The Federal Emergency Management Agency Report on the Consolidated Financial Statements for Fiscal Year 1998

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INDEPENDENT AUDITORS' REPORT

To the Director and Inspector General of the
Federal Emergency Management Agency

We have audited the accompanying consolidated balance sheet of the Federal Emergency Management Agency (FEMA), the combined balance sheet of its Directorates and Administrations, and the balance sheet of the Disaster Relief Fund (DRF), each as of September 30, 1998, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended, collectively referred to as the financial statements. These financial statements are the responsibility of the management of FEMA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended by OMB Memorandum 99-08. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, FEMA prepares its financial statements in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in Note 1 to the financial statements, the basis of presentation of the accompanying 1998 financial statements is substantially different than that used in FY 1997.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FEMA, its Directorates and Administrations and the DRF as of September 30, 1998, and their net costs, changes in net position, budgetary resources and reconciliation of net costs to budgetary obligations for the year then ended, in conformity with the basis of accounting described in Note 1 to the financial statements.

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of the Federal Emergency Management Agency
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The supplemental combining balance sheets and related statements of net costs and changes in net position of the FEMA Directorates and Administrations are presented for the purpose of additional analysis of the combined financial statements of the Directorates and Administrations rather than to present the financial position, net costs and changes in net position of the individual Directorates and Administrations, and are not a required part of the basic combined financial statements. These supplemental combining statements have been subjected to the auditing procedures applied in our audit of the basic 1998 combined financial statements of the Directorates and Administration and, in our opinion, are fairly stated in all material respects when considered in relation to the combined financial statements taken as a whole.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 98-08 as amended by OMB Memorandum 99-08, we have also issued our report dated February 18, 1999, on our consideration of FEMA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Director and the Inspector General of the
Federal Emergency Management Agency

We have audited the financial statements of the Federal Emergency Management Agency (FEMA), its Directorates and Administrations and the Disaster Relief Fund (DRF), as of and for the year ended September 30, 1998, and have issued our report thereon dated February 18, 1999. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended by OMB Memorandum 99-08.

Internal Control over Financial Reporting

In planning and performing our audit, we considered FEMA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgment, could adversely affect FEMA's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Reportable conditions noted are described in the following paragraphs and include significant departures from certain requirements of OMB Circular A – 127, *Financial Management Systems*, which incorporates by reference Circulars A – 123, *Management Accountability and Control*, and A – 130, *Management of Federal Information Resources*, among other requirements. We believe that the following reportable conditions are also material weaknesses.

1. As defined in OMB Circular A – 127, "a financial management system encompasses automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions." Such financial management systems shall be designed to provide for effective and efficient interrelationship between software, hardware, personnel, procedures, controls, and data contained within the systems. These integrated systems shall have the following characteristics: (1) common data elements; (2) common transaction processing; (3) consistent internal control over data entry, transaction processing and reporting; and (4) efficient transaction entry.

   With respect to system requirements in the area of financial reporting, OMB Circular A – 127 requires that an "agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and (6) monitor the financial management system to ensure integrity of financial data."

   During our audit of FEMA's financial statements, we identified deficiencies related to the internal control over the preparation, analysis, and monitoring of financial information to support the efficient and effective preparation of agency wide financial statements. Because of the deficiencies noted, we believe that FEMA's financial management system does not yet share the third characteristic of an integrated system as noted above, with respect to "consistent internal control over data entry, transaction processing and reporting." We also believe that FEMA is not in full compliance with the system design requirements identified at numbers 5 and 6 above, sufficient to "comply with internal and external reporting requirements, including ... the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury and monitor the financial management system to ensure integrity of financial data."

   We recognize that FEMA undertook a significant challenge in its three – year plan to achieve the preparation of agency – wide financial statements by FY 1998. Additionally, the full implementation of the reporting requirements of OMB Bulletin No. 97 – 01, Form and Content of Agency Financial Statements, in FY 1998 placed substantial new reporting demands on existing resources. While we believe FEMA has made significant progress toward meeting its planned reporting objectives, significant improvements are still required as the processes and infrastructure that support the preparation of the agency's consolidated financial statements are neither stable nor subject to the necessary levels of supervision and review. For example, we noted that:

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◊ There was no procedure for monthly or quarterly closes of the accounting records in order to generate interim trial balances and to prepare interim financial statements as required by core financial system requirements for federal agencies.

◊ In the effort to produce FY 1998 financial statements and footnotes in compliance with the OMB's form and content requirements, FEMA utilized a non – integrated financial reporting application that had not been thoroughly reviewed for accuracy and completeness prior to its initial use in the preparation of individual financial reporting packages for the 48 fund – level entities within FEMA that were provided to us for our audit. Amounts were in error or inconsistent with related balances or disclosures; numerous tabulation and cross – tabulation errors existed; and some cross – walks between the trial balance amounts and the financial statement line items were erroneous or incomplete.

◊ The roll – ups of individual financial reporting packages into the aggregate presentation of FEMA's Directorates and Administrations and for both the combining and consolidated financial statement presentation were not tested or reviewed prior to being provided for audit purposes.

◊ The year – end balance of accounts receivable in the general ledger could not be supported with a detailed listing and, thus, was written down by approximately $5.0 million.

◊ Significant outstanding balances of advances on the draft financial statements could not be supported by appropriate documentation and, thus, were expensed.

◊ No adequate review of the draft financial statements and footnotes for reasonableness, including a comparison against prior year amounts and an explanation of unusual variances, was performed prior to submitting them for audit.

◊ There was no timely reconciliation of Fund Balances with Treasury for the fund – level entities to the financial statement presentation. Significant differences requiring reclassification and/or adjustment were noted.

Appropriate controls and processes for the financial statement preparation process should be designed, tested and implemented as soon as possible. Periodic closings during the year should be scheduled to ensure timely analyses and reconciliations of financial data and to facilitate a more timely year – end closing and audit. Procedures for appropriate and timely management reviews and account reconciliations should be formalized and implemented to achieve compliant internal control.

2. We noted internal control deficiencies in certain aspects of FEMA's automated integrated financial management information system, particularly in the areas of information security and access controls; application controls related to financial report generation; application system implementation and maintenance controls related to modifications and system documentation; and database standards related to data entry standards. These deficiencies, in our view, indicate that computer – based controls do not contribute to the reliability of the accounting systems, taken as a whole.

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The FY 1998 trial balances were produced initially after year – end for the 48 fund – level entities within FEMA. The subsequent aggregation of the balances into financial statements at the fund, directorate or administration level relied upon extensive manual efforts to record, accumulate, and adjust accounting data. As noted above, in this initial period of implementation, this process did not appear to be adequately developed and controlled to ensure completeness and accuracy.

We believe that FEMA continues to lack a fully implemented and documented system of management controls that meets the requirements of OMB Circular A – 123 and that supports the management structures that help ensure that "transactions should be promptly recorded, properly classified and accounted for in order to prepare timely accounts and reliable financial and other reports."

We believe that management should finalize its draft information security policy for the automated system application and processing environment. Additionally, appropriate manual controls over the financial statement preparation process, including management reviews and account reconciliations, should be developed and instituted on a periodic basis to ensure that errors and omissions in accounting records do not go undetected throughout the year and to facilitate the year – end closing process.

Finally, with respect to the internal control related to performance measures reported in Management Discussion and Analysis, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 98-08, as amended by OMB Memorandum 99-08. Our procedures were not designed to provide assurance on internal control over reported performance measures and, accordingly, we do not provide an opinion on such control.

Compliance

The management of FEMA is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether FEMA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 98-08, as amended by OMB Memorandum 99-08, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08, and are described below.

1. The material weaknesses in internal control over financial reporting discussed above indicate that FEMA is not in full compliance with the requirements of OMB Circulars A – 123 and A – 127.

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2. We believe that FEMA does not substantially comply with the requirements of the FFMIA. Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance and evaluative criteria issued by OMB. As noted in FFMIA, "compliance with the financial management systems requirements of FFMIA applies to all financial management systems essential to meeting financial statement preparation and budgetary reporting requirements."

   We found weaknesses in the design and operation of internal controls over financial reporting as discussed above, particularly with respect to the lack of a stable and mature process in support of the preparation, analysis, and review of the agency – wide financial statements. We believe these weaknesses, in the aggregate, result in significant departures from certain of the requirements of OMB Circulars A – 123 and A – 127, and are therefore instances of substantial noncompliance with the Federal financial management systems requirements under FFMIA.

Distribution

This report is intended solely for the information and use of the management of the Federal Emergency Management Agency, the Inspector General for FEMA, the Office of Management and Budget, the U. S. General Accounting Office, and the U. S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 18, 1999

Deloitte & Touche LLP

Federal Emergency Management Agency

Washington, D.C. 20472

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MEMORANDUM FOR: George J. Opfer
Inspector General

FROM: Gary D. Johnson
Chief Financial Officer

SUBJECT: Response to the Inspector General's Report

We are responding to the Inspector General's report on internal controls and compliance in conjunction with the FY 1998 financial statement audit, consistent with guidance from the Office of Management and Budget. FEMA agrees that there are deficiencies related to the internal control over the preparation, analysis, and monitoring of financial information to support the efficient and effective preparation of agencywide financial statements. FEMA also agrees that there are internal control deficiencies in certain aspects of our automated integrated financial management information system. However, we do not agree that these findings constitute substantial noncompliance with FFMIA.

As the auditor's report indicates, FEMA has made significant progress in correcting the conditions reported in these two areas. We believe we have reached a level to be in substantial compliance. We will continue to work with the Office of Inspector General to resolve identified deficiencies.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998

The financial statements included in this report have been prepared in accordance with the requirements of the Office of Management and Budget (OMB) Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandum No. 99-03, which superceded OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, for FY1998. The responsibility for the integrity of the financial information included in these statements rests with management of the Federal Emergency Management Agency (FEMA).

The following accounting pronouncements were issued by the Federal Accounting Standards Advisory Board (FASAB) with effective dates in FY1998. These pronouncements are:

- SFFAS No. 4: *Managerial Cost Accounting Concepts and Standards*;
- SFFAS No. 6: *Accounting for Property, Plant, and Equipment*;
- SFFAS No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*; and
- SFFAS No. 8: *Supplementary Stewardship Reporting*.

OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Concepts and the Statements of Federal Financial Accounting Standards issued by the FASAB.

The audit of these financial statements was performed by Deloitte & Touche LLP under the direction of the Office of Inspector General. The auditors' report accompanies these financial statements.

PRINCIPAL STATEMENTS INCLUDED IN THIS REPORT

The principal financial statements of FEMA Consolidated, its combined Directorates and Administrations, and the Disaster Relief Fund (DRF) for FY1998 consist of the following (collectively referred to as the financial statements):

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Consolidated Statement of Budgetary Resources
- Consolidated Statement of Financing

Effective FY1998, the third and final year of FEMA's implementation of the Government Management Reform Act of 1994 (GMRA), the consolidated financial statements include all activities within FEMA:

1. Response and Recovery Directorate
2. Mitigation Directorate
3. Preparedness, Training and Exercise Directorate
4. Federal Insurance Administration
5. U.S. Fire Administration
6. Support Organizations
7. Disaster Relief Fund (DRF)

These principal financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations of FEMA Consolidated, its Directorates and Administrations, and the DRF to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and GMRA.

LIMITATIONS OF THE FINANCIAL STATEMENTS

- The financial statements have been prepared to report the financial activity of FEMA, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of FEMA 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.

Combining statements of the Directorates and Administrations are presented outside of the principal statements, and are not a required part of the principal financial statements presented in conformity with OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, and FEMA accounting policies. This information is presented for purposes of additional analysis of the consolidated financial statements.

The Federal Emergency Management Agency

Consolidated Balance Sheet

As of September 30, 1998
(Dollars in Thousands)

	Administrations	DRF	CONSOLIDATED
ASSETS			
Entity			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 339,797	$ 8,848,091	$ 9,187,888
Accounts receivable, net (Note 4)	96,288	-	96,288
Advances and prepayments (Note 7)	2,804	46,133	48,937
Total Intragovernmental	438,889	8,894,224	9,333,113
Accounts receivable, net (Note 4)	16,747	51,890	68,637
Credit program receivables, net (Note 6)	24,423	-	24,423
Advances and prepayments (Note 7)	284,107	40,631	324,738
Cash and other monetary assets (Note 3)	5,810	-	5,810
Inventory and related property, net (Note 8)	4,293	-	4,293
General property, plant, and equipment, net (Note 9)	8,925	15,651	24,576
Other (Note 5)	1,056	-	1,056
Total Assets	**$ 784,250**	**$ 9,002,396**	**$ 9,786,646**
LIABILITIES			
Liabilities Covered by Budgetary Resources:			
Intragovernmental			
Accounts payable	$ 32,305	$ 67,199	$ 99,504
Debt (Note 10)	592,549	-	592,549
Other (Note 14)	8	-	8
Total Intragovernmental	624,862	67,199	692,061
Accounts payable	87,658	160,584	248,242
Claims and claims settlement expenses (Note 11)	469,411	-	469,411
Deferred revenue (Note 12)	882,915	-	882,915
Other liabilities (Note 14)	11,536	8,086	19,622
Total Liabilities Covered by Budgetary Resources	2,076,382	235,869	2,312,251
Liabilities Not Covered by Budgetary Resources:			
Other (Note 14)	11,736	1,686	13,422
Total Liabilities Not Covered by Budgetary Resources	11,736	1,686	13,422
Total Liabilities	**2,088,118**	**237,555**	**2,325,673**
NET POSITION			
Unexpended appropriations (Note 15)	280,013	8,773,652	9,053,665
Cumulative results of operations	(1,560,569)	13,567	(1,547,002)
Current	(23,312)	(22,378)	(45,690)
Total Net Position	**(1,303,868)**	**8,764,841**	**7,460,973**
Total Liabilities and Net Position	**$ 784,250**	**$ 9,002,396**	**$ 9,786,646**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

For the Year Ended September 30, 1998
(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Costs			
Intragovernmental			
Production	$ -	$ -	$ -
Non-production	-	-	-
Public			
Production	1,839,597	2,054,407	3,894,004
Non-production	18,089	27,095	45,184
Total Program Costs	1,857,686	2,081,502	3,939,188
Less: Earned revenue not attributed to programs	1,335,796	-	1,335,796
NET COST OF OPERATIONS BEFORE ALLOCATIONS	**521,890**	**2,081,502**	**2,603,392**
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	(108,698)	108,698	-
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 413,192**	**$ 2,190,200**	**$ 2,603,392**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 1998

(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Net Cost of Operations	$ (413,192)	$ (2,190,200)	$ (2,603,392)
Financing Sources (other than exchange revenue):			
Appropriations used	489,819	2,057,859	2,547,678
Imputed financing	6,508	1,266	7,774
Transfers-in	19,753	-	19,753
Transfers-out	(17,502)	-	(17,502)
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	(108,698)	108,698	-
Net Results of Operations	(23,312)	(22,377)	(45,689)
Prior Period Adjustments	-	-	-
Net Change in Cumulative Results of Operations	(23,312)	(22,377)	(45,689)
Increase (Decrease) in Unexpended Appropriations	8,783	(143,361)	(134,578)
Change in Net Position	**(14,529)**	**(165,738)**	**(180,267)**
Net Position - Beginning of Period	(1,289,339)	8,930,579	7,641,240
Net Position - End of Period	**$ (1,303,868)**	**$ 8,764,841**	**$ 7,460,973**

The accompanying notes are an integral part of these statements.

The Federal Emergency Management Agency

Consolidated Statement of Budgetary Resources

For the Year Ended September 30, 1998
(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Budgetary Resources:			
Budget authority	$ 946,879	$ 1,920,000	$ 2,866,879
Unobligated balances - beginning of period	719,527	3,876,374	4,595,901
Net transfers prior-year balance, actual	12,422	5,505	17,927
Spending authority from offsetting collections	1,393,154	18,674	1,411,828
Adjustments	(441,847)	715,045	273,198
Total budgetary resources	**$ 2,630,135**	**$ 6,535,598**	**$ 9,165,733**
Status of Budgetary Resources:			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Unobligated balances - available	213,767	2,447,839	2,661,606
Unobligated balances - not available	480,165	-	480,165
Total status of budgetary resources	**$ 2,630,135**	**$ 6,535,598**	**$ 9,165,733**
Outlays:			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Less: Spending authority from offsetting collections and adjustments	1,402,603	686,165	2,088,768
Subtotal	533,600	3,401,594	3,935,194
Obligated balance, net - beginning of period	383,298	4,803,446	5,186,744
Obligated balance transferred, net	-	-	-
Less: Obligated balance, net - end of period	744,509	6,142,292	6,886,801
Total outlays	**$ 172,389**	**$ 2,062,748**	**$ 2,235,137**

The accompanying notes are an integral part of these statements.

The Federal Emergency Management Agency

Consolidated Statement of Financing

For the Year Ended September 30, 1998

(Dollars in Thousands)

	Directorates and Administrations	DRF	CONSOLIDATED
Obligations and Non-budgetary Resources			
Obligations incurred	$ 1,936,203	$ 4,087,759	$ 6,023,962
Less: Spending authority for offsetting collections and adjustments	1,339,119	686,327	2,025,446
Financing imputed for cost subsidies	8,763	-	8,763
Transfers-in (out)	(2)	-	(2)
Exchange revenue not in the budget	(5,072)	(67,788)	(72,860)
Other	(866)	1,265	399
Total obligations, as adjusted, and non-budgetary resources	**599,907**	**3,334,909**	**3,934,816**
Resources That Do Not Fund Net Cost of Operations			
Change in amount of goods, services, and benefits ordered but not yet received or provided	(163,055)	(1,170,665)	(1,333,720)
Costs capitalized on the balance sheet	(40,126)	(2,113)	(42,239)
Financing sources that fund costs of prior periods	(127)	-	(127)
Total resources that do not fund net cost of operations	**(203,308)**	**(1,172,778)**	**(1,376,086)**
Costs That Do Not Require Resources			
Depreciation and amortization	1,563	741	2,304
Revaluation of assets and liabilities	11,973	26,354	38,327
Total costs that do not require resources	**13,536**	**27,095**	**40,631**
Financing Sources Yet to Be Provided	3,057	974	4,031
Net Cost of Operations	**$ 413,192**	**$ 2,190,200**	**$ 2,603,392**

The accompanying notes are an integral part of these statements.

THE FEDERAL EMERGENCY MANAGEMENT AGENCY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1998
(Dollars in Thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Effective in FY1998, the Federal Emergency Management Agency (FEMA) executed the third and final year of its implementation plan to produce agency-wide financial statements by reporting all of the activities of the Agency, including the Disaster Relief Fund (DRF) and its Directorates and Administrations. The Directorates and Administrations are:

- Response & Recovery Directorate (R&R)
- Mitigation Directorate (MIT)
- Preparedness, Training, & Exercises Directorate (PT&E)
- Federal Insurance Administration (FIA)
- U.S. Fire Administration (USFA)
- Support Organizations (SO)

The financial statements were prepared to meet the requirements of the Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA). While the statements have been prepared from the books and records of FEMA in accordance with the form and content prescribed by the Office of Management and Budget (OMB), the statements are different from 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 understanding that they are for a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

The Agency's FY1998 financial statements are presented in conformity with OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended by OMB Memorandum No. 99-03. This represents a fundamental change in presentation from the prior year. In FY1997, financial statements were prepared in accordance with the requirements of the OMB Bulletin No. 94-01 and the effective provisions of OMB Bulletin No. 97-01. Because FY1998 is the initial year of full implementation of OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, and the inclusion of all Agency activities, comparative data are not presented. In conformance with the provisions of OMB Bulletin No. 97-01, as amended by OMB Memorandum No. 99-03, comparative data will be presented in

FY1999. Differences in the basis of presentation include the following new statements:

- Consolidated Statement of Net Cost
- Consolidated Statement of Budgetary Resources
- Consolidated Statement of Financing

Differences also include format and content changes to the following statements:

- Consolidated Balance Sheet
- Consolidated Statement of Changes in Net Position

Activity resulting from FY1993-1996 appropriations for Salaries and Expenses, Emergency Management and Planning Assistance, Emergency Planning and Assistance-Earthquake Program, Salaries and Expenses-Earthquake Program, and the Inspector General is presented in a separate column on the supplemental combining statements of the Directorates and Administrations, and is allocated to the Directorates, Administrations, and the DRF.

B. Reporting Entity

The accompanying consolidated financial statements of FEMA include activities of the following organizational components of the Agency:

1. Response and Recovery Directorate

   The Response and Recovery (R&R) Directorate is responsible for the planning, coordination and execution of the Federal government's response in providing assistance to state and local governments, in the event of major disasters and emergencies. In addition, R&R is responsible for the Individual and Public Assistance Grant Programs, which are authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended). The expenses of carrying out this disaster assistance under the Act are funded under a separate appropriation, the Disaster Relief Fund (DRF), described later in this note.

   R&R has responsibility for the Disaster Assistance Direct Loan Program (DADLP) which makes four types of loans: Community Disaster Loans; Individual and Family Grant State Share Loans; Public Assistance State Share Loans; and Hazard Mitigation State Share Loans. The DADLP for the non-Federal share of program costs was created under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Public Law (P.L.) 93-288, as amended by P.L. 100-707. Community Disaster Loans were available under P.L. 93-288 prior to the Stafford Act.

   The Bequests and Gifts, Cora Brown Fund, a trust fund, administered by the Human Services Division of the R&R Directorate, provides for disaster-related needs that have not been and will not be met by governmental agencies or any other organizations. The fund contains the remainder of the initial endowment plus interest earned as well as other gifts.

2. Mitigation Directorate

   The Mitigation (MIT) Directorate provides for the development, coordination, and implementation of policies, plans, and programs to eliminate or reduce the long-term risk to human life and property from natural hazards, such as floods, earthquakes, hurricanes, and dam failures. The Directorate's programs identify and address the nature and extent of risk for all hazards. This information is developed into mitigation strategies and delivered through the FEMA regional offices or other appropriate mechanisms to the end user, whether it is state and local governments, engineers, architects, planners, code officials, or community leaders. Emphasis is given to the integration and efficient implementation of existing mitigation authorities; identification of gaps between these authorities and proposed remedies; and developing, implementing, and supporting innovations that encourage and foster a multi-hazard approach to mitigation activities at the Federal, state, and local level in a partnership between government and private sector entities.

3. Preparedness, Training & Exercises Directorate

   The Preparedness, Training & Exercises (PT&E) Directorate provides resources for an array of all-hazard emergency management programs that assure that an integrated partnership of people, plans, systems, and facilities stand ready to provide assistance and relief in any emergency condition or situation. The Cooperative Agreement grants funded by this activity under the auspices of the Performance Partnership Agreement are being provided to states to address the specific risks they have identified. The technical assistance, training curriculum, and exercises funded by this activity are designed to foster and improve the knowledge and experience that a prepared, competent emergency management community must possess in order to save lives and mitigate the economic impact of disasters.

4. Federal Insurance Administration

   The Federal Insurance Administration (FIA) is the entity of FEMA that administers the National Flood Insurance Program (NFIP), the Unified National Program for Floodplain Management, and the National Insurance Development Fund, the vehicle used for funding the Federal Crime Insurance Program (FCIP). The FCIP authorization expired September 30, 1995, and the program is in the close-out process. FIA uses a servicing agent, National Con-Serv, Inc. (NCSI), to carry out the processing for the program. Computer Sciences Corporation (CSC), acts as the Bureau and Statistical Agent and produces financial statements with information for the Direct and Write Your Own (WYO) Insurance Underwriting Operations. The financial presentation for FIA in the supplemental combining statements includes information from these financial statements.

5. U.S. Fire Administration

   The United States Fire Administration (USFA) is the Federal fire focus within FEMA and has ultimate responsibility for all fire and emergency medical services programs and training activities. Fire prevention and hazard mitigation activities are developed and delivered through the USFA, utilizing programs designed to build capacity at the state and local level; to enhance the nation's fire prevention, arson control, and Emergency Management Support (EMS) activities and, thereby, significantly reduce the nation's loss of life from fire; to achieve a reduction in property loss and non-fatal injuries to firefighters and citizens due to fires; and to improve emergency preparedness capability. Education and training programs are provided through the National Fire Academy at Emmitsburg, Maryland.

6. Support Organizations

   The Support Organizations provide services to the Directorates, Administrations, and the DRF so that FEMA can effectively and efficiently meet its agency-wide objectives. FEMA's support organizations are comprised of the Inspector General's Office, Operations Support, Executive Direction, Information Technology Services, and Policy and Regional Operations. These organizations provide services such as oversight of Agency programs and operations, coordination among agency programs, management of information technology resources, logistics management, financial management, and agency-wide planning, policy development, and strategic initiatives.

7. Disaster Relief Fund

   The Disaster Relief Fund (DRF) was established to provide assistance to supplement state and local governments' disaster response, recovery, preparedness, and mitigation efforts. The Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288 as amended) authorized the President to provide such assistance, and Executive Order 12148 delegated the responsibility for administering the Federal government's efforts to the Director of FEMA. The Stafford Act authorizes five types of declarations or actions: (1) Major disasters for which the President declares a major disaster upon the request of the Governor of the affected State; (2) Emergency declaration which authorizes only emergency type assistance; (3) Fire Suppression to provide assistance to supplement the resources of communities; (4) Defense Emergency where the Department of Defense performs for a short period to preserve life and property; and (5) Incident Deployment when a disaster situation threatens human health and safety, and the disaster is imminent but not yet declared. It is the policy of FEMA to provide an orderly and continuing means of assistance by the Federal government to state and local governments in carrying out their responsibilities to alleviate the suffering and damage resulting from major disasters and emergencies. The DRF is funded by no-year appropriations.

C. Budgets and Budgetary Accounting

Budgetary accounting measures the appropriation and consumption of budget authority and other budgetary resources and facilitates compliance with legal constraints and controls over the use of Federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which a valid obligation has been established are considered to consume budgetary resources.

Within FEMA, budget authority, the authority to enter into financial obligations that will result in an immediate or future outlay, is derived from: (1) cost reimbursement for the provision of goods or services, (2) receipts that are held in trust for use in carrying out specific purposes and programs in accordance with agreements or statutes, and (3) congressional appropriations or other authorizations to spend general revenues.

D. Basis of Accounting

Under the authority of the CFO Act of 1990, the Federal Accounting Standards Advisory Board (FASAB) was established to recommend Federal accounting standards to the Secretary of the Treasury, the Director of the Office of Management and Budget and the Comptroller General, co-principals of the Joint Financial Management Improvement Program (JFMIP). Eight Statements of Federal Financial Accounting Standards (SFFAS) have been issued by the Director of OMB and the Comptroller General, some with deferred effective dates. In the event the SFFASs do not address all transactions, the following hierarchy provides sources of accounting principles for the Federal Government: (1) Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of Treasury and published by OMB and the General Accounting Office; (2) Interpretations related to the SFFASs issued by OMB in accordance with the procedures outlined in OMB Circular No. A-134, *Financial Accounting Principles and Standards*; (3) Requirements contained in OMB's *Form and Content* Bulletin in effect for the period covered by the financial statements; and (4) Accounting principles published by other authoritative standard-setting bodies and other authoritative sources. This hierarchy is a comprehensive basis of accounting other than generally accepted accounting principles.

E. Revenues and Financing Sources

FEMA receives the majority of the funding needed to support the programs through congressional appropriations. FEMA receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained through sales of goods and services to the public. The revenue from the sales of goods and services to the public consist primarily of: (1) insurance premiums for FIA's flood insurance program which are recognized as income ratably over policy coverage periods, and (2) user fees for PT&E's Radiological Emergency Preparedness Program that provides services to commercial nuclear power plants. FEMA receives interest revenue from its loan program as well as from Treasury on invested funds. FEMA receives gifts from donors in a trust fund. In addition, FEMA has programs for which the expenses are reimbursed by other Federal agencies.

Imputed financing sources consist of imputed revenue for post retirement benefits for FEMA employees as described in footnote 1.T.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred.

F. Fund Balance with Treasury and Cash and Other Monetary Assets

FEMA does not, except for minimal balances maintained by FIA's WYO companies, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The Funds with Treasury and Cash and Other Monetary Assets are primarily appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments.

G. Accounts Receivable, Net

Accounts Receivable, Net — Intragovernmental consists of amounts due from other Federal agencies.

Accounts Receivable, Net consists primarily of premiums and restitution due from WYO companies participating in FIA's flood insurance program, amounts due from insurance customers and agents' commissions from canceled policies, and amounts due from overpayments to grant recipients.

H. Credit Program Receivables, Net

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal and interest receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience and an analysis of outstanding balances.

For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

I. Advances and Prepayments

Advances for DRF consist of disaster assistance grants to states and to other Federal agencies tasked with mission assignments. Advances for other directorates consist primarily of grants to states of which the largest category is State and Local Assistance, a consolidation of grant programs, that supports state and local emergency management staffs and operations. Upon receipt of goods and services, the advances are expensed.

FIA payments made in advance of the receipt of goods and services are recorded as prepaid assets at the time of prepayment and recognized as expenses when the related goods and services are received. Policy acquisition costs, consisting of commissions incurred at policy issuance, are deferred and amortized over the period in which the related premiums are earned, generally one or three years.

J. Inventory and Related Property, Net

Inventory and Related Property, Net are comprised of floodplain maps and studies. Inventory and operating materials and supplies on hand at year-end are stated at the lower of cost or market using the average cost method. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. Expenses are recorded when the inventories and operating materials and supplies are sold or consumed.

K. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment is capitalized at cost if the initial acquisition cost is $15,000 or more. Property, Plant, and Equipment is depreciated using a 1/2-year convention and the straight-line method over the asset's useful life. Property, Plant, and Equipment with an acquisition cost of less than $15,000 is expensed when purchased.

FEMA has adopted the following useful lives for classes of depreciable property:

- 5-Year Property: Cars, light and heavy general purpose trucks, qualified technological equipment, computer-based telephone switching equipment, radios and other voice/data communications equipment, computers and peripheral equipment, qualified internally and contractor developed software, office machinery and equipment, office furniture and fixtures, capital leasehold improvements, and any additional personal property that is not otherwise classified.
- 20-Year Property: Buildings and structures and their elevators and escalators, additions, betterments and replacements to buildings and structures, and land improvements.

L. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by FEMA as the result of a transaction or event that has already occurred. However, no liability can be paid by FEMA 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. The Government, acting in its sovereign capacity, can abrogate liabilities of FEMA arising from other than contracts.

M. Accounts Payable

Accounts Payable — Intragovernmental consists of amounts owed to other Federal agencies.

Accounts Payable consists of trade accounts payable, commissions payable, and bank overdraft liability.

N. Debt

Debt results from loans from the Treasury to fund FIA and DADLP operations described in Note 10. These programs are required to make periodic principal payments to the Treasury based on the terms of the notes.

FEMA's DADLP and FIA have interest payable to Treasury. They are required to make periodic interest payments to the Treasury Department based on the loans outstanding less the unexpended cash in the account at Treasury.

Additional funding for FIA's NFIP may be obtained through a Treasury Department borrowing authority of $500 million (up to $1 billion with the approval of the President). Approval from the President was granted on March 19, 1996, to borrow in excess of $500 million. P.L. 104-208, making omnibus consolidated appropriations for the fiscal year ended September 30, 1998 and for other purposes, increased borrowing authority from $1 billion to $1.5 billion.

Additional funding for FCIP may be obtained through a Treasury Department borrowing authority of $250 million. As of September 30, 1998, FCIP had borrowed $3.4 million from the Treasury Department.

DADLP's debt as of September 30, 1998 was $55 million. The borrowed funds were used to make loans to states and local governments in need of assistance in time of disaster.

O. Claims and Claims Settlement Expenses

Provision for NFIP losses adjustment expenses, and estimates for incurred but not reported losses are based on reports of individual cases. Adjustments to estimated provisions are reflected in the financial statements as they occur. Loss adjustment expense includes direct costs of settlement and, for the WYO portion of Insurance Underwriting Operations, a provision for unallocated loss adjustment expenses.

Loss reserves for the year ended September 30, 1998 were derived using loss development data available through November 30, 1998. The method of determining loss reserves utilized in FY1997 considered loss development data available through November 30, 1997.

P. Deferred Revenue

NFIP premium revenues are recognized ratably over the life of the policies. Unearned premiums are reserved to provide for the unexpired period of insurance coverage.

Q. Net Cost of Operations

Net Cost of Operations includes all direct expenses for the Directorates, Administrations, and DRF, as well as the indirect and overhead expenses allocated from FEMA's support services.

R. Contingencies

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate the Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding.

Notwithstanding the foregoing, subsidized rates are charged on a countrywide basis for certain classifications of insureds. These subsidized rates produce a premium somewhat less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year, and do not include a provision for losses that may result from catastrophic flooding. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the non-subsidized premium zones applicable to the community).

The loss potential of catastrophic flooding cannot be meaningfully quantified as it relates to insurance policies in effect as of September 30, 1998. Accordingly, the financial statements do not include any provision for this contingent liability.

S. Annual, Sick, and Other Leave

A liability for annual leave is accrued as leave is earned and paid as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent current or prior-year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are not accrued but expensed as taken.

T. Pensions, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post retirement health benefits and life insurance to its employees, effective with fiscal years beginning after September 30, 1996, as required by SFFAS Number 5. Factors used in the calculation of these pension and post retirement health and life insurance benefits expenses were provided by the Office of Personnel Management (OPM) Financial Management Letter F-98-07, *1998 Cost Factors for Pension and other Retirement Benefits Expenses*, to each agency to meet this requirement.

FEMA's employees are covered under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) to which FEMA makes contributions according to plan requirements. CSRS and FERS are multi-employer plans. FEMA does not maintain or report information about the assets of the plans, nor does it report actuarial data for accumulated plan benefits. The reporting of such amounts is the responsibility of OPM, but the pension expense of the Agency's employees is reported in accordance with SFFAS Number 5. A corresponding amount of imputed revenue is recorded to offset the expense.

U. Estimation Process

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

V. Litigation

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. In the opinion of FEMA management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

In the course of settling insurance claims, FIA is a defendant in litigation filed by claimants disputing the amount of insurance coverage or the amount of loss. The estimated liability for any resulting settlements is considered when establishing reserves for losses and loss adjustment expense. The FIA is also seeking subrogation remedies against communities and others for reimbursement of certain claims. The proceeds of such actions are recognized as reductions of losses incurred.

NOTE 2. FUND BALANCES WITH TREASURY (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Trust Funds	$ 1,606	$ -	$ 1,606
Revolving Funds	99,861	-	99,861
Appropriated Funds	204,551	-	204,551
Other Fund Types	33,779	-	33,779
Subtotal	339,797	-	339,797
Disaster Relief Fund			
Appropriated Funds	8,848,091	-	8,848,091
Subtotal	8,848,091	-	8,848,091
Total	$ 9,187,888	$ -	$ 9,187,888

NOTE 3. CASH AND OTHER MONETARY ASSETS (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Cash	$ 8	$ -	$ 8
Other Cash - Agency	2	-	2
Other Cash - Contractor	5,800	-	5,800
Subtotal	5,810	-	5,810
Disaster Relief Fund	-	-	-
Total	$ 5,810	$ -	$ 5,810

In FIA, minimal cash balances are maintained at commercial banks by the Write Your Own companies and the servicing agent to fund claim payments and other cash needs.

NOTE 4. ACCOUNTS RECEIVABLE, NET (in thousands)

Directorates and Administrations	Entity	Non-Entity	Total
Accounts Receivable - Intragovernmental	$ 96,288	$ -	$ 96,288
Accounts Receivable	17,177	-	17,177
Allowance for Loss	(430)	-	(430)
Net	16,747	-	16,747
Subtotal	113,035	-	113,035
Disaster Relief Fund			
Accounts Receivable - Intragovernmental	-	-	-
Accounts Receivable	90,397	-	90,397
Allowance for Loss	(38,507)	-	(38,507)
Subtotal	51,890	-	51,890
Total	$ 164,925	$ -	$ 164,925

NOTE 5. OTHER ENTITY ASSETS (in thousands)

Directorates and Administrations	
Clearing	$ 1,056
Subtotal	1,056
Disaster Relief Fund	-
Total	$ 1,056

NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (in thousands)

A. FEMA operates the following direct loan programs for Non-Federal borrowers:

1) Community Disaster Loans
2) Individual & Family Grant Loans
3) Public Assistance Loans
4) Hazard Mitigation Loans
5) Miscellaneous

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

B. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
1) Community Disaster Loans	$ 29,398	$ 13,059	$ -	$ 31,566	$ 10,891
2) Individual/Family Grant Loans	-	-	-	-	-
3) Public Assistance Loans	-	-	-	-	-
5) Miscellaneous	7,482	17,631	-	25,113	-
Total	$ 36,880	$ 30,690	$ -	$ 56,679	$ 10,891

C. Direct Loans Obligated After FY 1991:

Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Loan Losses	Value of Assets Related to Direct Loans
1) Community Disaster Loans	$ 153,253	$ 19,141	$ -	$ 162,788	$ 9,606
2) Individual/Family Grant Loans	2,411	20	-	1,205	1,226
3) Public Assistance Loans	3,465	28	-	1,730	1,763
4) Hazard Mitigation Loans	1,861	13	-	937	937
Total	$ 160,990	$ 19,202	$ -	$ 166,660	$ 13,532
Total Credit Program Receivables, net					$ 24,423

NOTE 6. DISASTER ASSISTANCE DIRECT LOAN PROGRAM (in thousands) (continued)

D. Subsidy expenses for Post-1991 Direct Loans:

1. Current Year's Direct Loans

Loans Programs	Interest Differential	Defaults	Fees	Other	Total
1) Community Disaster Loans	$ (31)	$ 2,343	$ -	$ -	$ 2,312
2) Individual/Family Grant Loans	-	-	-	-	-
3) Public Assistance Loans	-	-	-	-	-
4) Hazard Mitigation Loans	(10)	51	-	-	41
Total	$ (41)	$ 2,394	$ -	$ -	$ 2,353

2. Direct Loan Modification and Reestimates

Loans Programs	Modifications	Reestimates
1) Community Disaster Loans	$ -	$ -
2) Individual/Family Grant Loans	-	-
3) Public Assistance Loans	-	-
4) Hazard Mitigation Loans	-	-
Total	$ -	$ -

3. Total Direct Loan Subsidy Expenses

Loans Programs	
1) Community Disaster Loans	$ 32,199
2) Individual/Family Grant Loans	-
3) Public Assistance Loans	-
4) Hazard Mitigation Loans	138
Total	$ 32,337

NOTE 7. ADVANCES AND PREPAYMENTS (in thousands)

Disaster Relief Fund	
Intragovernmental	46,133
Other	40,631
Subtotal	86,764
Total	$ 373,675

NOTE 8. INVENTORY AND RELATED PROPERTY, NET (in thousands)

NOTE 8. Inventory and Related Property, Net (in thousands)

A. Inventories

Directorates and Administrations	Valuation Method	Held for Current Sale	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	Held for Repair
Floodplain Maps and Studies	Average Cost	$ 2,185	$ -	$ -	$ -
Disaster Relief Fund	Average Cost	-	-	-	-
Subtotal		$ 2,185	$ -	$ -	$ -

B. Operating Materials and Supplies

Directorates and Administrations	Held for Use	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	
Floodplain Maps and Studies	$ 2,108	$ -	$ -	
Disaster Relief Fund	-	-	-	
Subtotal	2,108	-	-	
Total	$ 4,293	$ -	$ -	$ -

NOTE 9. GENERAL PROPERTY PLANT, AND EQUIPMENT (in thousands)

NOTE 8. Inventory and Related Property, Net (in thousands)

A. Inventories

Directorates and Administrations	Valuation Method	Held for Current Sale	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	Held for Repair
Floodplain Maps and Studies	Average Cost	$ 2,185	$ -	$ -	$ -
Disaster Relief Fund	Average Cost	-	-	-	-
Subtotal		$ 2,185	$ -	$ -	$ -

B. Operating Materials and Supplies

Directorates and Administrations	Held for Use	Held in Reserve for Future Sale	Excess Obsolete and Unserviceable	
Floodplain Maps and Studies	$ 2,108	$ -	$ -	
Disaster Relief Fund	-	-	-	
Subtotal	2,108	-	-	
Total	$ 4,293	$ -	$ -	$ -

NOTE 10. DEBT (in thousands)

A. Other Debt:

Directorates and Administrations		Beginning Balance		Net Borrowings		Ending Balance
Debt to the Treasury - Principal	$	982,839	$	(402,847)	$	579,992
Debt to the Treasury - Interest Payable		25,030		(12,473)		12,557
Disaster Relief Fund		-		-		-
Total	$	1,007,869	$	(415,320)	$	592,549

B. Classification of Debt:

Intragovernmental	$	592,549
Governmental		-
Total	$	592,549

NOTE 11. CLAIMS AND CLAIMS SETTLEMENT EXPENSES (in thousands)

Federal Insurance Administration

The liability for unpaid losses and loss adjustment expenses represents an estimate of the ultimate net cost of all losses that are unpaid at the balance sheet date and is based on the loss and loss adjustment expense factors inherent in the FIA Insurance Underwriting Operations experience and expectations. Estimation factors used by the Insurance Underwriting Operations reflect current Case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are continually reviewed; and adjustments, reflected in current operations, are made as deemed necessary.

Although the Insurance Underwriting Operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, it is possible that the Insurance Underwriting Operations' actual incurred losses and loss adjustment expenses will not conform to the assumptions inherent in the estimation of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary from the amount included in the financial statements.

Activity in the liability for unpaid losses and loss adjustment expenses can be summarized as follows:

		1998
Balance At October 1, 1997:	$	58,281
Incurred Related To:		
Current Year		763,140
Prior Year		3,551
Total Incurred		766,691
Paid Related To:		
Loss & LAE Reserve Related to:		
Current Year		297,876
Prior Year		57,685
Total Paid		355,561
Balance At September 30, 1998:	$	469,411

NOTE 12. DEFERRED REVENUE (in thousands)

Directorates and Administrations	
Prepaid Flood Insurance Premiums	$ 882,915
Subtotal	882,915
Disaster Relief Fund	-
Total	$ 882,915

NOTE 13. OPERATING LEASES (in thousands)

Description of Lease Arrangements: Includes Agency payments for rented/leased office and non-office space and land.

Future Payments Due:	<<----- Asset Category	----->>	
Fiscal Year	(1)	(2)	Total
1999	$ 18,013	$ 3,440	$ 21,453
2000	18,734	3,545	22,279
2001	19,483	3,687	23,170
2002	20,262	3,834	24,096
2003	21,073	3,987	25,060
After 5 Years **	21,915	4,147	26,062
Total	$ 119,480	$ 22,640	$ 142,120

1) General Services Administration (GSA)-Controlled
2) Other than GSA-Controlled
** Estimate for 6th Year based on 4% annual increase

NOTE 14. OTHER LIABILITIES (in thousands)

Directorates and Administrations	Current	Non-Current	Total
Other	$ 4,418	$ -	$ 4,418
Accrued Annual Leave	1,239	-	1,239
Accrued Payroll and Benefits	5,887	-	5,887
Subtotal	11,544	-	11,544
Disaster Relief Fund			
Accrued Payroll and Benefits	8,086	-	8,086
Total	$ 19,630	$ -	$ 19,630

B. Other Liabilities Not Covered by Budgetary Resources

Directorates and Administrations	Current	Non-Current	Total
Accrued Annual Leave	11,736	-	11,736
Disaster Relief Fund			
Accrued Annual Leave	1,686	-	1,686
Total	$ 13,422	$ -	$ 13,422

NOTE 15. UNEXPENDED APPROPRIATIONS (in thousands)

Directorates and Administrations	
Unobligated	
Available	$ 52,791
Unavailable	-
Undelivered Orders	227,222
Subtotal	280,013
Disaster Relief Fund	
Unobligated	
Available	2,499,729
Unavailable	-
Undelivered Orders	6,273,923
Subtotal	8,773,652
Total	$ 9,053,665

NOTE 16. ALLOCATION OF SUPPORT ORGANIZATION COSTS AND PRIOR YEARS' APPROPRIATIONS FY1993-1996 (FUNDS 3, 9, 10, 17, AND 20) (in thousands)

FEMA allocated Support Organizations and Prior Years' Appropriations FY1993-96 (for funds 3, 9, 10, 17, and 20) net costs to the Directorates, Administrations, and the DRF to reflect the costs of operating these organizational components. FEMA allocated costs based on FY1997 operating expenses. The net costs of the Support Organizations and Prior Years' Appropriations FY1993-96 was allocated as follows:

			<<-------------	1998 Activity	-------------->>
	1997 Expenses	Allocation %	SO Allocation	Prior Years' Appropriations FY1993-96	Net Allocation
FIA	$ 134,926	2.79	$ 3,193	$ 176	$ 3,369
R&R	54,651	1.13	1,293	71	1,364
PT&E	228,804	4.74	5,425	300	5,725
MIT	34,904	0.72	824	46	870
USFA	29,541	0.62	710	39	749
DRF	4,344,924	90.00	103,008	5,690	108,698
Total	$ 4,827,750	100.00	$ 114,453	$ 6,322	$ 120,775

NOTE 17. ESTIMATED DISASTER COSTS (in thousands)

One of FEMA's primary missions is to respond to major disasters and emergencies under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). By law, all requests to the President of the United States for disaster assistance must be made by the Governor of the affected state. The Governor requests assistance for specific disaster programs through the FEMA Regional Director. The FEMA Regional Office and the state conduct preliminary damage assessments to determine if the situation is of such severity that it is beyond the ability of the state and the local governments to respond. If the impact of the disaster warrants federal assistance, the Director of FEMA submits a recommendation to the President for a major disaster or an emergency declaration.

In accordance with Statement of Federal Financial Accounting Concepts No. 5, *Accounting for Liabilities of the Federal Government*, liabilities for federal accounting purposes are "probable and measurable future outflows or other sacrifices of resources" as a result of past transactions or events, such as major disasters. Such transactions or events can arise from: (1) past exchange transactions, (2) Government- related events, (3) Government-acknowledged events, or (4) non-exchange transactions.

Government-acknowledged events, such as declared natural disasters, are of financial consequence to the federal government because it chooses to respond to the event in its role in providing for the public's general welfare, assuming responsibilities for which it has no prior legal obligation.

Costs from many natural disasters may ultimately become the responsibility of the federal government and FEMA. However, these costs do not meet the definition of a liability for financial reporting purposes until the government formally acknowledges financial responsibility for cost from the event and an exchange or non-exchange transaction has occurred. In the case of Government-acknowledged events such formal acceptance of financial responsibility by the federal government occurs when the President declares a disaster. Liabilities resulting from exchange transactions are recognized when the goods or services are provided. For non-exchange events, the liability is recognized only when the unpaid amount is due.

The FEMA Disaster Finance Center tracks all of the disasters that have been declared since FY1989 under the guidance of the Stafford Act. Cost projections are built based on historical data for the disasters considering all of the following components:

- Public Assistance
- Individual Assistance
- Mission Assignments
- Hazard Mitigation
- FEMA Administration

Cost projections are compared against current obligations and expenditures incurred to provide FEMA with budgeting information, and to prepare appropriations requests to Congress.

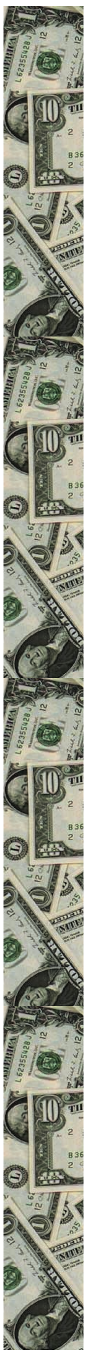
FEMA has projected the ultimate total costs of the declared disasters to be approximately $26.5 billion as of September 30, 1998, of which approximately $23.3 billion has been obligated and $17.0 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $9.5 billion in expenses would be recorded.

Information regarding the disaster cost projections and their effect on DRF as of September 30, 1998, is summarized below:

Unfunded Cost:	
Cost Projections	$ 26,507,083
Obligations	(23,316,930)
Total Unfunded Costs	3,190,153
Unliquidated Obligations:	
Obligations	23,316,929
Expenditures Incurred	(16,964,905)
Total Unliquidated Obligations	6,352,024
Remaining Project Cost:	
Unfunded Cost	3,190,153
Unliquidated Obligations	6,352,024
Remaining Cost	$ 9,542,177

Supplemental Combining Financial Statements for the Directorates and Administrations

For the Year Ended September 30, 1998



- Response and Recovery Directorate (R&R)
- Mitigation Directorate (MIT)
- Preparedness, Training and Exercise Directorate (PT&E)
- Federal Insurance Administration (FIA)
- U.S. Fire Administration (USFA)
- Support Organizations (SO)
- Prior Years' Appropriations

The Federal Emergency Management Agency

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1998
(Dollars in Thousands)

	R&R	MIT
ASSETS		
Entity		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 36,618	$ 64,306
Accounts receivable, net (Note 4)	2,660	640
Advances and prepayments (Note 7)	-	2,171
Total Intragovernmental	39,278	67,117
Accounts receivable, net (Note 4)	-	-
Credit program receivables, net (Note 6)	24,422	-
Advances and prepayments (Note 7)	-	1
Cash and other monetary assets (Note 3)	-	-
Inventory and related property, net (Note 8)	-	-
General property, plant, and equipment, net (Note 9)	1,130	-
Other (Note 5)	-	-
Total Assets	**$ 64,830**	**$ 67,118**
LIABILITIES		
Liabilities Covered by Budgetary Resources:		
Intragovernmental		
Accounts payable	$ 5,475	$ 57
Debt (Note 10)	54,586	-
Other (Note 14)	8	-
Total Intragovernmental	60,069	57
Accounts payable	356	618
Claims and claims settlement expenses (Note 11)	-	-
Deferred revenue (Note 12)	-	-
Other liabilities (Note 14)	2,414	90
Total Liabilities Covered by Budgetary Resources	62,839	765
Liabilities Not Covered by Budgetary Resources:		
Other (Note 14)	2,979	449
Total Liabilities Not Covered by Budgetary Resources	2,979	449
Total Liabilities	**65,818**	**1,214**
NET POSITION		
Unexpended appropriations (Note 15)	31,067	65,708
Cumulative results of operations	(26,271)	(530)
Current	(5,784)	726
Total Net Position	**(988)**	**65,904**
Total Liabilities and Net Position	**$ 64,830**	**$ 67,118**

The Federal Emergency Management Agency

Combining Balance Sheet for the Directorates and Administrations

As of September 30, 1998

(Dollars in Thousands)

	PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
	$ 24,544	$ 116,824	$ 17,801	$ 27,350	$ 52,354	$ 339,797
	30,636	54	46	-	62,252	96,288
	-	561	-	72	-	2,804
	55,180	117,439	17,847	27,422	114,606	438,889
	2,388	14,318	-	41	-	16,747
	-	1	-	-	-	24,423
	23,407	252,306	345	79	7,969	284,107
	-	5,802	-	8	-	5,810
	-	4,293	-	-	-	4,293
	3,195	416	1,024	3,160	-	8,925
	-	1,056	-	-	-	1,056
	$ 84,170	**$ 395,631**	**$ 19,216**	**$ 30,710**	**$ 122,575**	**$ 784,250**
	$ 995	$ 2,208	$ 230	$ 1,662	$ 21,678	$ 32,305
	-	537,963	-	-	-	592,549
	-	-	-	-	-	8
	995	540,171	230	1,662	21,678	624,862
	16,660	64,968	1,185	3,458	413	87,658
	-	469,411	-	-	-	469,411
	-	882,915	-	-	-	882,915
	4,792	1,431	516	2,046	247	11,536
	22,447	1,958,896	1,931	7,166	22,338	2,076,382
	2,956	-	455	4,897	-	11,736
	2,956	-	455	4,897	-	11,736
	25,403	**1,958,896**	**2,386**	**12,063**	**22,338**	**2,088,118**
	54,868	-	16,001	20,126	92,243	280,013
	(1,118)	(1,539,960)	398	(1,089)	8,001	(1,560,569)
	5,017	(23,305)	431	(390)	(7)	(23,312)
	58,767	**(1,563,265)**	**16,830**	**18,647**	**100,237**	**(1,303,868)**
	$ 84,170	**$ 395,631**	**$ 19,216**	**$ 30,710**	**$ 122,575**	**$ 784,250**

Combining Statement of Net Cost for the Directorates and Administrations

For the Year Ended September 30, 1998
(Dollars in Thousands)

	R&R	MIT
Costs		
Intragovernmental		
Production	$ -	$ -
Non-production	-	-
Public		
Production	84,487	12,964
Non-production	11,177	6,912
Total Program Costs	95,664	19,876
Less: Earned revenue not attributed to programs	4,521	626
NET COST OF OPERATIONS BEFORE ALLOCATIONS	**91,143**	**19,250**
Allocations:		
Net Cost Allocations of Support Organizations and Prior Years' Appropriations	1,364	870
NET COST OF OPERATIONS AFTER ALLOCATIONS	**$ 92,507**	**$ 20,120**

The Federal Emergency Management Agency

Combining Statement of Net Cost for the Directorates and Administrations

For the Year Ended September 30, 1998

(Dollars in Thousands)

PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-
288,476	1,308,137	24,361	114,843	6,329	1,839,597
-	-	-	-	-	18,089
				-	
288,476	1,308,137	24,361	114,843	6,329	1,857,686
46,308	1,283,701	633	-	7	1,335,796
242,168	**24,436**	**23,728**	**114,843**	**6,322**	**521,890**
5,725	3,369	749	(114,453)	(6,322)	(108,698)
$ 247,893	**$ 27,805**	**$ 24,477**	**$ 390**	**$ -**	**$ 413,192**

The Federal Emergency Management Agency

Combining Statement of Changes in Net Position for the Directorates and Administrations

For the Year Ended September 30, 1998

(Dollars in Thousands)

		R&R		MIT
Net Cost of Operations	$	(92,507)	$	(20,120)
Financing Sources (other than exchange revenue):				
Appropriations used		83,106		19,595
Imputed financing		-		381
Transfers-in		2,253		-
Transfers-out		-		-
SO and FY1993-96 Net Cost Allocations		1,364		870
Net Results of Operations		(5,784)		726
Prior Period Adjustments		-		-
Net Change in Cumulative Results of Operations		(5,784)		726
Increase (Decrease) in Unexpended Appropriations		(19,723)		44,553
Change in Net Position		**(25,507)**		**45,279**
Net Position - Beginning of Period		24,519		20,625
Net Position - End of Period	**$**	**(988)**	**$**	**65,904**

The Federal Emergency Management Agency

Combining Statement of Changes in Net Position for the Directorates and Administrations

For the Year Ended September 30, 1998

(Dollars in Thousands)

PTE	FIA	USFA	Support	Prior-Year Appropriations FY1993-96	Directorates and Administrations
$ (247,893)	$ (27,805)	$ (24,477)	$ (390)	$ -	$ (413,192)
245,336	-	23,699	111,767	6,315	489,818
1,849	1,133	460	2,686	-	6,509
-	17,500	-	-	-	19,753
-	(17,502)	-	-	-	(17,502)
5,725	3,369	749	(114,453)	(6,322)	(108,698)
5,017	(23,305)	431	(390)	(7)	(23,312)
-	-	-	-	-	-
	-				
5,017	(23,305)	431	(390)	(7)	(23,312)
10,513	-	5,219	9,367	(41,146)	8,783
15,530	**(23,305)**	**5,650**	**8,977**	**(41,153)**	**(14,529)**
43,237	(1,539,960)	11,180	9,670	141,390	(1,289,339)
$ 58,767	**$ (1,563,265)**	**$ 16,830**	**$ 18,647**	**$ 100,237**	**$ (1,303,868)**