum of 30 years – Real Estate Maximum of 15 years – Machinery Maximum of 7 years – Working Capital	Negotiated between the borrower and the lender and may be fixed or variable
Intermediary Relending	<ul style="list-style-type: none"> • Loans to intermediaries are scheduled for repayment over a period of up to 30 years. • The term of loans from intermediaries to third party recipients is set by the intermediary. 	<ul style="list-style-type: none"> • The interest rate on loans to intermediaries is 1% per annum. • The interest rate charged to third party recipients is negotiated by the intermediary and the recipient.
Rural Economic Development	Maximum of 10 years	0%

Rural Utilities Service (RUS)

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. Following is a description of the characteristics for each of the direct and guaranteed loan programs administered by RUS.

Water and Environmental Direct Loans

Purpose: Water and environmental loans are made for the construction and improvement of water and environmental systems in rural areas and to cities and towns with a population of 10,000 or less. Loan funds may be used to construct, enlarge, extend, or improve rural drinking water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities.

Eligibility: Funds are available to public entities such as municipalities, counties, special-purpose districts, and Federally recognized Indian tribes. In addition, funds may be made available to corporations operated on a not-for-profit basis. Applicants must be unable to obtain funds from other sources at reasonable rates and terms. There are three levels of interest rates available as determined by the primary purpose of the loan and the median household income of the area being served. The rates are adjusted quarterly.

Servicing options: Principal payments may be deferred in whole or in part for a period not to exceed 36 months following the date the first interest installment is due. In the event the borrower has difficulty repaying, loans may be reamortized. Loans may be transferred to eligible transferees at different rates and terms.

Water and Environmental Guaranteed Loans

Purpose: Guaranteed water and environmental loans are used to provide for the construction or improvement of water and environmental systems serving the financially needy communities in rural

areas. Loan funds may be used to construct, enlarge, extend, or otherwise improve rural drinking water, sanitary sewage, solid waste disposal, and storm wastewater disposal facilities. The program guarantees loans made by private lenders. The maximum amount of guarantee is 90% of the principal loan amount.

Eligibility: Public bodies (i.e., municipality, county, district, authority, or other political subdivision of a State), not-for-profit organizations, or Federally recognized Indian tribes located in rural areas are eligible for RUS water and environmental loans. The applicant must be unable to obtain the required credit from private, commercial, or cooperative sources at reasonable rates and terms without the loan guarantee from RUS.

Lenders eligible to make guaranteed water and environmental loans include Federal or State chartered bank or savings and loan association; mortgage companies that are part of a bank holding company;

Co-Bank, National Rural Utilities Cooperative Finance Corporation, Farm Credit Bank of the Federal Land Bank, or other Farm Credit System institution with direct lending authority; an insurance company regulated by a State or National insurance regulatory agency; and other lenders that possess the legal powers necessary and incidental to making and servicing guaranteed loans.

Servicing options: The lender is responsible for servicing the loan in accordance with the lender's agreement.

Electric Direct Loans

Purpose: Electric loans are made to finance the construction of electric distribution, transmission and generation facilities including system improvements and replacements required to furnish and improve electric service in rural areas.

Eligibility: Corporations, states, territories, municipalities; people's utility districts; and cooperative, nonprofit, limited-dividend, or mutual associations that provide or propose to provide retail electric service or power supply needs of distribution borrowers servicing rural areas are eligible for financing under RUS electric programs. Direct hardship loans are made to applicants that meet rate disparity thresholds and whose consumers fall below average per capita and household income thresholds. Borrowers not eligible for hardship loans are eligible for municipal rate loans.

For municipal rate loans, the borrower may select an interest rate term for each advance of funds. The borrower may elect to lock in at the 20-year interest rate term through the maturity of the loan, or select a shorter-term rate. Municipal interest rates are based on the interest rate terms published in the Bond Buyers Guide. The minimum interest rate term is 1 year. At the end of the interest rate term, the borrower may roll over the remaining principal for a new short-term rate or the remaining period to final maturity.

For fiscal year 2001, qualifying applications for direct municipal rate electric loans received by RUS before October 28, 2000, were treated as preapplications for direct Treasury rate loans. Applicants were offered the opportunity to select the Treasury rate in lieu of the municipal rate. Selection of interest rate terms will be made by the borrower for each advance of funds. Interest rate terms are limited to terms published by the Treasury for 1, 2, 3, 5, 7, 10, 20, and 30 year maturities. The borrower may elect to lock in at the 30-year interest rate term through the maturity of the loan, or select a shorter-term rate. At the end of the interest rate term, the borrower may roll over the remaining principal for a new short-term rate or the remaining period to final maturity. Borrowers are required to seek supplemental financing for 30% of their capital requirements under this program.

Servicing options: There may be loan deferments of principal and interest payments on loans made for electric purposes. For the electric program, deferment in essence is a reamortization of a payment of principal and/or interest on the loan for either a 5- or 10-year period, with the first payment beginning on the date of the deferment. Borrowers who are not in compliance with their mortgage or loan contract may restructure or reduce the amount of their investments and loans to a level determined by RUS. Borrowers may prepay notes at the discounted present value of the RUS notes with private financing.

Electric Guaranteed Loans

Purpose: Sections 305 and 306 of the Rural Electrification Act authorizes the RUS to offer 100% guarantees of loans made to qualified electric borrowers. Guaranteed electric loans are made to finance the construction and improvement of electric generation, transmission, and distribution facilities.

Eligibility: Corporations, states, territories, municipalities, people's utility districts, and cooperatives that provide or propose to provide retail electric service or power supply to rural areas may receive loans guaranteed by RUS.

The only lenders that are eligible to make loans guaranteed by RUS are the Federal Financing Bank (FFB) which is an instrumentality of the U. S. Department of Treasury, National Bank for Cooperatives (NBC), and the National Rural Utilities Cooperative Finance Corporation (NRUCFC).

Servicing options: RUS services the FFB loans. Loans may be reamortized, or principal and interest payments may be deferred. Deferments will not extend beyond 10 years beyond the final maturity date.

Telecommunications Direct Loans

Purpose: RUS makes hardship and cost-of-money (Treasury) loans to finance the improvement, expansion, construction and acquisition of systems or facilities that improve telephone service in rural areas. RUS also makes concurrent cost-of-money and Rural Telephone Bank (RTB) loans. Hardship loans may be made simultaneously with concurrent cost-of-money and RTB loans.

Eligibility: Entities or public bodies providing telephone service in rural areas; cooperatives, nonprofit, limited dividend or mutual associations are eligible to participate in the RUS telecommunication program. To be eligible for a loan, a borrower must be incorporated and provide or propose to provide the basic local exchange telephone service needs of rural areas. Hardship loans may be made when the average number of proposed subscribers per mile of line is not more than 4, or the borrower has a projected Times Interest Earned Ratio (borrowers net income after taxes plus interest expense, all divided by interest expense) of at least 1.0 but not greater than 3.0

Servicing options: RUS may extend the time of payment of principal or interest on a loan. This extension may be up to 5 years after such payment is due. Payment may be deferred as long as necessary in disaster situations so long as the final maturity date is not later than 40 years after the date of the loan.

Rural Telephone Bank

Purpose: The Rural Telephone Bank (RTB) was created by Public Law 92-12 on May 7, 1971. The RTB was designed to assure rural telephone systems access to private sources of capital. It did this by

establishing a supplemental credit mechanism to which borrower systems may turn for all or part of their future capital requirements. The RTB is owned by the U.S. Government, its borrowers, former borrowers, and other related organizations authorized to invest. The RTB operates on a cooperative basis and earnings, in excess of the annual return of 2% required on the Government's investment, are returned to the non-Government owners as patronage refunds.

RTB loans are made concurrently with RUS cost-of-money loans to finance the improvement, expansion, construction, and acquisition of systems or facilities that improve telephone service in rural areas. However, RTB does not finance station apparatus owned by the borrower, headquarters facilities, and vehicles not used primarily in construction.

Eligibility: To be eligible, a borrower must be incorporated and must provide or propose to provide the basic local exchange telephone service needs of rural areas. A borrower must demonstrate that the average number of proposed subscribers per mile of line in the service area of the borrower is less than or equal to 15, or the borrower has a projected Times Interest Earned Ratio (borrowers net income after taxes plus interest expense, all divided by interest expense) of at least 1.0 but not greater than 5.0. Additionally, the borrower must participate in an approved telecommunications modernization plan for the state.

Servicing Options: RTB may extend the time of payment of principal or interest on a loan. This extension may be up to 5 years after such payment is due. Payment may be deferred as long as necessary in disaster situations so long as the final maturity date is not later than 40 years after the date of the loan.

Federal Financing Bank – Telecommunications Guaranteed

Purpose: Loan guarantees are made to finance the improvement, expansion, construction, and acquisition of facilities that improve telephone services in rural areas. Section 306 of the Rural Electrification Act authorizes RUS to offer 100% guarantees of loans made to qualified telecommunications borrowers.

Eligibility: Public bodies providing telephone service in rural areas are eligible for FFB telecommunication loans. The applicant must provide or propose to provide basic local exchange service to rural areas.

RUS guarantees loans financed by the FFB which is an instrumentality of the U.S. Department of Treasury.

Servicing options: For each advance of funds received the borrower elects the prepayment/refinancing options. The premium for prepayment or refinancing varies, depending on the option chosen. If the borrower elects a 5-year no-call period, the advance may not be prepaid or refinanced until after the 5th anniversary of the advance date. If the borrower elects not to include a 5-year no-call period, the advance may be prepaid or refinanced at any time.

Distance Learning and Telemedicine Direct Loans

Purpose: Loans made under the distance learning and telemedicine program encourage, improve, and make affordable the use of telecommunications, computer networks, and related technology for rural communities to improve access to educational and medical services.

Eligibility: Incorporated organizations, partnerships, Indian tribes and tribal organizations, or other legal entities which provide or propose to provide telemedicine service or distance learning service in rural areas are eligible for distance learning and telemedicine loans.

Servicing options: If the recipient requests, a 1 year deferment of principal will be included in the terms of the loans.

Broadband Telecommunications Services

Purpose: For fiscal year 2001, the RUS announced a new loan program and the availability of loan funds under this program to finance the construction and installation of broadband telecommunications services in rural America. Broadband services provide telecommunications services at a high-speed rate. This program provides financing to communities with a population of 20,000 or less so that these rural communities can enjoy the same quality and range of telecommunications services that are available in urban and suburban communities.

Eligibility: Eligible borrowers must be incorporated or a limited liability company and may include public bodies, cooperatives, nonprofits, and limited dividend or mutual associations.

Servicing options: There may be a deferral period the first year in which there is no payment of principal.

RUS at a Glance		
Repayment Period and Interest Rates		
Program	Repayment Period	Interest Rate
Water and Environmental	Useful life of the facility not to exceed 40 years	<ul style="list-style-type: none"> ▫ The poverty rate will not exceed 5% ▫ The intermediate rate will not exceed 7% ▫ The market rate will be set using as guidance the average of the Bond buyer (11-GO Bond) Index
Water and Environmental Guaranteed	Maximum of 40 years	<ul style="list-style-type: none"> ▫ Rates will be negotiated between the lender and the borrower. They may be either fixed or variable rates.
Electric Direct Loans	Maximum of 35 years	<ul style="list-style-type: none"> ▫ Hardship and municipal rate loans approved prior to 11/01/93 are fixed at 2% ▫ Hardship loans approved on or after 11/01/93 are fixed at 5% ▫ Municipal rate loans approved on are after 11/01/93 are based on rates equal to the current market yield on outstanding municipal obligations based on the Bond buyer (11-GO Bond) index. ▫ Treasury rate loans are based on the Treasury rate established daily
Electric Guaranteed	Maximum is 35 years	<ul style="list-style-type: none"> ▫ Loans guaranteed to FFB – The prevailing cost of money to Treasury, plus 1/8 of 1% ▫ Loans guaranteed to NBC and NRUCFC – Rate is established by the lender
Telecommunications Direct Loans	Expected composite economic life (depreciated life plus 3 years) of the facility	<ul style="list-style-type: none"> ▫ Hardship loans fixed at 5% ▫ Cost-of-money loans are based on the Treasury rate for loans of a similar maturity. Not to exceed 7%
RTB	Expected useful life of the facilities not to exceed 35 years	<ul style="list-style-type: none"> ▫ The greater of the current cost of funds to RTB or 5%.
FFB – Telecommunications Guaranteed	Maximum is 35 years	<ul style="list-style-type: none"> ▫ Treasury's cost of money for debt instruments with similar maturities, plus 1/8 of 1%.
Distance Learning	Maximum of 10 years	<ul style="list-style-type: none"> ▫ Treasury rate
Broadband	Maximum of 10 years	<ul style="list-style-type: none"> ▫ Treasury's cost of money for debt instruments with similar maturities

The following discusses our analysis of subsidy and the events that have had a significant and measurable effect on subsidy rates, subsidy expense, and subsidy reestimates.

Economic Conditions, Risk Factors, Legislation, Credit Policies, Subsidy Estimation Methodologies and Assumptions

FSA targets a portion of both Farm Ownership and Farm Operating Direct loan funds to beginning farmers and ranchers who are unable to obtain financing from commercial credit sources.

FSA has a special Downpayment Farm Ownership Loan Program to help beginning farmers and ranchers purchase a farm or ranch. This program also provides a way for retiring farmers to transfer their land to a future generation of farmers and ranchers.

FSA advertises acquired farm property within 15 days of acquisition. Eligible beginning farmers and ranchers are given first priority to purchase these properties at the appraised market value for the first 75 days after acquisition. If more than one eligible beginning farmer or rancher offers to purchase the property, the buyer is selected randomly.

FSA reserves direct loan funds each year to help socially disadvantaged applicants buy and operate family-size farms and ranches. A socially disadvantaged (SDA) applicant is one of a group whose members have been subjected to racial, ethnic, or gender prejudice because of their identity as members of the group without regard to their individual qualities. These groups include women, African Americans, American Indians, Alaskan Natives, Hispanics, Asians, and Pacific Islanders.

FSA provides temporary credit to its direct loan borrowers; therefore, all borrowers are required to refinance their loans with a private, commercial lender when they are financially able to do so.

To improve their production and financial management ability, FSA requires all direct borrowers to complete farm and financial training courses. Some borrowers may receive a waiver from the course if they have demonstrated adequate knowledge and ability in the subject areas covered by the course. As part of its supervised credit role, FSA will require borrowers to provide updated financial information periodically and participate in an annual review of their operation by FSA. The Agency completes a comprehensive evaluation of the real estate and chattel property used in the operation, the farm business organization and key personnel, and any planned changes to the operation. FSA will then identify and prioritize training and supervisory needs, and help the borrower complete a plan of supervision to assist the producer in achieving financial viability. Also, all borrowers must operate their farms in an environmentally sound manner, comply with highly erodible land and wetland policies, and if necessary, operate according to a USDA land management plan.

FSA requires the direct loan applicant to pay a credit report fee. In addition, if a loan is made, the producer pays the fees charged for lien searches and for filing and recording security instruments.

For most guaranteed loans, FSA charges a guarantee fee of 1 percent of the guaranteed portion of the loan. This fee may be passed on to the borrower. The guarantee fee is waived for:

- Interest assistance loans
- Loans where more than 50% of the loan funds are used to pay off direct FSA loan debt
- Loans in conjunction with a Downpayment Farm Ownership Loan program for beginning farmers or a qualifying state beginning farmer program. This fee waiver does not extend to all beginning farmers.

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 regularly analyzed and sorted into one of eleven risk categories in a manner similar to ratings generated by private ratings' agencies such as Standard and Poors and Moody's. Each of the eleven risk categories is also associated with a default estimate. For FY 2001, the average spread between the yield to maturity of dollar denominated bonds of like-rated sovereigns and comparable maturity Treasuries were used to generate the default estimate for each rating.

Current world events and government initiatives have a major impact upon CCC's foreign receivables. For example, the United States is currently considering debt forgiveness or reduction of debt to poor countries under the Highly Indebted Poor Countries Initiative. Discussions are currently in progress with a number of countries, which if successful, may affect CCC.

The events in New York City and Washington, D.C., on September 11, 2001, and the consequences of those events may affect the risk profile of both specific transactions of CCC and its overall credit portfolio. As of the date of these statements, however, there is insufficient time and information to adequately assess the impact (direct or indirect) of these events on CCC's financial position. Therefore, these statements do not contain any provisions to reflect the potential impact of the September 11, 2001 terrorist actions.

The secondary market for Rural Development and FSA guaranteed loans is a key feature of the guaranteed lending program. The lender may resell the guaranteed portion of the loan to an interested party. The interested party then becomes the holder of the loan, but the original lender must retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the Government's full Faith and Credit guarantee against default. The existence of the secondary market makes guaranteed loan notes more liquid. By reselling the guaranteed portions, lenders reduce interest rate exposure, increase their lending capabilities, and generate fees. The existence of the secondary market is a strong inducement for lenders to become involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk.** Lenders can transfer risk of interest rate increases on the guaranteed portion of a fixed rate loan.
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity.
- **Increased Lending or Investing Capabilities.** Since the guaranteed portion of the loan is generally not applied against a bank's lending limit, it can be used to expand lending capabilities.
- **Increased Return on Investment.** The sale of the guaranteed portion of the loan in the secondary market increases the lender's overall return on investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee.
- **Rates and Terms.** Lenders may be able to offer the producer more flexible repayment terms, as well as fixed and/or reduced interest rates to improve cash flow.

Based on sensitivity analysis conducted for each cohort, the budgeted versus actual interest for both borrower and Treasury remain the key component for the subsidy formulation and reestimate rates of many USDA direct programs. During FY 2001, OMB changed the procedure for calculating the Treasury discount rate in the OMB reestimate calculator. The new procedures result in a weighted average Treasury rate which include the undisbursed obligation at the budgeted interest rate weighted with disbursements at the actual rate for the year of disbursement. Additionally, beginning with the FY2001 cohort the discount rate is obtained from the OMB subsidy calculator using the "basket of zeros" approach which also includes a weighting of the undisbursed balances when determining the single effective rate for the cohort.

New cash flow models for direct Rural Development housing and FSA farm loan programs were used initially in FY2001. In FY 2000, the Rural Development guaranteed programs, CCC direct and guarantee programs, and FSA farm loan guarantee programs implemented new cash flow models.

For direct housing programs, the FY 1999 and 2000 activity year reestimates were prepared using the pre-existing model while the FY2001 activity was reestimated and trued-up using the new direct housing models. All these direct housing reestimates were recorded in the current period while no reestimates were prepared for these direct programs in the prior fiscal year.

Rural Development community and utility programs reestimates related to FY1999 and 2000 activity were prepared utilizing the new model and recorded in the current period. For FY2001 activity, due to the predictability of the programs, an approximator method was used to prepare subsidy reestimate for material programs. Reestimates for three years' activity are recorded in the current period. The Rural Telephone Bank which uses this model has booked reestimates annually and current year reestimates were calculated using the model.

In FY2000 Rural Development guarantee programs recorded material FY 1999 and 2000 activity which is shown in the prior period. For the current period, all guaranteed reestimates were recorded for prior year activity and material FY2001 activity reestimates executed using the model. Key sensitivity elements in the guaranteed programs are fee collections and defaults. During FY2001, the Single-Family Housing program increased the upfront fee from 1% to 2% during the year, which will result in a lower subsidy rate. Both material programs, Single Family Housing and Business and Industry, experienced losses in excess of the budgeted projections.

The financial strength of Generation and Transmission Cooperative (G&T) borrowers depends in part on the long term, all-requirements wholesale power contracts between the G&T and its distribution members. The contracts, which are pledged to the government and the G&T's other secured lenders, provide revenues necessary for the G&T to meet its operating costs and repay indebtedness. A 7th Circuit Court of Appeals decision regarding the assignability of such contracts could, if followed by other courts, affect the value of the contracts as security under certain circumstances including the bankruptcy of a G&T. Management believes that the contracts will be upheld in the future and that there will be no material impact to the financial condition of the agency.

Due to the implementation of the new models, new reestimate calculator, the accumulation of prior year reestimates, and other risk factors, it is difficult to compare the current and prior period expense.

Accounting Policy – Present Value Disclosures

As previously discussed in *Note 1*, direct loans, defaulted guaranteed loans, and loan guarantees made prior to fiscal year 1992 are reported on a present value basis. Direct loans or loan guarantees made after fiscal year 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act of 1990, as amended. That Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest supplements, defaults (net of recoveries), fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct 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 credit program receivables, net present value or the value of assets related to direct loans is not necessarily representative of the proceeds which might be expected to be received if these loans were sold on the open market.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with pre-1992 and post-1991 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).

For the years 2001 and 2000, Rural Housing Service properties consist primarily of 1,249 and 1,233 rural single family dwellings, respectively. The average holding period for single family housing properties in inventory for the years 2001 and 2000 was 21.5 and 18.8 months, respectively. The approximate number of borrowers for which foreclosure proceedings were in process at the end of fiscal year 2001 and 2000 was 18,600 and 29,700, respectively. Certain properties can be leased to eligible individuals.

As of September 30, 2001, FSA properties consist primarily of 310 farms. The average holding period for these properties in inventory for fiscal year 2001 was 54.02 months. At the end of fiscal year 2001, there were 841 borrowers for which foreclosure proceedings were in process. Certain properties can be leased to eligible individuals.

Non-performing Loans

The unpaid principal balance of Rural Development non-performing loans as of September 30, 2001 and 2000, was \$1.2 billion and \$1.2 billion, respectively. If interest had been reported for fiscal year 2001 and 2000, respectively, on these non-performing loans, instead of reported only to the extent of the collections received, interest income would have increased by \$67.9 and \$65.4 million to a total of \$4.3 and \$4.3 billion and \$536 and \$420 million during the entire delinquency.

The unpaid principal balance of FSA loans in a non-performing status at fiscal year-end totaled \$1,664 million. If interest had been reported on these non-performing loans, instead of reported only to the extent of the collections received, interest income would have increased by 109.5 million, to a total of 598 million during fiscal year 2001 and increased by 523.9 million during the entire delinquency.

CCC interest income on non-performing receivables is calculated as described above except that the recognition of revenue is deferred. (Non-performing receivables are 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 is also deferred.

Interest Credit

Approximately \$19.6 and \$19.7 billion of the Rural Housing Service unpaid loan principal as of September 30, 2001 and 2000, respectively, was receiving interest credit. If those loans receiving interest credit had interest accrued at the full unreduced rate, interest income would have been approximately \$1.2 and \$1.2 billion higher for fiscal years 2001 and 2000, respectively. As of September 30, 2001 and 2000, the Rural Development portfolio contained approximately 114 and 123 thousand restructured loans with an outstanding unpaid principal balance of \$6.7 and \$9.4 billion, respectively.

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. CCC completed two loan modifications during FY 2001.

Debt in the GSM liquidating fund was modified in the amount of \$4.0 million of which 100% was forgiven under the Highly Indebted Countries Initiative. In addition, \$4.8 million in late interest (which had been accrued and deferred) was also reversed. Because the debt had a 100% allowance at the time of write-off, CCC recognized a gain on the transaction of \$.7 million. This gain equaled the amount of the subsidy received from Treasury for the modification.

Debt in the PL-480 liquidating fund carried at \$38.4 million plus \$.9 million in accrued interest was modified. CCC received subsidy from Treasury for the modification in the amount of \$7.7 million. The applicable interest rate was 6.36%. A loss of \$12.8 million on the transfer of direct loans to the financing fund was incurred by the difference between the cash received for the loan (the present value of the expected cash flows involved before modification) and the carrying, or book value of the loan in the liquidating fund (the loan principal and interest receivable less the related allowance for bad debts).

Direct Loan and Loan Guarantee Programs

List the direct loan and/or loan guarantee programs administered by the reporting entity:

P.L. 480, Title I
Debt Reduction Fund
Food for Progress
Export Credit Guarantee Program
Farm Storage Facility Loan Program
Boll Weevil Loan Program
Apple Loan Program
Agricultural Credit Insurance Fund (ACIF) – Direct Farm Operating
Agricultural Credit Insurance Fund (ACIF) – Direct Farm Ownership
Agricultural Credit Insurance Fund (ACIF) – Direct Emergency Disaster
Agricultural Credit Insurance Fund (ACIF) – Direct Indian Land Acquisition
Agricultural Credit Insurance Fund (ACIF) – Direct Boll Weevil Eradication
Agricultural Credit Insurance Fund (ACIF) – Direct Seed Loans to Producers
Agricultural Credit Insurance Fund (ACIF) – Guaranteed Farm Operating – Unsubsidized
Agricultural Credit Insurance Fund (ACIF) – Guaranteed Farm Operating – Subsidized
Agricultural Credit Insurance Fund (ACIF) – Guaranteed Farm Ownership – Unsubsidized
Agricultural Credit Insurance Fund (ACIF) – Guaranteed Farm Ownership – Subsidized
Agricultural Credit Insurance Fund (ACIF) – Guaranteed Soil & Water
Agricultural Credit Insurance Fund (ACIF) – Direct Soil & Water
Agricultural Credit Insurance Fund (ACIF) – Direct Credit Sales
Bureau of Reclamation Loan Fund (BRLF)
Agricultural Resource Conservation Fund (ARCD)
Direct Rural Housing Insurance Fund
Direct Rural Community Facilities Loans
Direct Rural Electrification Loans
Direct Rural Telephone Loans
Rural Telephone Bank
Direct Rural Water and Waste Disposal Loans
Direct Rural Development Insurance Fund
Direct Distance Learning and Telemedicine Loans
Direct Rural Community Development Fund
Direct Rural Development Loan Fund
Direct Rural Business and Industry Loans
Direct Rural Economic Development Loans
Direct Other Loans
Guaranteed Rural Housing Insurance Fund
Guaranteed Rural Community Facilities Loans
Guaranteed Rural Electrification Loans
Guaranteed Rural Telephone Loans
Guaranteed Rural Water and Waste Disposal Loans
Guaranteed Rural Development Insurance Fund
Guaranteed Rural Community Development Fund
Guaranteed Rural Business and Industry Loans
Army Retool and Supply Loans

(U.S. dollars in millions)

*Direct Loans Obligated Prior to FY 1992:***Direct Loans Obligated Prior to FY 1992 (Present Value Method)**

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
P.L. 480, Title I	8,219	87		4,338	3,968
Agriculture Credit Insurance Fund (ACIF)	4,678	294	58	855	4,175
Rural Housing Insurance Fund	16,124	90	49	2,636	13,627
Rural Electrification Loans	18,729	163		1,415	17,477
Rural Telephone Loans	2,278	8		399	1,887
Rural Telephone Bank	794	3		(51)	848
Rural Development Insurance Fund	3,079	33		1,009	2,103
Rural Community Development Fund	5			(1)	6
Rural Development Loan Fund	66			18	48
Other	<u>2</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>
Total	<u>53,974</u>	<u>678</u>	<u>107</u>	<u>10,618</u>	<u>44,141</u>

Direct Loans Obligated After FY 1991

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
P.L. 480, Title I	2,260	24		1,603	681
Debt Reduction Fund	132			87	45
Food for Progress	465	13		347	131
Farm Storage Facility Loan Program	94	4		2	96
Boll Weevil Loan Program	10			6	4
Apple Loan Program	11			(2)	13
Agriculture Credit Insurance Fund (ACIF)	4,317	88	4	1,575	2,834
Rural Housing Insurance Fund	11,663	39	18	2,716	9,004
Rural Community Facilities Loans	987	10		116	881
Rural Electrification Loans	7,808	44		437	7,415
Rural Telephone Loans	1,246	3		27	1,222
Rural Telephone Bank	291			12	279
Rural Water and Waste Disposal Loans	4,543	49	1	710	3,883
Distance Learning and Telemedicine Loans	14			(1)	15
Rural Development Loan Fund	313	2		144	171
Rural Business and Industry Loans	215	3		118	100
Rural Economic Development Loans	<u>73</u>	<u>—</u>	<u>—</u>	<u>13</u>	<u>60</u>
Total	<u>34,442</u>	<u>279</u>	<u>23</u>	<u>7,910</u>	<u>26,834</u>

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	Current Year	Prior Year
P.L. 480, Title I	101	398
Farm Storage Facility Loan Program	84	10
Boll Weevil Loan Program	10	
Apple Loan Program	11	
Agriculture Credit Insurance Fund (ACIF)	1,072	1,151
Rural Community Facilities Loans	163	154
Rural Housing Insurance Fund	1,222	1,287
Distance Learning and Telemedicine Loans	14	1
Rural Electrification Loans	1,951	1,196
Rural Telephone Loans	200	194
Rural Telephone Bank	55	31
Rural Water and Waste Disposal Loans	694	668
Rural Business and Industry Loans	27	24
Rural Development Loan Fund	40	42
Rural Economic Development Loans	<u>16</u>	<u>12</u>
Total	<u>5,660</u>	<u>5,168</u>

*Subsidy Expense for Direct Loans by Program and Component***Subsidy Expense for New Direct Loans Disbursed (Current Reporting Year)**

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480, Title I	28	24			52
Farm Storage Facility Loan Program		2			2
Boll Weevil Loan Program		6			6
Farm Operating	1	60	(13)	12	60
Farm Ownership	11	9	(11)	9	18
Emergency Disaster	11	11			22
Seed Loans to Producers	2			1	3
Rural Community Facilities Loans	16		(2)	1	15
Rural Housing Insurance Fund	228	13	(74)	48	215
Rural Electrification Loans	(3)	12	(1)	(1)	7
Rural Telephone Loans	3				3
Rural Telephone Bank	1				1
Rural Water and Waste Disposal Loans	96	1		(3)	94
Rural Business and Industry Loans	(2)	2			
Rural Development Loan Fund	19				19
Rural Economic Development Loans	<u>4</u>	<u></u>	<u>(1)</u>	<u>1</u>	<u>4</u>
Total	<u>415</u>	<u>140</u>	<u>(102)</u>	<u>68</u>	<u>521</u>

Subsidy Expense for New Direct Loans Disbursed (Prior Reporting Year)

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
P.L. 480, Title I	254	228			482
Farm Operating	(3)	42	(181)	183	41
Farm Ownership	6	7	(56)	56	13
Emergency Disaster	14	15	(13)	14	30
Boll Weevil Eradication			(1)	1	
Rural Community Facilities Loans	16		(3)	3	16
Rural Housing Insurance Fund	165	18	(84)	71	170
Rural Electrification Loans	34	7	(1)		40
Rural Telephone Loans	4				4
Rural Water and Waste Disposal Loans	89	1		(3)	87
Rural Development Loan Fund	21		(1)	1	21
Rural Economic Development Loans	<u>3</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3</u>
Total	<u>603</u>	<u>318</u>	<u>(340)</u>	<u>326</u>	<u>907</u>

Modifications and Reestimates (Current Reporting Year)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
P.L. 480, Title I		6	11	17
Debt Reduction Fund	33		(2)	(2)
Food for Progress			7	7
Farm Storage Facility Loan Program		1	(3)	(2)
Apple Loan Program		(2)		(2)
ACIF – Direct Farm Ownership		(1)	118	117
ACIF – Direct Farm Operating		(15)	644	629
ACIF – Direct Emergency Disaster		(12)	125	113
ACIF – Direct Indian Land Acquisition			2	2
ACIF – Direct Soil & Water			2	2
ACIF – Direct Credit Sales			54	54
ACIF – Direct Boll Weevil Eradication		(1)	7	6
ACIF – Direct Seed Loans			(1)	(1)
Rural Community Facilities Loans		8	11	19
Rural Housing Insurance Fund		271	(158)	113
Rural Electrification Loans		326	(221)	105
Rural Telephone Loans		42	(35)	7
Rural Telephone Bank		11	(9)	2
Rural Water and Waste Disposal Loans		47	(36)	11
Rural Business and Industry Loans		13	28	41
Rural Development Loan Fund		(1)	1	
Rural Economic Development Loans	<u>—</u>	<u>2</u>	<u>(1)</u>	<u>1</u>
Total	<u>33</u>	<u>695</u>	<u>544</u>	<u>1,239</u>

Modifications and Reestimates (Prior Reporting Year)

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
P.L. 480, Title I		(7)	106	99
Debt Reduction Fund	14		(2)	(2)
Food for Progress			7	7
ACIF – Direct Farm Ownership		11	(129)	(118)
ACIF – Direct Farm Operating		(70)	(291)	(361)
ACIF – Direct Emergency Disaster		31	(183)	(152)
ACIF – Direct Soil & Water			(1)	(1)
ACIF – Direct Credit Sales		(9)	(34)	(43)
ACIF – Direct Boll Weevil Eradication		(8)	(51)	(59)
Rural Telephone Bank		(6)	6	
Total	<u>14</u>	<u>(58)</u>	<u>(572)</u>	<u>(630)</u>

Total Direct Loan Subsidy Expense

Direct Loan Programs	Current Year	Prior Year
P.L. 480, Title I	69	580
Debt Reduction Fund	31	13
Food for Progress	7	7
Boll Weevil Loan Program	6	
Apple Loan Program	(2)	
ACIF – Direct Farm Ownership	135	(105)
ACIF – Direct Farm Operating	689	(322)
ACIF – Direct Emergency Disaster	135	(123)
ACIF – Direct Indian Land Acquisition	2	
ACIF – Direct Soil & Water	2	(1)
ACIF – Direct Credit Sales	54	(42)
ACIF – Direct Boll Weevil Eradication	6	(59)
ACIF – Direct Seed Loans	1	
Rural Community Facilities Loans	35	17
Rural Housing Insurance Fund	327	170
Rural Electrification Loans	113	41
Rural Telephone Loans	11	5
Rural Telephone Bank	2	
Rural Water and Waste Disposal Loans	104	86
Rural Business and Industry Loans	41	
Rural Development Loan Fund	20	21
Rural Economic Development Loans	<u>6</u>	<u>3</u>
Total	<u>1,794</u>	<u>291</u>

*Subsidy Rates for Direct Loans by Program and Component***Budget Subsidy Rates for Direct Loans for the Current Year's Cohorts (Percentage)**

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Farm Storage Facility Loan Program		2			2
Boll Weevil Loan Program		60			60
Apple Loan Program	2	3			5
P.L. 480, Title I	28	25		18	71
Farm Operating		9			9
Farm Ownership	7	5		(2)	10
Emergency Disaster	13	12			25
Indian Land Acquisition	16				16
Seed Loans to Producers	8			3	11
Boll Weevil Eradication	(2)	1			(1)
Community Facilities Loans	12				12
Modular Housing Loans	23		(2)	(2)	19
Section 502 Direct Single Family Housing	17	1	(7)	4	15
Section 504 Direct Housing Repair	34	2			36
Section 203 Credit Sales (SFH)	(14)	4	(10)	17	(3)
Section 514 Farm Labor Housing	52		(2)	3	53
Section 515 Rural Rental Housing	56		(1)	(6)	49
Section 524 Housing Site Development	(3)	2	(10)	10	(1)
Section 504 Direct Housing Repair	34	2			36
Section 523 Self-Help Housing Land Development	4	1	(9)	10	6
Section 209 Credit Sales (MFH)	56		(2)	(5)	49
Electric Municipal	8			(1)	7
FFB Electric	(3)				(3)
Direct Electric Hardship	13			(3)	10
Telephone Treasury	(1)				(1)
FFB Telephone	(2)				(2)
Telephone Hardship	11			(1)	10
Rural Telephone Bank	2				2
Direct Water and Waste Disposal	14			(1)	13
Direct Water and Waste Disposal – Emergency	14			(1)	13
Direct Business and Industry Loans	(18)	24			6
Intermediary Relending Program	51				51
Rural Economic Development	27			(1)	26

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct 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(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Subsidy Cost Allowance Balances (Post 1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2001	FY 2000
Beginning balance of the subsidy cost allowance	6,383	6,715
Add: subsidy expense for direct loans disbursed during the reporting years by component		
Interest rate differential costs	429	504
Default costs (net of recoveries)	154	226
Fees and other collections	(102)	(340)
Other subsidy costs	<u>67</u>	<u>325</u>
Total of the above subsidy expense components	548	715
 Adjustments		
Loan modifications	8	14
Fees Received	7	9
Loans written off	(133)	(91)
Subsidy allowance amortization	(123)	(328)
Other	<u>96</u>	<u>(7)</u>
Ending balance of the subsidy cost allowance before reestimates	6,786	7,028
 Add or subtract subsidy reestimates by component		
Interest rate reestimate	696	(53)
Technical/default reestimate	<u>428</u>	<u>(591)</u>
Total of the above reestimate components	<u>1,123</u>	<u>(644)</u>
Ending balance of the subsidy cost allowance	<u><u>7,909</u></u>	<u><u>6,384</u></u>

*Defaulted Guaranteed Loans from Pre-1992 Guarantees***Defaulted Guaranteed Loans from Pre-1992 Guarantees (Present Value Method)**

Loans Guarantee Programs	Defaulted Guaranteed Loans Receivable Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Export Credit Guarantee Programs	<u>5,376</u>	<u>30</u>		<u>2,795</u>	<u>2,611</u>

Defaulted Guaranteed Loans from Post 1991 Guarantees

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
Export Credit Guarantee Programs	<u>1,772</u>	<u>29</u>		<u>1,043</u>	<u>758</u>

Guaranteed Loans Outstanding

Guaranteed Loans Outstanding

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Export Credit Guarantee Programs	4,440	4,320
ACIF Liquidating	386	341
ACIF Financing	8,870	7,962
ARCD Financing	24	24
Rural Housing Insurance Fund	12,691	11,422
Rural Community Facilities Loans	269	225
Rural Electrification Loans	505	505
Rural Water and Waste Disposal Loans	23	20
Rural Development Insurance Fund	98	67
Rural Community Development Loans	4	4
Rural Business and Industry Loans	3,504	2,648
Army Retool and Supply Loans	10	9
Total	<u>30,824</u>	<u>27,547</u>

New Guaranteed Loans Disbursed (Current reporting year):

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Export Credit Guarantee Programs	2,974	2,892
ACIF Financing	2,363	2,121
Rural Community Facilities Loans	74	62
Rural Housing Insurance Fund	2,170	1,953
Rural Electrification Loans	92	92
Rural Water and Waste Disposal Loans	4	3
Rural Business and Industry Loans	809	636
Total	<u>8,486</u>	<u>7,759</u>

New Guaranteed Loans Disbursed (Prior reporting year):

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
Export Credit Guarantee Programs	3,170	3,097
ACIF Financing	2,591	2,325
Rural Community Facilities Loans	63	52
Rural Housing Insurance Fund	2,240	2,016
Rural Telephone Loans	40	40
Rural Water and Waste Disposal Loans	13	11
Rural Business and Industry Loans	967	760
Total	<u>9,084</u>	<u>8,301</u>

*Liability for Loan Guarantees***Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)**

Loan Guarantee Programs	Liabilities for Losses on Pre-1992 Guarantees, Estimated Future Default Claims	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
Export Credit Guarantee Programs		341	341
ACIF Liquidating	17		17
ACIF Financing		136	136
ARCD Financing		2	2
Rural Housing Insurance Fund	4	412	416
Rural Community Facilities Loans		1	1
Rural Development Insurance Fund	2		2
Rural Business and Industry Loans		174	174
Army Retool and Supply Loans		1	1
Rural Electrification Loans	<u>19</u>	<u> </u>	<u>19</u>
Total	<u>42</u>	<u>1,067</u>	<u>1,109</u>

*Subsidy Expense for Loan Guarantees by Program and Component***Subsidy Expense for New Loan Guarantees Disbursed (Current Reporting Year)**

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Export Credit Guarantee Programs		214	(17)		197
Farm Operating – Unsubsidized		20	(7)		13
Farm Operating – Subsidized	28	10			38
Farm Ownership – Unsubsidized		12	(6)	(2)	4
Rural Housing Insurance Fund	(5)	60	(53)		2
Rural Business and Industry Loans	<u> </u>	<u>20</u>	<u>(14)</u>	<u>(1)</u>	<u>5</u>
Total	<u>23</u>	<u>336</u>	<u>(97)</u>	<u>(3)</u>	<u>259</u>

Subsidy Expense for New Loan Guarantees Disbursed (Prior Reporting Year)

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Export Credit Guarantee Programs		188	(17)		171
Farm Operating – Unsubsidized		21	(6)		15
Farm Operating – Subsidized	52	19		(1)	70
Farm Ownership – Unsubsidized		13	(6)	(2)	5
Rural Housing Insurance Fund	5	32	24		13
Rural Water and Waste Disposal Loans		1		(1)	
Army Retool and Supply Loan		1			1
Rural Business and Industry Loans		44	(13)	(2)	29
Total	<u>57</u>	<u>319</u>	<u>(66)</u>	<u>(6)</u>	<u>304</u>

Modifications and Reestimates (Current Reporting Year)

Loan Guarantee Programs	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Export Credit Guarantee Programs		97	97
Farm Operating – Unsubsidized		16	16
Farm Operating – Subsidized	(3)	15	12
Rural Community Facilities Loans	(2)		(2)
Rural Housing Insurance Fund	46		46
Rural Water and Waste Disposal Loans		1	1
Rural Business and Industry Loans	58	1	59
Total	<u>99</u>	<u>143</u>	<u>242</u>

Modifications and Reestimates (Prior Reporting Year)

Loan Guarantee Programs	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Export Credit Guarantee Programs		356	356
Farm Operating – Unsubsidized		145	145
Farm Operating – Subsidized		56	56
Farm Ownership – Unsubsidized		4	4
Rural Housing Insurance Fund	27	152	179
Rural Business and Industry Loans	11	58	69
Total	<u>38</u>	<u>771</u>	<u>809</u>

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	Current Year	Prior Year
Export Credit Guarantee Programs	295	527
Farm Operating – Unsubsidized	30	159
Farm Operating – Subsidized	49	127
Farm Ownership – Unsubsidized	17	8
Rural Community Facilities Loans	(2)	
Rural Housing insurance Fund	49	192
Rural business and Industry Loans	<u>64</u>	<u>99</u>
Total	<u>502</u>	<u>1,112</u>

*Subsidy Rates for Loan Guarantees by Program and Component***Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts (Percentage)**

Loans Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Total
Export Credit Guarantee Programs		9	(1)	8
Farm Operating – Unsubsidized		2	(1)	1
Farm Operating – Subsidized	6	2		8
Farm Ownership – Unsubsidized		1	(1)	
Rural Community Facilities Loans			(1)	(1)
Section 502 Subsidy Regular		2	(2)	
Section 539 Multiple Family Housing	5	2	(6)	1
Section 502 Single Family Housing		2	(2)	
NADBANK Loans		3	(2)	1
Business and Industry Loans		2	(1)	1

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct 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(s) cohorts. The subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Loan Guarantee Liability Balances (Post 1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2001	FY 2000
Beginning balance of the loan guarantee liability	964	774
Add: subsidy expense for guarantees loans disbursed during the reporting years by component		
Interest supplement costs	23	57
Default costs (net of recoveries)	338	351
Fees and other collections	(97)	(71)
Other subsidy costs	<u>(3)</u>	<u>(6)</u>
Total of the above subsidy expense components	260	331
 Adjustments		
Loan guarantee modifications		
Fees received	82	71
Interest supplements paid	(67)	(161)
Claim payments to lenders	(189)	(299)
Interest accumulation on the liability balance	114	218
Other	<u>(71)</u>	<u>(634)</u>
Ending balance of the loan guarantee liability before reestimates	1,093	301
 Add or subtract subsidy reestimates by component		
Interest rate reestimate	97	38
Technical/default reestimate	<u>(124)</u>	<u>450</u>
Total of the above reestimate components	<u>(26)</u>	<u>488</u>
Ending balance of the loan guarantee liability	<u>1,066</u>	<u>788</u>

Administrative Expense

Direct Loan Programs	Amount	Loan Guarantee Programs	Amount
P.L. 480, Title I	2	Export Credit Guarantee Programs	4
ACIF	268	Rural Development	122
Rural Development	<u>202</u>		
Total	<u>472</u>	Total	<u>126</u>

Program Loans Exempt from Credit Reform

	Cross Receivables	Allowance	Net Receivables
Domestic	1,896	203	1,693
Foreign	<u>381</u>	<u>20</u>	<u>361</u>
Total	<u>2,277</u>	<u>223</u>	<u>2,054</u>

Note 9. Inventory and Related Property

(U.S. dollars in millions)

Goods Held Under Price Support and Stabilization Programs:	
Beginning balance	1,204
Acquired during the year	4,396
Disposals during the year:	
Sales	2,782
Donations	576
Other Additions and Deductions	<u>(43)</u>
Gross Ending balance	2,285
Related Allowance	(1,407)
Net Ending Balance	878
Inventories:	
Inventory held for current sale	1
Operating Materials and Supplies	
Items held for Use	<u>41</u>
Total Inventory and Related Property	<u><u>920</u></u>
Amount estimated to be donated or transferred during the coming period	778

Commodity loan forfeitures during the fiscal year ended September 30, 2001, were \$1.1 billion. Estimated future commodity donations are expected to be \$778 million.

Restrictions on Commodity Inventory

In accordance with the Agricultural Act of 1970, as amended, USDA may establish, maintain, and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by a natural disaster. These inventories may consist of feed grains, soybeans, and wheat. The amount held in reserve cannot exceed 20 million bushels (P.L. 105-18).

USDA maintains a required commodity reserve for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries.

As a result of the Federal Agricultural Improvement and Reform Act of 1996, the reserve may include rice, corn, and sorghum, as well as wheat. The reserve is established at 4 million metric tons and is replenished through purchases or by designation of commodities owned by USDA. The authority to replenish the reserve expires at the end of fiscal year 2002.

As of September 30, 2001, CCC had tobacco inventory in the amount of \$690 million. Since the Corporation is legislatively limited in how it may dispose of this inventory, an allowance equal to 100 percent of the inventory value has been established.

As of September 30, 2001, CCC had refined beet sugar inventory in the amount of \$9 million, which was forfeited in payment of a commodity loan. Due to litigation with the producer, this inventory is not available for CCC use.

Valuation Methods

The majority of operating supplies and materials, inventories are valued based on the weighted average method. The operating supplies and materials inventory maintained for emergency fire fighting are valued at GSA catalog prices as of January 1, 2001. This valuation method may approximate historical costs, depending on the extent that the emergency fire fighting inventory stock is depleted each year because of the severity of the fire season.

Allowances

Management has established no allowance against these balances because operating material and supplies that are not usable due to spoilage, obsolescence, damage, etc., are considered to be immaterial.

Note 10. General Property, Plant and Equipment

(U.S. dollars in millions)

General Property, Plant and Equipment

Classes	Cost	Accumulated Depreciation	Book Values	Estimated Useful Life**	Method of Depreciation*
Personal Property					
ADP Hardware	145	115	30	Various	SL
Equipment	1,732	1,004	728	Various	SL
Internal Use Software	196	71	125	1-5	SL
Vehicles	58	38	20	4-15	SL
Other	<u>14</u>	<u> </u>	<u>14</u>		
Subtotal	2,145	1,228	917		
Real Property					
Buildings	1,338	689	649	>20	SL
Land	63		63		
Roads and bridges	6,055	3,438	2,617	>20	SL
Other	<u>3,265</u>	<u>1,844</u>	<u>1,421</u>	Various	SL
Subtotal	<u>10,721</u>	<u>5,971</u>	<u>4,750</u>		
Total General Property, Plant, and Equipment	<u>12,866</u>	<u>7,199</u>	<u>5,667</u>		

*Depreciation Methods

**Range of Service Life

SL - Straight Line	1 - 5	1 to 5 years
DD - Double-Declining Balance	6 - 10	6 to 10 years
SY - Sum of the Years' Digits	11 - 20	11 to 20 years
IN - Interest (sinking fund)	>20	over 20 years
PR - Other (describe)		

Property, plant, and equipment are recorded at acquisition cost plus any expenditures, such as freight, installation or testing, related to placing the asset into service. Purchases of property, plant, or equipment valued at \$5,000 or more, including stewardship assets, with a useful life greater than 2 years, are capitalized. All other purchases of property, plant, or equipment are fully expensed in the year of acquisition.

USDA manages approximately 192 million acres of public land known as the National Forest System. In accordance with federal government accounting guidance for stewardship assets, USDA assigns no value to the public land it administers. The required supplemental stewardship information provides additional information concerning public land.

Note 11. Debt

(U.S. dollars in millions)

	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt			
Held by the Public	<u>90</u>	<u>(3)</u>	<u>87</u>
Other Debt			
Debt to the Treasury	52,456	2,960	55,416
Debt to the Federal Financing Bank	<u>26,262</u>	<u>(1,588)</u>	<u>24,674</u>
Total Other Debt	<u>78,718</u>	<u>1,372</u>	<u>80,090</u>
 Total Debt	 <u>78,808</u>	 <u>1,369</u>	 <u>80,177</u>
Classification of Debt			
Intragovernmental		80,090	
With the Public		<u>87</u>	
Total Debt		<u>80,177</u>	

The Secretary of Agriculture is authorized under Title 7, U.S.C., to make and issue notes to the Secretary of the Treasury for the purposes of obtaining funds necessary for discharging obligations of the crop insurance fund, unrealized losses and debt related to the foreign assistance programs.

Interest on permanent indefinite borrowing authority from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Monthly interest rates ranged from 3.5 percent to 6.125 percent during fiscal year 2001. Interest expense incurred on these borrowings was \$595 million for fiscal year 2001.

The fiscal year 2001 interest rate on long-term borrowings under the permanent indefinite borrowing authority for the Credit Reform programs are calculated using the OMB Financing Account Interest Calculator. For the 1992 through 2000 cohorts, actual discount rates and budget assumptions are used. For the 2001 and future cohorts, the single effective rate and budget assumptions are used.

During fiscal year 2001, the terms for borrowings made for the export credit guarantee programs were at least 10 years, while the repayment terms for the P.L. 480 program were 30 years. The repayment terms for the direct loans under the Farm Storage Facility loan program is 7 years, 3 years for direct loans under the Apple loan program, and 10 years for the direct loans made under the Boll Weevil program. Interest expense incurred on borrowings associated with these programs amounted to \$174 million for fiscal year 2001.

Note 12. Liabilities for Environmental Cleanup Costs

Under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Clean Water Act (CWA), and the Resource Conservation and Recovery Act (RCRA), the Forest Service anticipates cleaning up hazardous materials on Forest Service lands.

The Forest Service estimates that clean-up costs for sites on National Forest System lands are \$2.5 billion. Of this amount approximately \$1.8 billion relates to abandon mine lands and \$200 million relates to landfills and miscellaneous sites. The remaining \$500 million is attributed to costs relating to RCRA.

These estimates are tentative and sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and the estimates of related clean-up costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to clean-up cost by responsible parties because the amounts are highly speculative. There is a reasonable possibility, however that parties other than the Forest Service will pay some of the clean-up costs.

Note 13A. Liabilities Not Covered by Budgetary Resources

(U.S. dollars in millions)

Intragovernmental	
Accounts Payable	2
Other	<u>152</u>
Total Intragovernmental	154
Accounts Payable	6
Federal Employee and Veterans' Benefits	885
Benefits Due and Payable	15
Other	<u>2,098</u>
Total Liabilities Not Covered by Budgetary Resources	3,158
Total Liabilities Covered by Budgetary Resources	<u>114,332</u>
Total Liabilities	<u>117,490</u>

Note 13B. Other Liabilities

(U.S. dollars in millions)

Other Liabilities

	Non-Current	Current	Total
Intragovernmental			
Treasury General Receipts Fund		34	34
Deposit and Trust Liabilities		568	568
Unearned Revenue		319	319
Accrued Funded Payroll		25	25
Advances from Others	15	108	123
Custodial Liability	35	273	308
Other		815	815
Elimination	<u> </u>	<u>(735)</u>	<u>(735)</u>
Total	<u>50</u>	<u>1,407</u>	<u>1,457</u>
With the Public			
Deposit and Trust Liabilities	47	1,192	1,239
Accrued Program Liabilities		2,980	2,980
Reserve for Reinsurance Losses		324	324
Estimated Losses on Insurance Claims		1,893	1,893
Unearned Revenue		220	220
Stock Payable to RTB Borrowers	1,267		1,267
Accrued Funded Payroll and Benefits	5	536	541
Advances from Others		91	91
Custodial Liabilities		(247)	(247)
FLP Contingent Liabilities		28	28
CCC Collections of FSA/FLP Behalf		27	27
Other	<u>19</u>	<u>340</u>	<u>359</u>
Total	<u>1,338</u>	<u>7,384</u>	<u>8,722</u>

Other Liabilities include accrued liabilities for payroll and benefits, contingent liabilities, and other accrued liabilities. Other Liabilities covered by budgetary resources include RD's reported amount of \$1.3 billion in stock payable to RTB Borrowers. Other Liabilities not covered by budgetary resources include accrued program liabilities for the Conservation Reserve Program for which the funding is not received until the beginning of the following fiscal year.

Note 14. Lease Liabilities

(U.S. dollars in millions)

Operating Leases

Projected liabilities for operating leases relate primarily to leased space. USDA agencies rent space from the General Services Administration (GSA), which charges rates that are intended to approximate commercial rental rates. GSA space can be canceled in 120 days. FS rents commercial buildings and office space for terms that range from one to fifteen years. USDA agencies have no capital leases.

Future Payments Due	Asset Category		
	(1)	(2)	Totals
Fiscal Year			
Year 1 (FY 2002)	16	2	18
Year 2 (FY 2003)	14	2	16
Year 3 (FY 2004)	13	2	15
Year 4 (FY 2005)	9	2	11
Year 5 (FY 2006)	16	2	18
After 5 Years	<u>12</u>	<u> </u>	<u>12</u>
Total Future Lease Payments	80	10	90

The following is a schedule of future minimum rental payments required under FSA operating leases for which CCC is directly liable. The leases can be canceled after a period not to exceed 120 days.

Fiscal Year ended September 30	
2002	\$ 4
2003 and thereafter	<u>3</u>
Total	\$ 7

Allocated rent expense net of reimbursements received on these leases was \$60 million for Fiscal Year 2001.

Note 15. Unexpended Appropriations

(U.S. dollars in millions)

Unexpended Appropriations	
Unobligated	
Available	4,979
Unavailable	16,445
Undelivered Orders	<u>10,214</u>
Total	<u>31,638</u>

USDA's Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations consist of appropriated spending authority that is unobligated and has

not been withdrawn by Treasury, as well as obligations that have not been paid. Cumulative Results of Operations are the excess of financing sources over expenses for a budget account since its inception.

Note 16. Commitments and Contingencies

Commitments

There are approximately \$2.3 billion in commitments to extend loan guarantees.

Contracts Under Conservation Reserve Program (CRP)

Through CRP, participants sign 10–15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment of 50 percent of the eligible costs of establishing vegetative cover on the reserve acreage. CCC estimates that the future liability for CRP annual rental payments through year 2010 is \$18 billion. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. At September 30, 2001, accrued payments totaled \$ 1.8 billion.

Hazardous Waste Cleanup

See Note 12. Liabilities for Environmental Cleanup Costs.

Contingencies

Most legal actions that affect USDA and involve an amount in excess of \$2,500, fall under the Federal Tort Claims Act or the Contract Disputes Act, and are paid from the Claims and Judgments Fund maintained by the Department of Treasury. USDA is not required to reimburse this Fund for payments made on its behalf except for claims made under the Contract Disputes Act, which must be reimbursed. Pursuant to the guidance contained in SFFAS Number 5, USDA recognizes an expense and liability for all contingent liabilities determined to be probable. Those contingent liabilities that meet the requirements for disclosure, but not recognition, are disclosed below. Once the claim is settled or court judgment is assessed against USDA, and the Judgment Fund is determined to be the appropriate source for payment of claims, USDA records an imputed financing source or a liability for contract disputes. During FY 2001, approximately \$35.7 million was paid from the Fund to settle actions against USDA. Contract disputes accounted for \$10.5 million of that amount.

Commodity Credit Corporation

The Federal Agricultural Improvement and Reform Act of 1996 replaced acreage reduction programs with production flexibility contract payments. These payments are made on a fixed payment schedule over 7 years. CCC paid \$4 billion during fiscal year 2001, with \$3.9 billion remaining to be paid during fiscal year 2002.

Under Wetlands Reserve Program (WRP), CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect the wetlands, or to enhance wetlands on the property. WRP also provides an opportunity for landowners to receive cost share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal year ended September 30, 2001, were \$132 million. At September 30, 2001, CCC's estimated future liabilities are \$230 million.

The Noninsured Assistance Program (NAP) was authorized as a CCC program under the 1996 Act and is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance. Program expenses for the fiscal year ended September 30, 2001, were \$63 million. An estimate of the range of annual payments cannot be made. However, it is estimated that \$159 million will be outlaid in fiscal year 2002.

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Commodity contracts amounted to \$297 million at September 30, 2001.

The Dairy Export Incentive Program is authorized under the Food Security Act of 1985 to facilitate export of U.S. dairy products. Under this program, CCC pays the exporter a bonus when necessary to enable an exporter to sell the product at a competitive world price. Program expenses were approximately \$25 million for fiscal year 2001. On September 30, 2001, CCC estimated its future liabilities to be \$17 million.

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. To date, at approximately 120 of these facilities, carbon tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in ground water. USDA roughly estimates the total cost caused by use of the fumigant (including site inspection and cleanup, as well as operations and maintenance) to be \$55 million for CCC for the fiscal years 2002 through 2012. In fiscal year 2002, the Department is expected to provide funding of \$16 million under the ongoing department-wide hazardous waste management program. However, this amount is contingent on the amount actually appropriated to the USDA Hazardous Waste Fund and subsequently allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal year ended September 30, 2001, were \$96 million. At September 30, 2001, CCC estimated its future liabilities could range up to \$166 million.

The Office of General Counsel (OGC) has provided information to CCC regarding significant litigation pending as of September 30, 2001, against the Corporation and in particular, as set out below, OGC has identified three pending cases in which the potential liability of the Corporation is in excess of \$10 million. In the normal course of business, CCC becomes involved in legal disputes and claims of many kinds and CCC, through OGC, and the U.S. Department of Justice, vigorously defends its position in such action.

McBride Cotton & Cattle Corporation, et al. v. Ann M. Veneman, Secretary of the U.S. Department of Agriculture, the Plaintiffs challenge, on a number of bases, the Government's offset of payments made by CCC. Payments that were to go to entities were offset pro rata, based on those amounts of delinquent debts owed by significant shareholders of stakeholders in the entities. The United States District Court for the District of Arizona found in favor of the Government, and dismissed the Plaintiffs' case. The plaintiffs appealed to the Ninth Circuit Court of Appeals. This case is highly significant as it involves a fundamental principle involved in CCC debt collection and rule-making

processes. The potential impact of the case upon the Corporation could amount to a sum in excess of \$10 million in light of the possible amount of offset that might over time be made under the affiliation rules which are challenged in the lawsuit.

Charles Parker, et al. v. Ann M. Veneman, in her capacity as Secretary of the United States Department of Agriculture, et al., cotton producers in Southeastern Missouri applied for Loan Deficiency Payments (LDP) under the Marketing Assistance Loan Program. The producers signed contracts with the Government requesting a specific LDP amount based on representation in the contract as to the procedure they were utilizing of the marketing of their cotton. The producers were paid the contract amount but subsequently the producers sought to adjust the amount that they were paid and alleged, against the charge that they had agreed to the arrangement, that they were instructed by local FSA officials to sign the contracts and had simply followed FSA advice. The producers seek higher LDP as market prices subsequently declined such that the LDP from CCC increased dramatically. The Department of Justice has filed an answer in suit and, depending on the outcome of the suit, CCC's liability could range from several hundred thousand dollars to more than \$10 million.

Bair, et al. v. Pacific Northwest Sugar Co., LLC, et al, which involves and attempt by producers of sugar in the state of Washington to assert claims against sugar which was, as to the 1999 crop, forfeited to CCC, and, in the case of the 2000 crop, stands as collateral for loans made by CCC which are now in default. The producers claim that the loan funds received by the cooperative were not passed along by their cooperative to them and that they, accordingly, have a producer lien on all of the sugar which was the subject price support loans made by CCC for the 1999 and 2000 crops. CCC believes that it has a superior position, is defending the suit, and is attempting to sell the sugar as rapidly as possible in order to recover the public's loan outlays. The amount in controversy, measured by the value of the sugar involved, exceeds \$10 million.

Farm Service Agency

Timothy Pigford, et al. v. Dan Glickman, is a class action brought by African-American farmers who filed administrative discrimination complaints with USDA between 1983 and February 21, 1997, alleging race discrimination in Farmers Home Administration/FSA farm programs. This matter has been settled. The consent decree provides a system under which plaintiffs will have their claims heard by a third party who will direct the relief to be provided.

Cecil C. Brewington, et al. v. Dan Glickman is a case closely related to Timothy Pigford et al. v. Dan Glickman, where a class action was brought by African-American farmers who filed administrative discrimination complaints with USDA, between 1983 and February 21, 1997, alleging race discrimination in FSA farm programs. This matter has been settled. The consent decree provides a system under which plaintiffs will have their claims heard by a third party who will direct the relief to be provided.

Garcia v. Veneman, Civil Action No. 1:00CV02445 (D.D.C.). This class action complaint alleges discrimination under the Equal Credit Opportunity Act and Title VI of the Civil Rights Act of 1964 in the access to and participation in USDA's farm programs. In addition, the complaint alleges that USDA failed to process properly the civil rights complaints of Hispanic Americans. The complaint was filed on behalf of all Hispanic Americans participants in FSA's farm programs who petitioned the USDA at any time between January 1, 1981 through November 24, 1999, for relief from acts of racial discrimination visited on them as they tried to participate in the farm programs. The case is in the early stages of litigation. The government has filed a Motion to Dismiss and a Motion to Strike the Class Allegations. Opposing counsel has requested relief in the amount of \$20 billion.

Keepseagle v. Veneman, Civil Action No. 1:99CV03119 (D.D.C.) This class action complaint alleges discrimination under the Equal Credit Opportunity Act and Title VI of the Civil Rights Act of 1964 in the access to and participation in USDA's farm programs. In addition, the complaint alleges that USDA failed to process properly the civil rights complaints of Native Americans. The complaint was filed on behalf of all Native Americans participants in FSA's farm programs who petitioned the USDA at any time between January 1, 1981 through November 24, 1999, for relief from acts of racial discrimination visited on them as they tried to participate in the farm programs. District Judge Emmet Sullivan granted class certification on September 28, 2001. The parties have been ordered to file briefs defining the subclasses and identifying class representatives for each subclass. The government also filed a request to take an interlocutory appeal of the class certification decision with the D.C. Circuit Court of Appeals. The government is vigorously opposing class certification in this case. Opposing counsel has requested relief in the amount of \$19 billion.

Love v. Veneman, Civil Action No. 1:00CV02502 (D.D.C.). This class action complaint alleges discrimination under the Equal Credit Opportunity Act and Title VI of the Civil Rights Act of 1964 in the access to and participation in USDA's farm programs. In addition the complaint alleges that USDA failed to process properly the civil rights complaints of woman, minorities, and other "protected" farmers. The complaint was filed on behalf of all woman, minorities, and other "protected" farmers participants in FSA's farm programs who petitioned the USDA at any time between January 1, 1981 through November 24, 1999, for relief from acts of racial discrimination visited on them as they tried to participate in the farm programs. The case is in the early stages of litigation. District Judge Robertson granted a partial dismissal in the case allowing only the ECOA claims to proceed. The government is vigorously opposing class certification in this case. Opposing counsel has requested relief in the amount of \$3 billion.

Federal Crop Insurance Corporation

FCIC is a defendant in various litigation cases arising in the normal course of business. Management has recorded a liability in the financial statements for the estimated settlement amount of these cases based on its best estimate at the time of financial statement preparations. Furthermore, in order to defend its policies and procedures, FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found to be due under the Standard Reinsurance Act for reinsured companies. For this reason, FCIC is consulted with and approves significant decisions in the litigation process. In exchange for FCIC consideration, the reinsurance companies reimburse the FCIC an amount equal to 50% of the expense reimbursement due the reinsured companies on such policies.

Food and Nutrition Service

FNS is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FNS management and the Department of Agriculture's legal counsel, the ultimate resolution of these proceedings, actions, and claims will not materially affect FNS' assets, liabilities, net cost of operations, changes in net position or budgetary resources for the current fiscal year.

Forest Service

FS is a party to various administrative proceedings, legal actions, and claims. As of September 30, 2001, the following claims with amounts, individually or in aggregate, of \$10 million or more are pending resolution. There are seven claims with unfavorable outcomes. For the first two claims, counsel considers an adverse decision probable and estimates approximately \$38.4 million (\$28.4

million accrued in FY 2000). In the other claims, counsel considers an adverse decision reasonably possible and estimates approximately \$1.6 billion. In addition, the Forest Service is liable for \$178.6 million related to the Contracts Dispute Resolution Act.

Rural Development

A class action complaint alleging race and gender discrimination under various civil right and program statutes, know as *Chiang v. Veneman*, Civil Action #2000/004(C.C.V.I.) is in the early stages of litigation. The government has filed a Motion to dismiss and to strike the Class allegation. A determination was made by the Office of General Counsel that it is "Reasonable Possible" that an unfavorable outcome is likely to occur. Opposing counsel has requested relief in the amount of \$2.8 billion.

Although the existing Multiple Family Housing portfolio is in fair condition overall, Rural Development National Office officials determined during a fiscal year 2000 Management Control Review that adequate funds had not been accrued to address future maintenance cost. A conservative estimate is that in the next 5 years, approximately 4,250 properties and 85,000 apartment units, will physically deteriorate to the point where safety and sanitation will necessitate a general modernization program to maintain their marketability and ultimately compete for tenants. While no specific dollar amount was provided, it is expected to reach into the hundreds of million of dollars.

Other USDA

Cases against USDA where the chance of an unfavorable outcome is less than probable but more than remote are *De La Torre v. U.S.*, Case No. 1:01CV00942, District Court for the District of Columbia; *Cruz v. U.S.*, Civil Action No. 01-0892-CRB, District Court of the Northern District of California; and *Spencer v. Veneman*, OFO/EEOC Docket # 01A05280. No estimate of loss can be made for any of the 3 case named above at this time.

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Program Costs	Farm and Foreign Agricultural Services	Food, Nutrition and Consumer Services	Food Safety	Marketing and Regulatory Programs
Intragovernmental	1,619	772	124	1,207
With the Public				
Grants and Transfers				
Grants and Payments	21,414	31,991	50	59
Indemnities	3,409			90
Loan Subsidy Costs	261			
Commodity Inventory Costs	3,345	543		
Other Program Costs	<u>4,783</u>	<u>142</u>	<u>741</u>	<u>952</u>
Total Program Costs	34,831	33,448	915	2,308
Less Earned Revenues	<u>5,086</u>	<u>75</u>	<u>99</u>	<u>772</u>
Excess Production Costs Over Revenues	29,745	33,373	816	1,536
Nonproduction Costs				
Acquisition Cost of Stewardship Land	132			
Other Nonproduction Costs	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Program Costs	29,877	33,373	816	1,536
Costs Not Assigned to Program	<u> </u>	<u>35</u>	<u> </u>	<u>14</u>
Net Cost of Operations	<u>29,877</u>	<u>33,408</u>	<u>816</u>	<u>1,550</u>

Natural Resources and Environment	Research Education and Economics	Rural Development	Other Services	Eliminations	USDA
572	325	3,696	246	(654)	7,907
264		1,354			55,132
8					3,507
		770			1,031
					3,888
<u>5,406</u>	<u>1,995</u>	<u>1,029</u>	<u>456</u>		<u>15,504</u>
6,250	2,320	6,849	702	(654)	86,969
<u>1,552</u>	<u>151</u>	<u>4,588</u>	<u>311</u>	<u>(295)</u>	<u>12,339</u>
4,698	2,169	2,261	391	(359)	74,630
87					219
<u>27</u>					<u>27</u>
4,812	2,169	2,261	391	(395)	74,876
					49
<u>4,812</u>	<u>2,169</u>	<u>2,261</u>	<u>391</u>	<u>(359)</u>	<u>74,925</u>

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Farm and Foreign Agricultural Services

Program Costs	Farm Income Support	Conservation Reserve	Commodity Program	Farm Loan Program
Intragovernmental	804	120	542	701
With the Public				
Grants and Transfers				
Grants and Payments	16,617	1,760		(247)
Loan Subsidy Costs	6			191
Commodity Inventory Costs			3,345	
Other Program Costs	<u>850</u>	<u>(2)</u>	<u>705</u>	<u>1,602</u>
Total Program Costs	18,277	1,878	4,592	2,247
Less Earned Revenues	<u>114</u>	<u>(2)</u>	<u>2,639</u>	<u>871</u>
Excess Production Costs Over Revenues	18,163	1,880	1,953	1,376
Acquisition of Stewardship Land				
Net Cost of Operations	<u>18,163</u>	<u>1,880</u>	<u>1,953</u>	<u>1,376</u>

Crop Insurance	International Operations	Other Programs	Intra-mission Area Elimination	Total Mission Area
34	408	627	(1,653)	1,583
	347	2,937		21,414
3,409				3,409
	63			260
				3,345
<u>696</u>	<u>53</u>	<u>878</u>	<u> </u>	<u>4,783</u>
4,139	871	4,443	(1,653)	34,794
<u>976</u>	<u>988</u>	<u>362</u>	<u>(876)</u>	<u>5,072</u>
3,163	(117)	4,082	(777)	29,271
		<u>132</u>	<u> </u>	<u>132</u>
<u>3,163</u>	<u>(117)</u>	<u>4,213</u>	<u>(777)</u>	<u>29,854</u>

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Food, Nutrition, and Consumer Service

Program Costs	Commodity Assistance	Child Nutrition Programs	Food Stamp Program	Women, Infants, and Children Program
Intragovernmental		31	17	3
With the Public				
Grants and Transfers				
Grants and Payments	65	9,047	18,801	3,909
Commodity Inventory Costs	64	327	106	
Other Program Costs	<u>2</u>	<u>26</u>	<u>98</u>	<u>16</u>
Total Program Costs	131	9,431	19,022	3,928
Less Earned Revenues	<u> </u>	<u>1</u>	<u>74</u>	<u> </u>
Excess Production Costs Over Revenues	<u>131</u>	<u>9,430</u>	<u>18,948</u>	<u>3,928</u>
Net Program Costs	<u>131</u>	<u>9,430</u>	<u>18,948</u>	<u>3,928</u>
Costs Not Assigned to Program	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Cost of Operations	<u>131</u>	<u>9,430</u>	<u>18,948</u>	<u>3,928</u>

Food Distribution Program	Other Programs	Total Mission Area
721		772
169		31,991
46		543
<u> </u>		<u>142</u>
936		33,448
<u> </u>		<u>75</u>
<u>936</u>		<u>33,373</u>
936		33,373
<u> </u>	<u>35</u>	<u>35</u>
<u>936</u>	<u>35</u>	<u>33,408</u>

Note 17A. Program Costs by Segment*(U.S. dollars in millions)***Food Safety and Inspection Service****Program Costs**

Intragovernmental	124
With the Public	
Grants and Transfers	
Grants and Payments	50
Other Program Costs	<u>741</u>
Total Program Costs	915
Less Earned Revenues	<u>99</u>
Net Cost of Operations	<u>816</u>

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Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Natural Resources and Environment

Program Costs	National Forest and Grasslands	State and Private Forestry	Forest Research	NRCS
Intragovernmental	334	132	7	78
With the Public				
Grants and Transfers				
Grants and Payments	8	193	4	59
Indemnities	4	4		
Commodity Inventory Costs				
Other Program Costs	<u>2,530</u>	<u>1,449</u>	<u>232</u>	<u>1,068</u>
Total Program Costs	2,876	1,778	243	1,205
Less Earned Revenues	<u>947</u>	<u>238</u>	<u>43</u>	<u>176</u>
Excess Production Costs Over Revenues	1,929	1,540	200	1,029
Nonproduction Costs				
Acquisition Cost of Stewardship Land	87			
Other Nonproduction Costs	<u>27</u>			
Net Cost of Operations	<u>2,043</u>	<u>1,540</u>	<u>200</u>	<u>1,029</u>

Other Programs	Total Mission Area
21	572
	264
	8
<u>127</u>	<u>5,406</u>
148	6,250
<u>148</u>	<u>1,552</u>
	4,698
	87
	<u>27</u>
	<u><u>4,812</u></u>

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Marketing and Regulatory Programs

Program Costs	Improved Marketing	APHIS	Intra-mission Area Elimination	Total Mission Area
Intragovernmental	1,077	137	(7)	1,207
With the Public				
Grants and Transfers				
Grants and Payments		59		59
Indemnities		90		90
Other Program Costs	<u>207</u>	<u>745</u>	<u> </u>	<u>952</u>
Total Program Costs	1,284	1,031	(7)	2,308
Less Earned Revenues	<u>481</u>	<u>298</u>	<u>(7)</u>	<u>772</u>
Excess Production Costs Over Revenues	803	733		1,536
Costs Not Assigned to Program	<u>14</u>	<u> </u>	<u> </u>	<u> </u>
Net Cost of Operations	<u>817</u>	<u>733</u>	<u> </u>	<u>1,550</u>

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Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Research, Education, and Economics

Program Costs	ARS	ERS	NASS	CSREES
Intragovernmental	149	19	47	122
With the Public				
Other Program Costs	<u>882</u>	<u>52</u>	<u>80</u>	<u>981</u>
Total Program Costs	1,031	71	127	1,103
Less Earned Revenues	<u>85</u>	<u>4</u>	<u>22</u>	<u>52</u>
Net Cost of Operations	<u>946</u>	<u>67</u>	<u>105</u>	<u>1,051</u>

Intra-mission Area Elimination	Total Mission Area
(12)	325
<hr/>	<hr/>
(12)	1,995
(12)	2,320
<hr/>	<hr/>
(12)	151
	<hr/>
	<u>2,169</u>

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Rural Development

Program Costs	Rural Housing	Rural Utilities	Rural Business Cooperative	Other
Intragovernmental	1,484	1,656	1,006	
With the Public				
Grants and Transfers				
Grants and Payments	722		631	1
Loan Subsidy Costs	376	123	271	
Other Program Costs	<u>(1,646)</u>	<u>2,352</u>	<u>323</u>	<u> </u>
Total Program Costs	936	4,131	2,231	1
Less Earned Revenues	<u>1,977</u>	<u>1,925</u>	<u>1,135</u>	<u> </u>
Net Cost of Operations	<u><u>(1,041)</u></u>	<u><u>2,206</u></u>	<u><u>1,096</u></u>	

Intra-mission Area Elimination	Total Mission Area
(450)	3,696
	1,354
	770
_____	<u>1,029</u>
(450)	6,849
<u>(450)</u>	<u>4,588</u>
	<u><u>2,261</u></u>

Note 17A. Program Costs by Segment

(U.S. dollars in millions)

Other Services

Program Costs	Departmental Offices	Working Capital Fund	Intra-mission Area Elimination	Total Mission Area
Intragovernmental	204	74	(32)	246
With the Public				
Other Program Costs	<u>232</u>	<u>224</u>	<u> </u>	<u>456</u>
Total Program Costs	436	298	(32)	702
Less Earned Revenues	<u>39</u>	<u>289</u>	<u>(17)</u>	<u>311</u>
Net Cost of Operations	<u>397</u>	<u>9</u>	<u>(15)</u>	<u>391</u>

Note 17B. Exchange Revenue

(U.S. dollars in millions)

Earned Revenue from Nonfederal Parties	
Loan Program Interest Revenue	5,733
Other Program Revenue	<u>4,881</u>
Total Earned Revenues for Nonfederal Parties	10,614
Earned Revenues from Federal Entities	<u>1,725</u>
Total Earned Revenues Attributed to Programs	<u>12,339</u>

Loan Program Interest Revenue

The amount of subsidy expense in the RD mission area on post-1991 Credit Reform direct loans equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both federal and nonfederal sources and is recorded as earned revenue. Interest revenue also included interest earned on non-Credit Reform Loans and interest on invested (not yet loaned) funds at Treasury for both RD and FFAS mission areas.

Other Earned Revenue

Premium revenue in the FFAS mission area is recognized as earned on a pro rata basis over each crop's growing season and is stated net of the underwriting gains which will be returned to reinsured companies. The portion of premium not recognized during a fiscal year (unearned premium) is classified as unearned revenue, nonfederal in the Balance Sheet. The portion of the premium subsidy not recognized is classified as federal unearned revenue in the Balance Sheet. The FCIC's risk of loss commences when the crop is planted and continues through the growing season until the crop is harvested, destroyed, or otherwise removed from the field. Premiums are generally collected at the end of the growing season when the crops are harvested. Under the Standard Reinsurance Act (SRA), the collection of producer premiums is the responsibility of the reinsured company. With respect to catastrophic policies, the premium is fully subsidized by the federal government and only a nominal administrative fee is collected from the farmer.

FS assesses fees for grazing, land uses, mineral leases, recreation use, recreation special uses, and sales of timber and timber by-products. Most fees are based on full cost, except some land use fees that are established based on market value.

AMS charges fees for services rendered and goods sold. These services include inspection, grading and classing of food and non-food agricultural commodities, the licensing of dealers in perishable agricultural commodities, the oversight of agricultural research and promotion activities funded by industry assessments, and the granting of Plant Variety Protection certificates.

APHIS charges fees for services rendered and goods sold. These services include guarding United States borders against foreign agricultural pests and diseases, facilitation of agricultural exports

through scientifically based sanitary and phytosanitary standards, and control of wildlife damage and protection of endangered species. The Farm Bill of 1990 authorized the Secretary of Agriculture to assess user fees for agricultural quarantine and inspection services provided for the arrival of international passengers, commercial aircraft, vessels, trucks, and railroads cars.

Note 17C. Total Cost and Earned Revenue by Budget Functional Classification (Amounts Net of Intradepartmental Transactions)

(U.S. dollars in millions)

Function Classification	Cost	Earned Revenue	Net Cost
150 International Affairs	245	197	48
270 Energy	4,131	1,925	2,206
300 Natural Resources and Environment	6,150	1,137	5,013
350 Agriculture	39,318	5,933	33,385
370 Commerce and Housing Credit	146	1,949	(1,803)
450 Community and Regional Development	2,281	1,135	1,146
550 Health	916	96	820
600 Income Security	34,975	303	34,672
800 General Government	206	409	(203)
999 Multifunction Account	(450)	(450)	
Eliminations	<u>(654)</u>	<u>(295)</u>	<u>(359)</u>
Total	87,264	12,339	74,925

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

150 International Affairs		27	(27)
270 Energy	1,611	50	1,561
300 Natural Resources and Environment	496	517	(21)
350 Agriculture	2,625	356	2,269
370 Commerce and Housing Credit	1,078	95	983
450 Community and Regional Development	846	115	731
550 Health	<u>123</u>	<u>1</u>	<u>122</u>
Total	6,779	1,161	5,618

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Note 18. Disclosures Related to the Statement of Changes in Net Position

(U. S. dollars in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Service	Food Safety	Marketing and Regulatory Programs	Natural Resources and Environment
Net Cost of Operations	29,876	33,408	816	1,549	4,812
Financing Sources (other than exchange revenues):					
Appropriations Used	30,252	32,662	666	1,742	4,788
Taxes (and other non-exchange revenues)	11				
Donations (non-exchange revenue)	1			1	4
Imputed financing	377	764	63	95	182
Transfers-In	63			240	57
Transfers-Out	(345)			(240)	13
Other Financing Sources				33	(741)
Net Results of Operations	483	18	(87)	321	(509)
Net Results Not Affecting Net Position	(1,659)				
Prior Period Adjustments	1,662	1	(5)	1	(350)
Net Change in Cumulative Results of Operations	486	19	(92)	323	(859)
Increase (Decrease) in Unexpended Appropriations	1,024	(1,038)	26	(37)	1,356
Change in Net Position	1,510	(1,019)	(66)	286	497
Net Position—Beginning of Period	(22,778)	17,746	(157)	1,015	6,308
Net Position—End of Period	(21,268)	16,727	(223)	1,301	6,805

Prior Period Adjustments

Property, Plant and Equipment Ledger Adjustment		1	47		
FECA 4th Quarter FY 1999 Expense			(122)		(25)
Credit Reform PL480, GSM, FSFL	(100)				(631)
Adjust Beginning Net Position	(1,690)			(4)	111
Other	72		70	1	195
Total Prior Period Adjustments	1,662	1	(5)	(3)	(350)

Research, Education, and Economics	Rural Development	Other	Eliminations	USDA
2,169	2,262	392	(359)	74,925
2,158	3,437	404		76,109
2		1		11
38	79	27	(359)	1,266
	1	3	(348)	16
	(776)	(3)	348	(1,003)
<u>29</u>	<u>479</u>	<u>40</u>		<u>775</u>
	(570)			(2,229)
<u>73</u>		<u>(24)</u>		<u>1,358</u>
102	(91)	16		(96)
<u>(31)</u>	<u>481</u>	<u>63</u>		<u>1,844</u>
71	390	79		1,748
<u>1,816</u>	<u>4,435</u>	<u>128</u>		<u>8,513</u>
<u>1,887</u>	<u>4,825</u>	<u>207</u>		<u>10,261</u>
(23)		73		97
				(147)
				(731)
				1,801
				<u>338</u>
<u>(23)</u>		<u>73</u>		<u>1,358</u>

Consistent with federal accounting guidance in the Federal Intragovernmental Transactions Accounting Policies Guide, dated September 28, 2001, the accrued unfunded Federal Employees' Compensation Act (FECA) liability and related expenses were calculated as of September 30, 2001.

Statement of Federal Financial Accounting Standards Number 7, "Accounting for Revenue and Other Financing Sources," indicates that appropriation, which will be realized in a subsequent year, should not be accrued as a receivable. Credit Reform programs received appropriation in the year following that for which subsidy expense was re-estimated resulting in increased expense.

Note 19. Disclosures Related to the Statement of Budgetary Resources

(U.S. dollars in millions)

Budgetary Resources Obligated for Undelivered Orders, End of Period	25,783
Available Borrowing and Contract Authority, End of Period	17,411
Adjustments to Budgetary Resources Available at the Beginning of the Year	
Reimbursements – Collected	75
Recoveries of Prior Year Obligations	2,187
Redemption of Debt	(44,625)
Not Available Pursuant to Public Law	(106)
Cancellations of Expired Accounts	(14,143)
Other Authority	(1,026)
Unfilled Customer Orders	15
Funds Returned by 2108	(18)
Other	(36)
Total Adjustments	(57,675)

Repayment Requirements, Financing Sources for Repayment, and Other Terms of Borrowing

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.

Net Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Reporting Period

The majority of the adjustments result from redemption of debt or the amount of principal repayments paid to the Treasury on CCC's outstanding borrowings. Redemption of debt is the amount of principal repayments paid to the Treasury or the FFB on outstanding borrowings. It does not include interest payments, which are shown as an obligation and an outlay.

Actual recoveries of prior year obligations are cancellations or downward adjustments of obligations incurred in prior fiscal years that did not result in an outlay. For expired accounts, these recoveries are available for upward adjustments of valid obligations that were incurred during the unexpired period but not recorded.

Cancellations of expired accounts are the amount of appropriation authority, which is canceled five years after the expiration of an annual or multi-year appropriation.

Other authority withdrawn represents the withdrawal of unobligated balances of indefinite budget authority realized in no-year or multiple year accounts through downward adjustments of prior year obligations.

Existence, Purpose, and Availability of 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.

Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

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 20. Disclosures Related to the Statement of Financing

(U.S. dollars in millions)

Other Non-Budgetary Resources Used to Finance Operations	
Non-Exchange Revenues: Fines/Penalties	(34)
Revenue from Services Provided to the Government	(61)
Revenue from Services Provided to the Public	(198)
Reimbursements	97
Trust Fund	1
Interest Revenue	(4)
Miscellaneous	<u>(1,301)</u>
Total	<u>(1,500)</u>
Other Resources Used to Fund Items Not Part of the Net Cost of Operations	
Prior Period Adjustment: Reimbursable Agreements	(69)
Prior Period Adjustment: Conservation Reserve Program	(2)
Allocation Transfer from AID	263
Donated Revenue – Financial Resources	(1)
Miscellaneous	<u>(200)</u>
Total	<u>(9)</u>
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period	
Departmental Allocation Transfer for Hazardous Waste – 12X0500	3
Accounts	22
Miscellaneous	<u>(491)</u>
Total	<u>(466)</u>

Note 21. Disclosures Not Related to a Specific Statement

(U.S. dollars in millions)

Custodial Activity

Sources of Collections

National Forest Service Receipts	145
National Grasslands Receipts	23
General Fund Miscellaneous Receipts	28
FNCS Accrual	(7)
Farm Credit Collection/Admin. and Other Fees	1,624
SCS Loan Collections	1
Other	<u>3</u>
Total Revenue Collected	<u>1,817</u>

Disposition of Collections

Amount Transferred to Treasury	19
Amounts Retained by Agencies	43
Amounts Transferred to FSA	1,589
Other	<u>166</u>
Total Disposition of Revenue	<u>1,817</u>

Net Total Custodial Activity

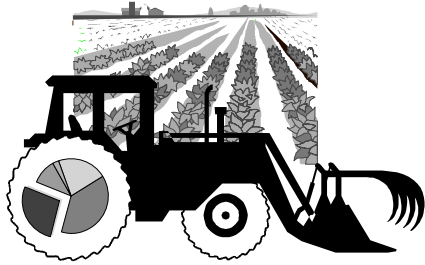
National Forest Fund receipts are revenue from the sale of timber and other forest products. Some states elected to receive the traditional twenty-five percent of the revenue, while others (75%) elected to receive a full payment under the new law, the Secure Rural Schools and Community Self-Determination Act of 2000 National Grasslands Receipts are revenue from the use of national grasslands, twenty-five percent of which is paid to counties and the balance returned to Treasury.

The balance of custodial collections represent miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and retailer and wholesaler fines and penalties. USDA transfers these types of collections to Treasury. USDA custodial collection activities are considered immaterial and incidental to the mission of the USDA.

Subsequent Events

Subsequent to the close of the fiscal year, activities occurred that may affect the interpretation of the financial results for the period ending September 30, 2001, as discussed below.

Due to the December 2001 crisis in Argentina, CCC anticipates future defaults on GSM credit guarantees. As of January 2002, CCC had outstanding GSM program credit guarantees of \$260 million for guarantees of U. S. bank loans to private sector banks in Argentina. Installments due under these guarantees extend through fiscal year 2004. As of January 2002, CCC had not received any notices of default applicable to these guarantees.



Required Supplementary Stewardship Information

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 2001 Balance	Additions (+)	Withdrawals (-)	FY 2000 Balance
Forest Service				
National Forest System (in acres)				
National Forests	143,848,797		(675,364)	144,524,161
Wilderness Areas	34,812,657	61,298		34,751,359
Primitive Areas	173,762			173,762
Wild and Scenic River Areas	945,155	246		944,909
Recreation Areas	2,910,364	273,970		2,636,394
Scenic – Research Areas	135,815			135,815
Game Refuges and Wildlife Preserve Areas	1,166,374		(52,616)	1,218,990
Monument Areas	3,840,582	392,169		3,448,413
National Grasslands	3,836,567	561		3,836,006
Purchase Units	350,601		(2,291)	352,892
Land Utilization Projects	1,876			1,876
Other Areas	<u>361,545</u>	<u>171,184</u>		<u>190,361</u>
Total National Forest System Land	<u>192,384,095</u>	<u>899,428</u>	<u>(730,271)</u>	<u>192,214,938</u>
Roads and Trails (In miles):				
Roads	381,148	148		381,000
Trails	<u>133,087</u>			<u>133,087</u>
Total Roads and Trails	<u>514,235</u>	<u>148</u>		<u>514,087</u>
Conservation Easements (in acres)				
Commodity Credit Corporation				
Wetlands Reserve Program	629,065	115,310		513,755
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159			92,159
Emergency Watershed Protection Program	<u>88,020</u>	<u>26,716</u>		<u>61,304</u>
Total Conservation Easements	<u>809,244</u>	<u>142,026</u>		<u>667,218</u>

National Forest System

The FS manages 155 national forests and 20 grasslands on over 192 million acres of public land.

National Forests A unit formally established and permanently set aside and reserved for National Forest purposes. The following categories of National Forest System (NFS) land have been set-aside for specific purposes in designated areas:

- Wilderness Areas Areas designated by Congress as a 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 suitability 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 of certain ocean headlands and to insure protection and encourage the study of the area 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 of historic or scientific interest, declared by Proclamation or by Congress.

National Grasslands A unit designated by the Secretary of Agriculture and permanently held by USDA under Title III of the Bankhead-Jones Tenant 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.

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 FS that are not included in one of the above groups.

Conservation Easements

Wetlands Reserve Program (WRP)

The Wetlands Reserve Program (WRP), administered by NRCS and funded by CCC, 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 USDA 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.

Easements purchased under this program meet the definition of stewardship land. CCC records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, 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.

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 Non Federal Property

Program	FY 2001 Expense	FY 2000 Expense	FY 1999 Expense
Non-Federal Property:			
Food and Nutrition Service			
Food Stamp Program	41	28	52
Special Supplemental Nutrition Program	18	29	
Cooperative State Research, Education, and Extension Service			
Extension 1890 Facilities Program	<u>12</u>	<u>12</u>	
Total Non-Federal Property	<u>71</u>	<u>69</u>	<u>52</u>

Food Stamp Program

FNS'S non-federal physical property consist of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. 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 Programs

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 2001, 17 grants were awarded to support this program.

Stewardship Investments in Human Capital

Program	FY 2001 Expense	FY 2000 Expense	FY 1999 Expense
Human Capital:			
Cooperative State Research, Education, and Extension Service			
Higher Education and Extension Programs	479	466	458
Food and Nutrition Service			
Food Stamp Program	57	156	125
Child Nutrition Program			2
Forest Service			
Job Corps Program	101	94	88
Agricultural Research Service			
National Agricultural Library	21	19	20
Risk Management Agency			
Risk Management Education		<u>1</u>	<u>1</u>
Total Human Capital	<u>658</u>	<u>736</u>	<u>694</u>

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 2001, approximately 193 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 Nutrition Service Programs

FNS's 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 584 thousand work registrants subject to the 3 month Food Stamp Program participant limit and 467 thousand work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Job Corps Program

The FS, in partnership with the Department of Labor, operates 18 Job Corps civilian conservation centers. Job Corps is the only Federal residential, educational, and training program for the Nation's disadvantaged youth between the ages of 16–24 years old. The purpose of the program is to provide young adults with skills necessary to become employable, independent, and productive citizens. Job Corps operates and is funded on a program fiscal year ending June 30.

Established in 1964, the FS has trained and educated about 200,000 young people. The program is carried out in a structured, co-educational, residential environment that provides education, vocation and life skills training, counseling, medical care, work experience, placement assistance, recreational opportunities, and cash allowance.

Job Corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operation and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenance, warehousing, and plastering.

During FY 2001 there were 9,528 participants with 4,423 placements.

National Agricultural Library

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 3.3 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 Education (RME)

During fiscal year 2001, the RME worked toward these goals by funding 1500 Risk Management sessions, compared to approximately 1200 Risk Management sessions during fiscal year 2000. Most of these activities targeted producers directly. The number of producers reached through these sessions totaled more than 50,000 in FY 2001 and 30,000 in FY 2000. In addition to reaching producers, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of Risk Management with which they may be unfamiliar.

Stewardship Investments in Research and Development

Program	FY 2001 Expense	FY 2000 Expense	FY 1999 Expense
Research and Development:			
Agricultural Research Service			
Plant Sciences	324	296	295
Commodity Conversion and Delivery	194	172	156
Animal Sciences	146	133	119
Soil, Water, and Air Sciences	98	89	82
Human Nutrition	77	72	67
Integration of Agricultural Systems	34	31	30
Collaborative Research Program	11		2
Cooperative State Research, Education, and Extension Service			
Land-grant University System	495	476	457
Forest Service			
Natural Resource Management	200	255	198
Economic Research Service			
Economic and Social Science	66	64	65
National Agricultural Statistics Service			
Statistical	<u>4</u>	<u>4</u>	<u>4</u>
Total Research and Development	<u>1,649</u>	<u>1,592</u>	<u>1,475</u>

Agricultural Research Service Programs

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 for 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 to the New Independent States of the former Soviet Union (NIS) in developing a market-based agricultural system necessary to meet the food needs of their populations and to develop and strengthen trade linkages between their countries and related agribusiness and agricultural enterprise in the United States.

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 Programs

FS Research and Development is responsible for providing reliable science-based information to be 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. Major research:

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

The research staff is involved in all areas of the FS in supporting goals by providing more efficient and effective methods where applicable. A representative summary of FY 2001 accomplishments include:

- Estimated 259 new interagency agreements and contract
- About 127 interagency agreements and contracts continued
- Estimated 1,205 articles published in journals
- Estimated 1,454 articles published in all other publications
- 6 patents granted
- 1 rights to inventories

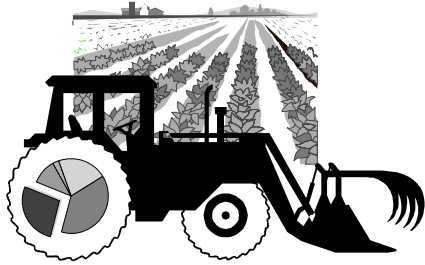
Economic Research Service Programs

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 Programs

Statistical research 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.

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Required Supplementary Information

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U.S. Department Of Agriculture
Combined Statement Of Budgetary Resources
For the year ended September 30, 2001
(in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Service	Food Safety
Budgetary Resources			
Budget Authority	71,900	34,202	701
Unobligated Balances – Beginning of Period	4,801	28,664	32
Spending Authority From Offsetting Collections	18,288	144	96
Adjustments	<u>(40,226)</u>	<u>(13,495)</u>	<u>47</u>
Total Budgetary Resources	<u>54,763</u>	<u>49,515</u>	<u>876</u>
Obligations Incurred	48,284	33,977	831
Unobligated Balances–Available	5,173	1,172	16
Unobligated Balances–Not Available	<u>1,306</u>	<u>14,366</u>	<u>29</u>
Total, Status of Budgetary Resources	<u>54,763</u>	<u>49,515</u>	<u>876</u>
Obligations Incurred	48,284	33,977	831
Less: Actual Spending Authority From Offsetting Collections and Adjustments	18,506	766	148
Obligated Balance, Net – Beginning of Period	6,539	2,966	63
Less: Obligated Balance, Net – End of Period	<u>7,173</u>	<u>3,053</u>	<u>73</u>
Total Outlays	<u>29,144</u>	<u>33,124</u>	<u>673</u>

Marketing and Regulatory Programs	Natural Resources and Environment	Research, Education, and Economics	Rural Development	Other USDA Services	USDA
1,856	6,342	2,228	10,980	443	128,652
854	626	407	1,320	111	36,815
328	644	87	9,526	321	29,434
<u>447</u>	<u>284</u>	<u>6</u>	<u>(4,751)</u>	<u>13</u>	<u>(57,675)</u>
<u>3,485</u>	<u>7,896</u>	<u>2,728</u>	<u>17,075</u>	<u>888</u>	<u>137,226</u>
2,997	6,439	2,390	15,247	767	110,932
284	954	342	632	77	8,650
<u>204</u>	<u>503</u>	<u>(4)</u>	<u>1,196</u>	<u>44</u>	<u>17,644</u>
<u>3,485</u>	<u>7,896</u>	<u>2,728</u>	<u>17,075</u>	<u>888</u>	<u>137,226</u>
2,997	6,439	2,390	15,247	767	110,932
782	930	104	10,049	337	31,622
142	1,780	1,303	15,501	28	28,322
<u>360</u>	<u>2,012</u>	<u>1,464</u>	<u>16,887</u>	<u>80</u>	<u>31,102</u>
<u>1,997</u>	<u>5,277</u>	<u>2,125</u>	<u>3,812</u>	<u>378</u>	<u>76,530</u>

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, but was delayed until a future period. It 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 preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves 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 is also reported separately for critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition.

Asset Class	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Forest Service			
Roads, Bridges, and Major Culverts	6,324	1,874	4,450
Buildings	608	242	366
Developed Recreation Sites	355	126	229
Dams	32	16	16
Range Structures	652	623	29
Wildlife, Fish, and Threatened and Endangered Species Structures	6	4	2
Trails	140	50	90
Heritage Assets	<u>45</u>	<u>13</u>	<u>32</u>
Total Deferred Maintenance	<u>8,162</u>	<u>2,948</u>	<u>5,214</u>

Critical Maintenance. A requirement that addresses a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

Noncritical Maintenance. A requirement that addresses potential risk to the public or employee health or safety (e.g., compliance with codes, standards, or regulations), or potential adverse consequences to natural resources or mission accomplishment.

Overall Condition. Condition of major classes of property, range from poor to good, depending on location, age, and type of property. There is currently no comprehensive national assessment of property. The current deferred maintenance estimates were based on statistical and random sampling. The FS used condition surveys to estimate deferred maintenance on all major classes of PP&E.

The FS is working on a long-range plan to make condition assessments on all major classes of property. There is no deferred maintenance on equipment because the FS has their fleet vehicles and computer equipment in a working capital fund. The Fleet vehicles are each maintained according to schedule. The FS treats the remaining equipment as expensed, therefore there is no deferred maintenance on general equipment.

Condition of Administrative Facilities

22% of buildings are obsolete, over 50 years old

27% of buildings are in Poor condition, needing major alterations and renovations

24% of buildings are in Fair condition, needing minor alterations and renovations

27% 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 National Forest System Land

For the first time, the FS has a comprehensive analysis of the condition of NFS lands. It indicates that more than half of the 140 million acres of forestland, out of the total 192 million acres of NFS lands, is at risk to future concerns posed by insects, disease, and fire. Whereas, these areas are now producing valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), in the future, some of these acres are at risk and may need treatment. Invasive species of insects, diseases, and plants that impact our native system by causing mortality to, or displacement of, native vegetation is also a concern. Nationally standardized systems to inventory and monitor the condition of the forestland are being put in place. Two such programs are the Forest Inventory and Analysis Program and the Forest Health Monitoring Program. There are currently 37 states in the annual monitoring program that includes a forest health component. The National Fire Plan will step up our efforts to prevent and suppress future fires adequately and restore acres that are out of synch with their proper function and condition.

The standards for acceptable operating condition for different classes of general PP&E are as follows:

Roads, Bridges, and Major Culverts

Conditions of the National Forest Development Road system are measured by various standards including applicable regulations for the Highway Safety Act developed by the National Highway Transportation Safety Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency to implement the Clean Water Act, and FS manuals and handbooks.

Buildings

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.

Developed Recreation Sites

This is a wide category that includes campgrounds, trail heads, 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) 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, setting, safety and security, responsiveness, and condition of facility.

Dams

Dams comply with Forest Service Manual 7500 – Water Storage and Transmission, Forest Service Handbook 7509.11, and Dams Management as determined by condition surveys.

Range Structures

The condition assessment was based on: (1) a determination by knowledgeable Range Specialists or other district personnel whether the improvement was performing the originally intended function; or (2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology to gather this data is used.

Wildlife, Fish, and Threatened and Endangered Species Structures

Field Biologists at the forest used their professional judgment in determining deferred maintenance. Deferred maintenance was considered to be upkeep that had not occurred on a regular basis, and the amount was deemed 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) and the Forest Service Trails Management Handbook (FSH 2309.18).

Watershed Structures

Field Hydrologists and FS personnel used their professional judgment to determine deferred maintenance. Deferred maintenance was considered critical if resource damage would likely occur, if maintenance was deferred much longer.

Heritage Assets

These assets include archeological 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 might not fall under the management responsibility of the Heritage Program.

Intragovernmental Amounts

Intragovernmental amounts represent transactions between the USDA and other federal departments. The USDA reported the following intragovernmental balances as of September 30, 2001:

<i>Intragovernmental Amounts</i> <i>(U.S. dollars in millions)</i>				
Trading Partner	Fund Balance with	Accounts	Investments	Other
Assets:	Treasury	Receivable		
Department of Defense		4		
Department of Energy		6		
Department of Interior		14		
Department of Transportation		1		
Department of Treasury	40,991	47	30	
Agency for International Development		2		
Environmental Protection Agency		1		
Federal Emergency Management Agency		8		
General Services Administration		(1)		
Social Security Administration		1		
Other		<u>334</u>		<u>47</u>
Total Assets	<u>40,991</u>	<u>417</u>	<u>30</u>	<u>47</u>
Trading Partner	Resources Payable	Accounts	Debt	Other
Liabilities:	to Treasury	Receivable		
Department of Defense				2
Department of Energy				1
Department of Interior				60
Department of Justice				1
Department of Labor				159
Department of Treasury	19,673	828	80,090	402
Agency for International Development		416		8
General Services Administration		2		4
Office of Personnel Management				17
Other		<u>44</u>		<u>962</u>
Total Liabilities	<u>19,673</u>	<u>1,290</u>	<u>80,090</u>	<u>1,616</u>
Trading Partner	Earned Revenue			
Earned Revenue:				
Department of Commerce		1		
Department of Defense		22		
Department of Energy		20		
Department of Interior		41		
Department of Labor		29		
Department of State		120		
Department of Transportation		6		
Department of Treasury		259		
Agency for International Development		2		
Environmental Protection Agency		3		
Federal Emergency Management Agency		9		
National Aeronautics and Space Administration		1		
Other		<u>542</u>		
Total Earned Revenue		<u>1,055</u>		

Functional Classification	Cost to Generate Revenue
Cost to Generate Revenue	
270 Energy	1,611
300 Natural Resources and Environment	1,692
350 Agriculture	299
370 Commerce and Housing Credit	1,078
450 Community and Regional Development	843
550 Health	<u>122</u>
Total Cost to General Revenue	<u>5,645</u>

USDA Intragovernmental Non-exchange Revenue

Trading Partner	Transfers-In	Transfers-Out
Department of Treasury		(741)
Other	<u>16</u>	<u>(262)</u>
Total	<u>16</u>	<u>(1,003)</u>

Segment Information

Working Capital Funds

The Departmental Working Capital Fund (WCF) and the Forest Service Working Capital Fund (FSWCF) 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, 2001.

Condensed Information	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Fund balance	14	153	167
Accounts receivable	52	4	56
Property, plant, and equipment	49	485	534
Other assets	1	29	30
Accounts payable		7	7
Deferred revenues	3	3	6
Other liabilities	59	6	65
Cumulative results of operations	54	651	705

Product or Business Line	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Departmental Working Capital Fund:			
Office of the Chief Financial Officer	31	26	5
Office of Communications	1	1	
Office of the Chief Information Officer	68	67	1
Office of Departmental Administration	6	6	
Office of Executive Secretariat	<u>192</u>	<u>189</u>	<u>3</u>
Total Departmental Working Capital Fund	298	289	9
Forest Service Working Capital Fund:			
Other	<u>148</u>	<u>148</u>	<u> </u>
Total Working Capital Funds	<u>446</u>	<u>437</u>	<u>9</u>

Services Provided by the Departmental Working Capital Fund

Twenty-two activity centers performed operations and provided the following services in FY 2001.

Office of the Executive Secretariat is responsible for analyzing, managing, and tracking mail in fulfilling its responsibilities to control executive correspondence, ensuring the timely and accurate response to inquiries made to the Department, providing information to Department officials in a timely manner, and establishing Department-wide procedures and policies for handling executive records and documents.

Office of Communications is responsible for managing the activities of two activity centers. The Video and Teleconferencing Center provides video production services to USDA agencies and studio production facilities for teleconferences in which USDA agencies participate. The Design Center provides USDA agencies with exhibit design and visitor center support services.

Departmental Administration is responsible for managing 10 activity centers that provide a wide range of administrative services, including:

- Acquisition, receipt, storage, issuance, packaging, and shipment of supplies;
- Forms warehousing, distribution and transportation services;
- Receipts, rehabilitation, distribution of personal property; mail processing and delivery;
- Maintenance, update, generation services for automated mailing lists;
- Short-order and walk-up reproduction services;
- Custom duplicating, binding, addressing, mailing services;
- Procurement document preparation support; and
- Processing services for incoming and outgoing shipments of parcels.

Office of the Chief Information Officer manages information technology services under eight activity centers. Services provided by activity centers include:

- Mainframe computing services, ADP training, and other ADP services to USDA agencies and non-USDA entities;
- Systems and software development services to USDA agencies and non-USDA users;
- Department-wide telecommunications management support services;
- An integrated information system for inventory management, FTS2000 and FTS2001 billing, reporting, and validation;
- Telecommunications network services and administration; research; and development, test and evaluation;
- Engineering and streamlining the Department-wide telecommunications network environment through the identification and facilitation of the implementation of shared opportunities;
- Ensuring agency telecommunications network solutions are compliant with Departmental program goals and objectives;
- Planning, acquisition, implementation, and management of information technology resources for the Office of Secretary and Office of Chief Information Officer;
- Providing economies and efficiencies in the use of information technology through elimination of duplication and consolidation of resource sharing;
- Maintenance and administration of USDA telecommunications equipment and services inventory in the D.C. Buildings Complex;
- Publication of the USDA telephone directory and provision of automated telephone directory employee locator services, management and coordination of the Departmental voice mail system service implementation and operation;
- Technical and operations assistance on data networking telecommunications systems, design, installation, operation, and management of value-added, common shared services provided on Departmental Headquarters networks and platforms;
- Participation in the design, engineering, provisioning, and operations management of the Enterprise Network; and
- Responsible for the USDA Telecommunications Security program.

Office of the Chief Financial Officer administers two activities. The National Finance Center (NFC) provides financial and administrative management services to USDA agencies and more than 30 non-USDA entities that include: central accounting, payroll processing, administrative and program billing, collections, travel, and property management. Also, the NFC serves as record keeping office and loan operations center in support of the Thrift Savings Plan under the Thrift Investment Board/Federal Employees Retirement System. The Foundation Financial Information System (FFIS) Project Office administers development, implementation, and data warehousing aspects of the FFIS project. The objective of this initiative is to replace the current accounting system at the NFC and implement improved financial and accounting processes at USDA.

The WCF activity centers are located geographically in Washington, D.C. (14 centers); Landover, Maryland (three centers); Fort Collins, Colorado (three centers); Kansas City, Missouri (one center); and New Orleans, Louisiana (one center).

Major Customers of the Departmental Working Capital Fund

In FY 2001, the WCF had two major customers that comprised more than 15 percent of the fund's revenue. USDA's FS provided revenue in the amount of \$54 million. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of \$50 million.

Services Provided by the Forest Service Working Capital Fund

The National Forest System provides for protection, management, and utilization of approximately 192 million acres of national forests and grassland located in 44 states, Puerto Rico, and the Virgin Islands for a wide variety of purposes and values. Programs run the spectrum from preservation of wilderness areas to intensive resource utilization such as developed recreation, grazing and timber harvest.

Research and development is focused around four broad areas: Vegetation Management, Wildlife, Fish, Watershed, and Air Research, Resource Valuation, and Forest Resources Inventory and Monitoring. Each day field foresters, land managers, farmers, ranchers, urban foresters, public interest groups, and many others apply the knowledge and information technology developed by FS scientists and cooperators in academia and industry. Long-term scientific research provides many tools used to furnish early warnings and solutions for potential problems.

The goal of State and Private Forestry is to maintain and improve, through collaborative stewardship, the health, and productivity of the Nation's urban and rural forests and related economies. State and Private Forestry programs provide technical and cost-sharing assistance to help assure sound stewardship and use of the vast state and private forestland. State and Private Forestry helps state, local, tribal governments and small nonindustrial private forest landowners manage forest resources to meet economic, social, and environmental goals. State and Private Forestry funds are leveraged through cost-sharing to provide increased on-the-ground project funding.

Major Customers of the Forest Service Working Capital Fund

Major customers include: state and local Governments, forest industries, private landowners, and other nations and organizations that foster global natural resource conservation and sustainable development of the world's forest resources, as well as the American public's growing need for outdoor recreation.