NOTE 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Emergency Management Agency (FEMA) was founded in 1979 by consolidating the emergency management functions formerly administered by five different Federal agencies. FEMA is an independent Federal agency reporting to the President charged with planning for, mitigating against, responding to, and recovering from natural and manmade disasters. Since its creation in 1979, FEMA's mission has been clear: *to reduce loss of life and property and protect our nation's critical infrastructure from all types of hazards, through a comprehensive, risk-based emergency management program of mitigation, preparedness, response, and recovery.*

In addition to responding to disasters, FEMA plays a vital role in the development of disaster resistant communities. This is accomplished through FEMA's helping states to assess their capabilities and training decision makers; providing and managing grant support for mitigation activities; building and actively participating in private and public emergency management partnerships; and supporting building code adoption. Additionally, the National Flood Insurance Program's (NFIP) partnerships offer flood insurance in return for better community floodplain management.

FEMA works to enhance the professionalism of the nations' fire service and allied professionals through comprehensive training and education. Extensive educational outreach to individuals, schools, and communities is used to reduce the loss of life and property from fires.

The accompanying financial statements reflect all activities of FEMA. The Agency receives funds from appropriations, revenues from sales of goods and services to the public, trust fund revenues, interest revenue, and revenue from other government entities. Revenues, expenses, assets, and liabilities resulting from transactions between various FEMA activities have been eliminated in preparing the accompanying consolidated financial statements.

Major program funding components of the Agency are described below:

Disaster Relief Fund (DRF): Provides a significant portion of the total Federal response to victims in Presidentially-declared disasters and emergencies. Established under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (PL 93-288, as amended), assistance supplements state and local governments' disaster response, recovery, preparedness and mitigation efforts. DRF is funded through no-year appropriations.

National Flood Insurance Program (NFIP): Provides flood insurance on a national level, through sale or continuation-in-force only in communities that enact and enforce appropriate floodplain management measures. The Federal Insurance Administration (FIA) is the FEMA entity that administers the insurance program and corresponding flood insurance and management funds.

Emergency Planning and Assistance (EMPA): Provides for the development and maintenance of the operational needs in building emergency management capability, in partnership with other Federal agencies, State and local governments, voluntary organizations and the private sector. Activities supported include financial and technical assistance, training and exercise support, logistics management support, and policy and planning guidance; and overall partnership building with and among State and local governments and other entities.

Cerro Grande Fund (CGF): Under the Cerro Grande Fire Assistance Act (PL 106-246), the fund was established to compensate victims of the Cerro Grande Fire. The Act authorized FEMA to receive, process, and pay claims associated with the fire and to reimburse other federal agencies for claims related to processing support. CGF is funded through a no-year appropriation.

Other Programs: Provides the necessary resources to various Agency programs at the headquarters and regional level. Salaries and Expenses, Working Capital, Emergency Food and Shelter, the Inspector General Office, Radiological Emergency Preparedness, and other smaller funds are included in other programs.

B. Basis of Accounting and Presentation

The accompanying financial statements have been prepared from the accounting records of FEMA in conformity with generally accepted accounting principles (GAAP) and the Office of Management and Budget's (OMB) Bulletin 97-01, Form and Content of Agency Financial Statements, as amended by OMB Bulletin 01-09 as required for FY 2001. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body of the Federal Government by the American Institute of Certified Public Accountants. These statements are different from the financial reports, also prepared by Treasury, pursuant to OMB directives that are used to monitor and control Treasury's use of budgetary resources.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, and the consolidated statement of financing; all of which are prescribed by OMB Bulletin No. 97-01, as amended.

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

These financial statements should be read with the realization that they are for a component of 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.

Comparative statements are presented for the Balance Sheet and the Statement of Net Cost as required by OMB Bulletin 01-09. Comparative Statements of Changes in Net Position, Budgetary Resources, and Financing will be presented as required by OMB Bulletin 01-09 for reporting periods beginning after September 30, 2002.

The Statement of Net Cost presentation was changed from FY2000 to FY2001 to separately show the components of the net cost of FEMA's operations, in compliance with OMB Bulletin 97-01. Because this presentation is significantly different from the format and content of the prior presentation, the FY2000 Statement of Net Cost is labeled as unaudited.

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. 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 the 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 Note 1.S.

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

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

FEMA does not, except for minimal balances maintained by FIA's Write Your Own (WYO) Insurance companies, maintain cash in commercial bank accounts. The U.S. Treasury processes cash receipts and disbursements. The Fund Balances with Treasury and Cash and Other Monetary Assets are primarily appropriated, revolving, or trust funds that are available to pay current liabilities and finance authorized purchase commitments.

F. Investments, Net

Investments in Treasury notes are reported at cost or amortized cost, net of unamortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment. FEMA's intent is to hold investments to maturity, unless they are needed to sustain operations. No provision is made for unrealized gains or losses on these securities because they are expected to be held to maturity.

G. Accounts Receivable, Net

Accounts Receivable—Intragovernmental consists of amounts due from other federal agencies.

Accounts Receivable—Net consists primarily of premiums and restitution due from WYO insurance companies participating in the FIA flood insurance program, amounts due from insurance customers and agents' commissions from canceled policies, amounts due from overpayments to grant recipients in the Disaster Relief Fund, and related interest receivable.

Amounts due for public receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience and an analysis of the outstanding balance. No allowance is established for intragovernmental receivables, as they are considered fully collectible.

H. Advances and Prepayments

It is FEMA's policy to advance funds to grant recipients so that recipients may incur expenses related to the approved grant. Advances are only made within the amount of the recorded grant obligation and are intended to cover immediate cash needs. Advances are expensed when drawn by the grant recipients; however, advances drawn within the last three business days of the fiscal year are recorded as an asset to approximate the amount of grant funding unexpended by grant recipients by the end of the fiscal year.

Advances consist of disaster assistance grants to states, other federal agencies tasked with mission assignments, and other grants to states of which the largest category is Emergency Management Performance Grants, a consolidation of grant programs, that supports state and local emergency management staffs and operations. When grant funds are used, the advances are liquidated.

Payments made by FEMA 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 prepaid and amortized over the period in which the related premiums are earned, generally one to three years.

I. Credit Program Receivables, Net

Loans are accounted for as receivables as funds are 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.

Post 1991 obligated direct loans and the resulting receivables are governed by the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are an estimated long-term cost to the U.S. Government of its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included in the subsidy costs. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. FEMA calculates the subsidy costs based on a Subsidy Calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the Allowance for Subsidy. This Allowance for Subsidy is re-estimated annually, as of September 30.

The Interest Receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 CFR §206.366.

J. Inventory and Other Related Property, Net

Inventory and Other Related Property, Net are comprised of floodplain maps and studies. Inventory on hand at year-end is 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. Excess, obsolete or unserviceable inventory is recycled and expensed in the period identified. Expenses are recorded when the inventories are sold or distributed.

Operating materials and supplies that are pre-positioned in Territory Logistics Centers for disaster use are expensed when purchased.

K. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment is capitalized at cost if the initial acquisition cost is $25,000 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 $25,000 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.

The majority of space and property in which FEMA operates are provided by the General Services Administration (GSA), which charges rent based upon commercial rates for similar properties. See Note 12 for additional information on GSA and non-GSA leases.

L. Liabilities

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since FEMA is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities since 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.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the fiscal year, and (5) permanent, indefinite appropriations or permanent, indefinite or definite borrowing authority.

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional budget authority. FEMA recognizes such liabilities for employees' annual leave earned but not taken, amounts billed to FEMA by the Department of Labor for Federal Employee's Compensation Act payments, and related actuarial liabilities.

M. Accounts Payable

Accounts Payable consists of amounts owed to other federal agencies, trade accounts payable, interest on trade accounts payable, and commissions payable.

N. Grants Liability

Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*, requires the accrual of amounts payable to grantees at year-end. FEMA accrues this liability based on the expenditures that have been reported on the SF272, *Federal Cash Transaction Reports*, submitted by the grantees at the end of each quarter, which have not yet been paid by FEMA as of September 30.

O. Claims and Claims Settlement Expenses

Provision for NFIP loss 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 period ended September 30, 2001 and 2000 were derived using loss development data available through November of each year.

Provision for Cerro Grande Fire claims settlement expenses are based on a detailed econometric analysis as of September 30, 2001 and 2000 of each year.

P. Deferred Revenue

NFIP premium revenues are recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums that are reserved to provide for the unexpired period of insurance coverage.

Q. Debt

Debt results from the Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations disclosed in Note 10. These programs are required to make periodic principal payments to the Treasury based on the terms of the notes.

FEMA's NFIP and DADLP include interest payable to Treasury in the amount recorded as Debt. DADLP interest rates are based on a weighted average for the years of disbursement. Balances of all borrowed funds that have not been disbursed earn an interest rate equal to the interest rate that is being charged on the borrowed funds. To simplify interest calculations, all borrowings are dated the first day of the fiscal year, all receipts and payments made to Treasury (except borrowings specified at year end) are given a mid-year calculation date. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan.

NFIP loans are for a three-year term. Interest rates are obtained from the Bureau of Public Debt. Simple interest is calculated monthly—offset by an interest rebate, if applicable. The interest rebate is calculated at a rate equal to the weighted average of the interest rates of outstanding loans for the month multiplied by the "positive" daily account fund balance for the month. Interest is paid semi-annually, October 1 and April 1. Partial loan repayments are permitted. Principal repayments are required only at maturity, but are permitted any time during the term of the loan.

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). P.L. 105-65, regarding appropriations for the FY 1999 and for other purposes, maintained FEMA's borrowing authority at $1.5 billion.

R. Workers' Compensation Liability

Workers' Compensation is comprised of two components: (1) the accrued liability which represents money owed for claims incurred through the current fiscal year, and (2) the actuarial liability for approved compensation cases incurred beyond the current fiscal year.

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered 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. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the Department of Labor to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined utilizing historical benefit payment patterns related to a specific period to estimate the ultimate payments related to that period.

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

FEMA recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs are recognized by the Office of Personnel Management (OPM) rather than by FEMA.

Most employees hired prior January 1, 1984; participate in the Civil Service Retirement System (CSRS). On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Agency also contributes the employer's matching share for Social Security.

Similar to Federal retirement plans, OPM rather than FEMA, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result, of SFFAS No. 5, FEMA is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires that FEMA recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full costs of pension, ORB and OPEB benefits and the amount paid by FEMA is recorded as an expense and offsetting Imputed Financing Sources in the accompanying consolidated financial statements.

T. 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 are expensed as taken.

U. Non-Entity Assets

Non-entity assets disclosed in Note 14, are defined as assets held and managed by FEMA but not available to finance FEMA's operations. FEMA classifies interest on past due accounts receivables as a non-entity asset and records amounts equal to the non-entity asset as a non-entity liability payable to the Department of Treasury's miscellaneous receipt account.

V. Use of Estimates

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.

W. Expired Accounts and Canceled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is canceled.

X. Pricing Policy for User Fees

FEMA's NFIP provides flood mitigation products and services to the government, state and local governments, and to the public. Under the authority of 31 U.S.C., Sec. 9701, the NFIP established the goal to become self-supporting by charging user fees for flood mitigation products and services.

In 1985, FEMA published a final rule in the Code of Federal Regulations (CFR) to add part 72 to Title 44, Chapter I, Subchapter B. Part 72 provides cost reimbursement procedures for the engineering review and processing associated with requests for changes to flood maps. This established the first flood mitigation user fee and set a precedent for other user fees for retrieving, reproducing and distributing stored technical support data and flood map products. These fees were based on incurred costs and have been reviewed periodically since 1985.

The Flood Mitigation User Fee Group was established in January 1995 to determine whether current user fees covered the costs of providing NFIP products and services to the public. The Fee Group meets periodically during the year to recommend increases and or decreases to map products.

The Omnibus Budget Reconciliation Act of 1990 directed the NFIP to establish a user fee to recover administrative expenses from flood insurance policyholders. In 1991, FEMA initiated a Federal Policy Fee of $25 per policy to pay for administrative expenses. The Federal Policy Fee and the flood mitigation user fees pay for administrative expenses of the NFIP.

FEMA also oversees the Radiological Emergency Preparedness Fund (REP) through 100% user fee financing. The fund supports state and local government in REP planning around Nuclear Regulatory Commission (NRC) licensed planning zones nationwide. Fees are assessed and collected from NRC licensees.

Y. Reclassifications

Certain FY 2000 financial statement balances and footnote amounts were reclassified to be consistent with FY 2001 classifications.

Note 2. Fund Balance With Treasury (in thousands)

A. Fund Balances

	2001	2000
Appropriated Funds	$ 8,676,066	$ 8,613,098
Other Fund Types	60,427	53,631
Revolving Funds	72,508	85,283
Trust Funds—Restricted	197	199
Total	$ 8,809,198	$ 8,752,211

B. Status of Fund Balance with Treasury

	2001	2000
(1) Unobligated Balance		
(a) Available	$ 1,670,548	$ 1,156,215
(b) Unavailable	311,708	298,596
(2) Obligated Balance not yet Disbursed	6,826,942	7,297,400
Total	$ 8,809,198	$ 8,752,211

The suspense fund (Fund 31) is a holding account that FEMA enters unidentified disbursements and receipts until these transactions can be identified and posted to a specific fund. FEMA started using the general ledger Fund 31 in FY 2000 to track unidentified disbursements and receipts, and it is intended solely for internal reconciliations. FEMA recognizes that there are differences between Treasury's TFS-6653 and FEMA's Fund 31 general ledger cash. These differences are due to the conversion from a non-general ledger based system, and relate to incorrect beginning balances loaded into the general ledger system. At the end of the year, the amount on the Treasury TFS-6653 for the suspense fund is allocated on a percentage basis to FEMA's major organizational components for financial statement purposes.

Note 3. Cash and Other Monetary Assets (in thousands)

Minimal cash balances are maintained at commercial banks by the Write Your Own insurance companies and the servicing agent, to fund claim payments and other cash needs, related to the flood insurance program.

	2001	2000
Cash	$ -	$ 8
Other Cash—Contractor	-	10,468
Other Cash—Agency	3	15
Total	$ 3	$ 10,491

Note 4. Investments, Net (in thousands)

2001	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net	Market Value
Marketable	$ 1,543	Straight Line	$ 56	$ 1,599	$ 1,599
Total	$ 1,543		$ 56	$ 1,599	$ 1,599

2000	Cost	Amortization Method	Unamortized Premium (Discount)	Investments, Net	Market Value
Marketable	$ 1,483	Straight Line	$ -	$ 1,483	$ 1,483
Total	$ 1,483		$ -	$ 1,483	$ 1,483

Note 5. Accounts Receivable, Net (in thousands)

	2001	2000
Disaster Relief		
Accounts Receivable—Intragovernmental	$ 231	$ 217
Accounts Receivable	77,751	83,392
Interest Receivable	7,658	6,521
Allowance for Loss	(70,353)	(37,345)
	15,287	52,785
National Flood Insurance		
Accounts Receivable—Intragovernmental	44	54
Accounts Receivable	13,450	15,160
Interest Receivable	1	2
Allowance for Loss	(85)	(345)
	13,410	14,871
Other programs		
Accounts Receivable—Intragovernmental	16,012	42,033
Accounts Receivable	71	81
Interest Receivable	-	35
	16,083	42,149
TOTAL	$ 44,780	$ 109,805

The reconciliation of the allowance for uncollectible accounts as of September 30, 2001 and 2000 is as follows:

	2001	2000
Beginning Allowance for Uncollectible Accounts	$ 37,690	$ 38,131
Additions	33,050	-
Reductions	(302)	(441)
	$ 70,438	$ 37,690

Note 6. Credit Program Receivables, Net (in thousands)

A. FEMA operates the following direct loan programs for non-federal borrowers. The gross loans receivable balances are as follows:

	2001	2000
Community Disaster Loans	$ 160,175	$ 158,756
Individual & Family Grant Loans	1,379	1,997
Public Assistance Loans	1,980	2,867
Hazard Mitigation Loans	1,120	1,621
	$ 164,654	$ 165,241

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

B1. Direct Loans Obligated Prior to FY 1992 (Allowance for Loss Method):

2001	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 172	$ 55	$ -	$ 227
Total	$ 172	$ 55	$ -	$ 227

2000	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 29,262	$ 14,735	$ (32,810)	$ 11,187
Total	$ 29,262	$ 14,735	$ (92,810)	$ 11,187

C. Direct Loans Obligated After FY 1991:

2001	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 160,003	$ 54,681	$ (214,150)	$ 534
Individual and Family Grant Loans	1,379	10	(963)	426
Public Assistance Loans	1,980	14	(1,382)	612
Hazard Mitigation Loans	1,120	8	(782)	346
Total	$ 164,482	$ 54,713	$ (217,277)	$ 1,918

2000	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans	$ 129,494	$ 29,690	$ (156,047)	$ 3,137
Individual and Family Grant Loans	1,997	203	(1,283)	917
Public Assistance Loans	2,867	292	(1,841)	1,318
Hazard Mitigation Loans	1,621	165	(1,041)	745
Total	$ 135,979	$ 30,350	$ (160,212)	$ 6,117

D. Total amount of Direct Loans Disbursed (Post–1991):

	2001	2000
Community Disaster Loans	$ 1,423	$ -
Total	$ 1,423	$ -

E. Subsidy Expense for Direct Loans by Program and Component:

2001 Subsidy Expense for New Direct Loans Disbursed

	Interest Differential	Other	Interest Rate Reestimates	Technical Reestimates	Total Subsidy
Community Disaster Loans	$ 374	$ 995	$ (1,315)	$ 44,033	$ 44,087
State Share Loans	-	-	-	(201)	(201)
Total	**$ 374**	**$ 995**	**$ (1,315)**	**$ 43,832**	**$ 43,886**

2000 Subsidy Expense for New Direct Loans Disbursed

	Other	Interest Rate Reestimates	Technical Reestimates	Total Subsidy
Community Disaster Loans	$ -	$ -	$ (733)	$ (733)
State Share Loans	-	-	(5,438)	(5,438)
Total	**$ -**	**$ -**	**$ (6,171)**	**$ (6,171)**

F. Direct Loan Subsidy Rates

The direct loan subsidy rate, by component, for the FY 2001 and FY 2000 cohorts, are as follows:

	FY 2001		FY 2000	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	26.28%	6.67%	99.45%	(2.95%)
Default Costs	-	-	-	6.22%
Other	69.91%	0.04%	-	-
	96.19%	**6.71%**	**99.45%**	**3.27%**

G. Schedule for Reconciling Subsidy Cost Allowance Balances

	2001	2000
Beginning Balance of the Subsidy cost allowance	$ 160,212	$ 182,093
Add: subsidy expense for direct loans disbursed during the reporting years by component:		
(a) Interest rate differential costs	374	
(b) Other subsidy costs	995	
Adjustments:		
(a) Loans written off	(5)	(11,966)
(b) Subsidy allowance amortization	13,184	(3,744)
Ending balance of the subsidy cost allowance before reestimates	174,760	166,383
Add subsidy reestimate by component		
(a) Technical/default reestimate	42,517	(6,171)
Ending balance of the subsidy cost allowance	$ 217,277	$ 160,212

H. Administrative Expenses:

	2001	2000
Community Disaster and State Share Loans	$ 225	$ 207

Note 7. Advances and Prepayments (in thousands)

	2001	2000
Intragovernmental	$	$ 20
NFI	48	
	48	20
With the Public		312,833
NFI	258,516	
EMPA	2,411	
DRF	22,985	
Other Programs	77	
	283,989	312,833
Total	$ 284,037	$ 312,853

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

2001	Valuation Method	Held for Current Sale	Held for Distribution	Total
Floodplain Maps and Studies	Average Cost	$ 1,918	$ 2,303	$ 4,221
Allowance for Obsolescence		(42)	-	(42)
Total		$ 1,876	$ 2,303	$ 4,179

2000	Valuation Method	Held for Current Sale	Held for Distribution	Total
Floodplain Maps and Studies	Average Cost	$ 1,416	$ 2,776	$ 4,192
Allowance for Obsolescence		(19)	-	(19)
Total		$ 1,397	$ 2,776	$ 4,173

Note 9. General Property, Plant, and Equipment (in thousands)

2001	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	Straight Line	5 Years	$ 17,798	$ (3,116)	$ 14,682
Buildings, Improvements, and Renovations	Straight Line	20/5 Years	143,738	(95,375)	48,363
Construction in Progress	none	-	1,975	-	1,975
Equipment	Straight Line	5 Years	28,577	(17,824)	10,753
Improvements to Land	Straight Line	20 Years	8,139	(7,010)	1,129
Land and Land Rights	none	-	349	-	349
Leasehold Improvements	Straight Line	5 Years	121	(83)	38
Other Structures and Facilities	Straight Line	20/5 Years	4,598	(2,702)	1,896
Total			$ 205,295	$ (126,110)	$ 79,185

2000	Depreciation Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
ADP Software	Straight Line	5 Years	$ 3,594	$ (2,489)	$ 1,105
Buildings, Improvements, and Renovations	Straight Line	20/5 Years	1,493	(202)	1,291
Construction in Progress	none	-	1,725	-	1,725
Equipment	Straight Line	5 Years	40,739	(19,199)	21,540
Leasehold Improvements	Straight Line	5 Years	2,157	(959)	1,198
Other Structures and Facilities	Straight Line	20/5 Years	840	(127)	713
Total			$ 50,548	$ (22,976)	$ 27,572

FEMA's fiscal year-end property valuations also include property owned by FEMA, but held by Federal contractors. FEMA's personal property includes: (1) property acquired by FEMA and held by Federal government contractors (contractors) and (2) property acquired and held by contractors, to which FEMA holds title (contractor-held, FEMA–owned). Contractor-held, FEMA-owned property is reported as property in the financial statements upon delivery or constructive delivery to the contractor for use in performing contract services, or to FEMA. As of September 30, 2001 and 2000, the net book value of capitalized personal property held by contractors is $738 thousand and $0, respectively.

FEMA used an estimated value in recording the Internal Use Software as required by SFFAS No. 10. The estimated value was extracted from the FY 2001 attachments to the FY 2003 budget and reviewed with the responsible offices to arrive at the estimated value in accordance with SFFAS No. 10.

Note 10. Debt (in thousands)

2001	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Treasury	$ 416,220	$ 195,956	$ 612,176
Total	$ 416,220	$ 195,956	$ 612,176

2000	Beginning Balance	Net Borrowings	Ending Balance
Debt to the Treasury	$ 617,667	$ (201,447)	$ 416,220
Total	$ 617,667	$ (201,447)	$ 416,220

	2001	2000
Interest Expense Related to Debt	$ 11,963	$ 30,302

Borrowings from Treasury for FEMA DADLP and NFIP

Loan amount, maturity date and interest rate as of September 30, 2001 and 2000 are as follows:

Cohort	2001 Loan Amount	Interest Rate	2000 Loan Amount	Interest Rate	Maturity Date
FY 92	$ -	-	$ 10,527	6.89%	9/30/01
FY 92	-	-	1,913	6.89%	9/30/02
FY 93	-	-	21,787	6.06%	9/30/02
FY 93	-	-	15,980	6.46%	9/30/03
FY 93	76	6.21%	-	-	9/30/03
FY 96	8,610	6.21%	8,610	6.46%	9/30/03
FY 00	-	-	320,000	5.875%	12/31/02
FY 00	-	-	25,000	6.375%	2/28/03
FY 01 & Modified	1,538	5.46%	-	-	9/30/06
FY 01	410,000	4.375%	-	-	8/31/04
FY 01	190,000	4.125%	-	-	9/30/04
Total Loans	$ 610,224		$ 403,817		
Interest Payable	$ 1,952		$ 12,403		
Total Debt	$ 612,176		$ 416,220		

Note 11. Claims and Claims Settlement Liabilities (in thousands)

National Flood Insurance Program

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 NFIP 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 (LAE) 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:

	2001	2000
Beginning Balance:		
Loss & LAE Reserve	$ 36,309	$ 214,531
Incurred Related To:		
Current Year	1,482,043	244937
Prior Year	49,210	42852
Total Incurred	1,531,253	287789
Paid Related To:		
Current Year	1,231,379	231002
Prior Year	78,158	535009
Total Paid	1,309,537	766011
Ending Balance		
Loss & LAE Reserve Related to:		
Current Year	250,664	13936
Prior Year	7,361	22373
Total Reserves	$ 258,025	$ 36,309

Cerro Grande Fire Assistance Act

The U.S. Department of Interior, National Park Service initiated a prescribed burn on federal land at Bandelier National Monument in New Mexico during the peak fire season in the Southwest. The prescribed burn exceeded the capabilities of the National Park Service and became classified as a wildfire. The fire resulted in the loss of federal, state, local, tribal and private property. The Secretary of the Interior and the National Park Service assumed responsibility for the fire and subsequent losses of property. On July 13, 2000, President Clinton signed into law the Cerro Grande Fire Assistance Act ("CGFAA"). Congress passed the CGFAA to compensate as fully as possible those parties who suffered damages from the Cerro Grande Fire. The goal of Congress in passing the CGFAA was to provide a fair, simple, fast and inexpensive method for receiving compensation for losses from the Cerro Grande Fire. Congress appropriated $455 million for the payment of claims in accordance with the CGFAA as well as $45 million for administration costs.

For the years ended September 30, 2001 and 2000, the estimated claims liability for the CGFAA is $260,101 thousand and $436,695 thousand, respectively. The liability for unpaid claims and claim adjustment expenses represents an estimate of the known probable and estimable losses that are unpaid as of the balance sheet date and for September 30, 2001 is based on the Final Rules dated March 21, 2001 entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Final Rule, published in the Federal Register Part II at 44 CFR Chapter I, Part 295. This estimated claims liability for September 30, 2001 includes $36,500 thousand, which is unfunded. The estimate for September 30, 2000 was based on the August 28, 2000, Interim Final Rules entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Interim Final Rules, published in the Federal Register Part V at 44 CFR Chapter I, Part 295.

The factors used in the development of the estimate include case basis estimates, trend estimates for claim severity and frequency and the use of forensic accounting procedures. These estimates will be reviewed; and adjustments will be reflected in current operations, as deemed necessary.

In addition to the recognized claims liability, there is a reasonable possibility that additional liabilities may have been incurred. These liabilities consist of potential claims that may be submitted to FEMA under the CGFAA. Such claims are probable but are not currently estimable due to the fact that many of these potential claims are unknown. These potential claims include devaluation issues related to both residential and commercial real estate, flood damage in Los Alamos County, and contamination.

Note 12. Operating Leases (in thousands)

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

Future Payments Due as of September 30, 2001:

Fiscal Year	GSA (1) *	Non-GSA (2)	Total
2002	$ 20,262	$ 6,750	$ 27,012
2003	23,862	6,034	29,896
2004	27,536	5,776	33,312
2005	28,637	6,007	34,644
2006	29,782	6,247	36,029
After 5 Years	**	-	**

(1) GSA controlled leases: 2002 based on GSA estimates

(2) Non-GSA-controlled leases (e.g., buildings): Does not include short-term disaster field office leases, which are leased to meet short-term disaster needs, as necessary.

* 2003 and beyond reflect planning estimates only

** Future lease payments are expected; however, amounts cannot be reasonably estimated

Note 13. Workers' Compensation, Pensions, and Other Retirement Benefits (in thousands)

Workers' Compensation

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered 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. Claims incurred for benefits for FEMA employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by FEMA.

Future workers' compensation estimates were generated from an application of actuarial procedures developed by the DOL to estimate the liability for FECA benefits. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to estimate the ultimate payments related to that period.

Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2001	2000
5.21% in year 1	6.15% in year 1
5.21% in year 2 and thereafter.	6.28% in year 2
	6.30% in year 3 and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors that include cost of living adjustments and medical inflation factors are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of actual compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years benefits payments is 37 years.

The model's resulting projections were analyzed by DOL to ensure that the amounts were reliable. The analysis is based on three tests: (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made by DOL to correct any anomalies in the projections.

Based on the actuarial liability estimates provided by the DOL, FEMA's recorded expense and the related increase in the estimated unfunded liability for future worker's compensation benefits as of September 30, 2001 and 2000 were $25,208 thousand and $21,959 thousand, respectively.

Accrued FECA Liability

The accrued FECA liability is the difference between the FECA benefit paid by the FECA Special Benefits Fund and FEMA's actual cash payments to the Fund. For example, the Special Benefits Fund will pay benefits on behalf of FEMA through the current year. However, FEMA's actual cash payments to the FECA Special Benefit Fund for the current FY will reimburse the Fund for benefits paid through a prior fiscal year. The difference between these two amounts—benefits paid by the Fund and reimbursements made by FEMA—is the unfunded accrued FECA liability, which amounted to $5,406 thousand and $4,617 thousand at September 30, 2001 and 2000, respectively. The FY 2000 total includes a prior period adjustment of $969 thousand which resulted from the accrual not being recorded since FY 1999 (see Note 18).

Pensions and Other Retirement Benefits:

To calculate the liability for pensions and other retirement benefit costs, the "service cost" or normal cost is calculated. Service cost is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during the accounting period. The amount of the service cost, less any employee contributions attributable to post-retirement benefits is defined as the "pension expense" for the entity.

Cost factors and imputed cost calculations provided by OPM Retirement and Insurance Service Benefits Administration Letter 01-326 dated October 15, 2001 were used to calculate the amount of additional expense to be recorded by FEMA. The employer's contribution is subtracted from the pension expense since FEMA's contribution is expended with each pay period. Since the benefit for pensions is received after retirement, employee and employer contributions are attributed to the period after retirement and are subtracted from the service costs.

The employee and employer contributions for health care and life insurance are attributed to the current period, and therefore, there is no offset to these service costs to calculate the other retirement benefit expense for the entity. These additional expenses represent the "subsidy" being made by the OPM for employees' retirement benefits.

Based on the information provided by the OPM, FEMA determined that the imputed costs for Pensions and Other Retirement Benefits for the period ended September 30, 2001 were:

	Pensions	Health Insurance	Life Insurance	Total
	$ 6,113	$ 7,868	$ 33	$ 14,014
Total	$ 6,113	$ 7,868	$ 33	$ 14,014

Note 14. Non-Entity Assets (in thousands)

Interest on past due accounts receivables is payable to Treasury.

	2001	2000
Accounts Receivable - Interest	$ 3,333	$ 2,920

Note 15. Other Liabilities (in thousands)

	2001	2000
Intragovernmental:		
Advances from Others	$ 79,737	$ 151,639
Accrued Payroll and Benefits	1,305	1,576
Other - Custodial Liability	3,333	2,920
	84,375	156,135
Accrued Payroll and Benefits	22,793	18,683
Accrued Annual Leave	17,717	18,600
Contractor liability - NFIP	21,428	-
Other - NFIP	21,882	29,178
	83,820	66,461
TOTAL	$ 168,195	$ 222,596

Note 16. Liabilities Not Covered By Budgetary Resources (in thousands)

	2001	2000
Intragovernmental:		
Accrued FECA Liability	$ 5,406	$ 3,648
Accrued Annual Leave	15,565	14,952
Actuarial FECA Accrual	25,208	21,959
Cerro Grande Claims Expense	36,500	-
	77,273	40,559
	$ 82,679	$ 36,911

FEMA anticipates that the above liabilities will be funded from future budgetary resources when required.

Under accrual accounting, the expense for annual leave is recognized when it is earned. However, for most of FEMA's funds, appropriations are provided to pay for the leave when it is taken. As a result, budgetary resources do not cover a large portion of Accrued Annual Leave.

FEMA receives budgetary resources for the Actuarial FECA Liability when they are needed for disbursements.

Due to the unique funding structure of Cerro Grande, $36,500 thousand of the September 20, 2001 Claims Expense Liability is the portion of claims and claims settlement liabilities that is not covered by budgetary resources.

Note 17. Unexpended Appropriations (in thousands)

	2001	2000
Unobligated		
Available	$ 2,435,699	$ 780,676
Unavailable	267,515	1,386,286
Unexpended Obligations	5,636,424	5,630,117
Total	$ 8,339,638	$ 7,797,079

Note 18. Prior Period Adjustments (in thousands)

	Related to Cummulative Results of Operations	Related to Unexpended Appropriations
Decreases in Accounts Payable as of 9/30/00	$ -	$ 176,794
Cancellation of FY 1995 annual authority as of 9/30/00	-	(16,853)
Increase to Liability for Grants Payable as of 9/30/00	-	(29,244)
Decreases in Advances to others as of 9/30/00	-	(26,330)
Increases in Accrued Workers' Compensation Liability as of 9/30/00	(969)	-
Increases to General Property, Plant and Equipment, net as of 9/30/00	39,353	-
TOTAL	$ 38,384	$ 104,367

The decrease in Accounts Payable was the result of reconciliation of all outstanding balances as of September 30, 2000.

In FY 2000, FEMA did not cancel the FY 1995 expiring annual authority prior to year-end. This resulted in the reduction of Net Position—September 30, 2000 as shown on the FY 2000 financial statements by $16,853 thousand. FEMA now removes the expiring annual authority prior to fiscal year-end.

The increase in Liability for Grants Payable was the result of implementation of the Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, which requires the accrual of amounts payable to grantees at year-end.

The decrease in Advances to Others was the result of reconciliation of all outstanding balances as of September 30, 2000, and is related to advances that should have been recorded as expenditures in prior fiscal years and were not. FEMA now monitors the posting of advances and the timely posting of expenditures related to those advances.

The increase in Accrued Workers' Compensation Liability resulted from the accrual for Accrued FECA Liability not being recorded since FY 1999.

An increase of $46,212 thousand to General Property, Plant and Equipment resulted from the recognition of real property and the related improvements and renovations, which were previously not recorded, in the financial statements. This increase was offset by a decrease of $6,859 thousand to General Property, Plant and Equipment resulting from a policy change in FEMA's capitalization threshold from $15 thousand to $25 thousand in FY 2000.

Note 19. Allocation of Support Organization Costs (in thousands)

FEMA allocated Support Organizations FY 2001 program costs to the DRF, the NFIP, EMPA and other programs to reflect the costs of operating these organizational components. FEMA allocated costs based on FY 2001 program costs.

Note 20. Estimated Disaster Costs (in thousands) (unaudited)

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 SFFAS 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 transaction 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 costs 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 FY 1989 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 $43.4 billion as of September 30, 2001, of which approximately $31.2 billion has been obligated and $25.8 billion paid or accrued. Should all projected remaining costs and obligations be funded by the government and paid or accrued by FEMA, an additional $17.6 billion in expenses would be recorded.

Information regarding the disaster cost projections and their effect on DRF as of September 30, 2001, is summarized below:

Unfunded Cost:	
Cost Projections	$ 43,424,103
Obligations	(31,194,463)
Total Unfunded Costs	$ 12,229,640
Unliquidated Obligations:	
Obligations	$ 31,194,463
Expenditures Incurred	(25,815,937)
Total Unliquidated Obligations	$ 5,378,526
Remaining Project Cost:	
Unfunded Cost	$ 12,229,640
Unliquidated Obligations	5,378,526
Remaining Cost	$ 17,608,166

Note 21. Gross Cost and Earned Revenue by Budget Functional Classification (in thousands)

2001		Gross Cost		Earned Revenue		Net Cost
		Intragovernmental	With the Public	Intragovernmental	With the Public	
050	National Defense	$ 192,931	$ 342,919	$ (82,309)	$ (50)	$ 453,491
450	Community & Regional Development	934,847	4,615,625	(6)	(1,621,611)	3,928,855
600	Income Security	-	139,692	-	-	139,692
800	General Government	10,317	12,116	(6,050)	(10,561)	5,822
Total		$ 1,138,095	$ 5,110,352	$ (88,365)	$ (1,632,222)	$ 4,527,860

2000		Gross Cost	Earned Revenue	Net Cost
050	National Defense	$ 480,002	$ (42,382)	$ 437,620
450	Community & Regional Development	3,912,171	(1,501,485)	2,410,686
600	Income Security	110,000	-	110,000
800	General Government	21,449	(21,830)	(381)
Total		$ 4,523,622	$ (1,565,697)	$ 2,957,925

Note 22. Litigation Contingencies (in thousands)

FEMA is a party in various administrative proceedings, legal actions, and claims brought against it. FEMA is subject to suits of approximately $451 thousand where an adverse outcome is probable. This amount has been recognized in the financial statements. There is pending litigation of $36,581 thousand where the chance of the future confirming events occurring is possible. 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 23. Contingencies (in thousands)

On September 11, 2001, terrorist attacks occurred against the United States. FEMA was given authority to respond to the event. However, unlike a natural disaster, there is no precedent for this event to ensure an accurate estimate of the costs and at this time the costs have been deemed inestimable. Costs have been incurred by the victim government entities and certain costs have been, and likely will be, reimbursed to some extent by FEMA through the disaster grant process.

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).

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

Note 24. Statement of Budgetary Resources (in thousands)

The Disaster Assistance Direct Loan Program annually requests Borrowing authority to cover the principal amount of direct loans not to exceed $25,000 thousand less the subsidy due from the program account. This borrowing authority is for FEMA State Share Loans. Borrowing authority for Community Disaster Loans is requested on an "as needed basis". At the end of the Fiscal Year, borrowing authority is reduced by the amount of any unused portion.

The National Flood Insurance Fund (NFIF) has Borrowing Authority of $1,500,000 thousand. Borrowing authority available for NFIF is $900,000 thousand and $1,155,000 thousand as of September 30, 2001 and 2000, respectively.

Under Credit reform, the unsubsidized portion of direct loans is borrowed from the U.S. Treasury. The repayment terms of FEMA's borrowing from Treasury are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers is used to repay Treasury. In addition to this, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority. Once these funds are appropriated, the original borrowings are repaid to Treasury.

The NFIF loans are for three-year terms. Interest rates are obtained from the Bureau of Public Debt. Simple interest is calculated monthly and offset by an interest rebate, if applicable. The interest rebate is calculated at a rate equal to the weighted average of the interest rates of outstanding loans for the month multiplied by the "positive" account fund balance for the month. Interest is paid semi-annually, October 1 and April 1. Partial loan repayments are permitted. Principal repayments are required only at maturity, but are permitted any time during the term of the loan. All loan and interest payments are financed from flood premiums and map collection fees.

FEMA's beginning balance of budgetary resources related to prior-year ending unobligated and obligated balances reflects the cancellation of budget fiscal year 1995 of $2,867 thousand (decrease to beginning balance) and $4,606 thousand (decrease in beginning balance), respectively. In addition to the cancellation of BFY 95, FEMA made adjustments to prior-year ending unobligated and obligated beginning balances of $789 thousand (increase to beginning balance) and $10,129 thousand (decrease to beginning balance), respectively, due to corrections of budgetary discrepancies in the conversion from a non-general ledger based accounting system. These discrepancies were researched and resolved as a result of the onset of Federal Accounting Centralized Trial Balance System (FACTS II) reporting. The beginning unobligated and obligated balances include additional adjustments of $218 thousand (increase to beginning balance) and $1,298 thousand (increase to beginning balance), respectively, related to unknown discrepancies.

FEMA maintains three funds under the Credit Reform Act:

58-4234Disaster Assistance Direct Loan Financing
58-0105Disaster Assistance Direct Loan Program (no-year)
58-0105Disaster Assistance Direct Loan Program (annual)

FEMA also provides for the Radiological Emergency Preparedness Fund, a user financed fund (58-5436 and 58-0897) and the National Flood Insurance Fund (58-4236).

FEMA appropriations contain limits as to time or purpose, and these may apply wholly to a fund or merely to part of a fund. For example, the agency's general appropriation for Salaries and Expenses is an annual appropriation, while the Disaster Relief Fund is a "no-year" fund. The National Flood Insurance Fund is a permanent fund that is the source of funding for various flood related projects or programs that are limited in amount by Congress. The Emergency Planning and Assistance Fund also contains a one-year limit on pre-disaster mitigation grant assistance.

In addition, the following funds contain restrictions for this reporting year.

Enacted Rescissions: $5,082 thousand pursuant to PL 106-113,
Emergency Management Planning and Assistance (58-0101)
Disaster Relief Fund (58-0104)
Salaries and Expenses (58-0100)
Inspector General (58-0300)
Emergency Food & Shelter (58-0103)

Permanent Restrictions: $1,750 thousand pursuant to PL 96-446

Cora Brown Trust Fund (11-8244) receives cash gifts or bequests from the public to benefit disaster victims without insurance or other resources needed for recovery. FEMA is authorized to invest cash deposited in the fund in public debt securities, which are recorded at cost.

FEMA's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the "President's Budget") as well as information reported in the Reports of Budget Execution and Budgetary Resources (SF-133). Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources, the President's Budget and the SF- 133. The differences arise from timing, varying OMB reporting requirements, and current and prior year audit adjustments.

(Dollars in Millions)	Budgetary Authority	Obligations Incurred	Outlays
Consolidated Statement of Budgetary Resources	**$ 4,752**	**$ 6,423**	**$ 4,477**
Disaster Relief	-	200	(17)
National Flood Insurance	212	40	(67)
Emergency Planning and Assistance	(1)	(4)	86
Cerro Grande Fire Grants	-	216	-
Other Programs	(106)	31	(35)
Budget of the United States Government	**$ 4,857**	**$ 6,906**	**$ 4,445**

Note 25. Financing Sources Yet To Be Provided (in thousands)

Financing sources yet to be provided on the Consolidated Statement of Financing represents costs for FY 2001 that are included in the liabilities which are not covered by budgetary resources. This line item does not include costs incurred in prior fiscal years.

Claim and claims settlement expenses	$ 36,500
FECA liability costs	8,655
Annual leave expenses	2,001
Total	$ 47,156