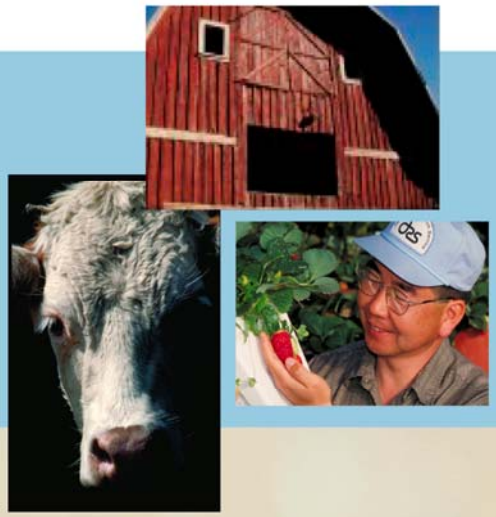

3 Financial Statements, Notes, Supplemental and Other Accompanying Information

Message from the Chief Financial Officer

The Department of Agriculture (USDA) programs and activities affect every American, every day, by providing a safe and stable food supply, nutrition assistance, renewable energy, rural economic development, care for forest and conservation lands, and global opportunities for farm and forest products. To successfully accomplish its mission, USDA operates more than 300 programs worldwide through an extensive network of Federal, State, and local cooperators.

The employees of the USDA work hard. They understand the importance of customer centric service, efficient processes, and fiscal responsibility in executing the programs funded by Congress. Here is a brief list of our results:

- As the nation's eighth largest bank in terms of loan portfolios. USDA's loan portfolio is valued at $107 billion. USDA makes loans for housing, power generation, water treatment facilities, and business and industry loans. The loan servicing center measures customer service, response times, and delinquent loans against national bank standards. These measurements show that USDA operations are in the top tier in all three measurements. The current delinquent amount for our loans is $3.3 billion or 3.1 percent of the portfolio. This is a vast reduction from the $6.6 billion or 6.6 percent recognized in fiscal year 2003. This year, with collections over $1.1 billion, USDA was recognized as one of the top collectors of delinquent debt in the government.
- USDA was recognized through the President's Management Agenda Scorecard for the reduction in improper payments from $4.4 billion in FY 2007 to $4.1 billion in FY 2008. This recognition and reduction occurred while including in the measurement of two additional nutrition assistance programs.
- Over the past 2 fiscal years, USDA identified and tracked 218 control deficiencies and has corrected 172, or 72 percent, of the prior year's deficiencies. Once again USDA reduced the number of open audit issues.
- Twelve months ago, USDA began implementation of a 36 month plan to correct the material weakness for IT Security. This year USDA OCIO reorganized its operations, held monthly security meetings with the agencies, procured Department-wide security tools, and implemented a new monitoring system. The audit report notes that improvement in Information Technology Security for multiple agencies and the progress of the Department.

While we continue to make progress in financial management, we cannot yet give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act or the financial systems requirements of the Federal Financial Management Improvement Act. We continue to focus on this issue by supporting the replacement of the core general ledger system and the farm payment systems. Both these systems are out dated and no longer supported by their vendors.

Our employees are dedicated to protecting and managing the substantial resources entrusted to them by Congress and the American people to perform the important work of this Department. We are proud of our accomplishments for FY 2008 and the hard working employees at USDA. USDA is committed to providing sound management of the resources under our stewardship and to communicating the effectiveness of our efforts to all Americans through this Performance and Accountability Report.

Charles R. Christopherson, Jr.
Chief Financial Officer
Chief Information Officer
November 17, 2008

Report of the Office of Inspector General

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

NOV 14 2008

REPLY TO
ATTN OF: 50401-65-FM

TO: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer
Office of the Chief Financial Officer
Planning and Accountability Division

FROM: Phyllis K. Fong
Inspector General

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2008 and 2007

This report presents the results of our audits of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2008, and 2007. The report contains an unqualified opinion for fiscal year 2008 and a qualified opinion for fiscal year 2007, as well as the results of our assessment of the Department's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety as exhibit C.

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

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

U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2008 and 2007

NOTICE - THIS REPORT IS RESTRICTED TO OFFICIAL USE ONLY.
This report is provided to Federal officials solely for their official use. Further distribution or release of this information is not authorized without OIG approval.

Report No. 50401-65-FM
November 2008

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2008 and 2007 (Audit Report No. 50401-65-FM)

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position, net costs, changes in net position, and related combined statements of budgetary resources; (2) the internal control objectives over financial reporting were met; (3) the Department complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements; and (4) the information in the Performance and Accountability Report was materially consistent with the information in the consolidated financial statements.

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

Results in Brief

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA as of September 30, 2008, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America For fiscal year 2007, we issued a qualified opinion on USDA's consolidated balance sheet and its related consolidated statements of net cost; and changes in net position due to our inability to obtain sufficient, appropriate evidence to support financial statement amounts related to credit reform processes for Rural Development, a reporting component of USDA.

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations.

For internal control over financial reporting, we identified two significant deficiencies as follows:

- improvements are needed in overall financial management; and
- improvements are needed in information technology (IT) security and controls.

We believe that these two significant deficiencies are material weaknesses. Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement Act, the Anti-Deficiency Act, and certain aspects of Appropriations Law.

Key Recommendation

As discussed in its Federal Managers' Financial Integrity Act of 1982 report, the Department has plans to address the weaknesses discussed in the report. The key recommendation in this report was limited to additional improvements needed in financial management with respect to obligations.

Agency Response

OCFO concurred with the two material weaknesses and findings related to compliance with laws and regulations contained in your report. The Department plans to submit a detailed action plan no later than December 31, 2008, to address the findings and recommendations contained in our report.

OIG Position

Management decision should be achievable upon our review of the action plan.

Abbreviations Used in This Report

ADA	Anti-Deficiency Act
C&A	certification and accreditation
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
DM	Departmental Manual
FDCC	Federal Desktop Core Configurations
FFIS	Foundation Financial Information System
FMFIA	Federal Managers' Financial Integrity Act of 1982
FFMIA	Federal Financial Management Improvement Act of 1996
FFMSR	Federal Financial Management System Requirements
FISMA	Federal Information Security Management Act of 2002
FS	Forest Service
GAO	U.S. Government Accountability Office
IT	information technology
ITS	International Technology Service
NFC	National Finance Center
NIST	National Institute of Standards and Technology
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
P2P	peer to peer
POA&M	plan of action & milestones
RSI	Required Supplementary Information
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
SGL	U.S. Government Standard General Ledger
SP	Special Publication
Treasury	U.S. Department of the Treasury
USDA	U.S. Department of Agriculture

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2008, and 2007, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The consolidated financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

Except as noted in the following paragraph with respect to the fiscal year 2007 audit, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of USDA as of September 30, 2008; and its net costs, and changes in net position, and budgetary resources for the year then ended, in conformity with accounting principles generally accepted in the United States of America. For fiscal year 2007, we issued a qualified opinion on USDA's consolidated balance sheet, and its related statement of net cost; and changes in net position due to our inability to obtain sufficient, appropriate evidence to support financial statement amounts related to credit reform processes for Rural Development, a reporting component of USDA.

As discussed in Note 30, in fiscal year 2008 USDA was determined to be the appropriate reporting entity for reporting activity and balances in an unavailable special fund receipt account relating to U.S. Customs duties. Also as discussed in Note 30, USDA implemented a voluntary change in accounting principles to reclassify its road prism assets to stewardship property, plant, and equipment for the Forest Service, a component of USDA. As discussed in Note 1, USDA reclassified liabilities for entitlements and grants from "Accounts Payable" to "Benefits Due and

Payable," and "Other Liabilities," respectively, to conform to OMB and U.S. Department of Treasury guidance. Furthermore, as discussed in Notes 1, 29, and 30, USDA changed its method of accounting and reporting for allocation transfers (parent-child relationships) and its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007 to adopt the provisions of OMB Circular No. A-136, *Financial Reporting Requirements*. Lastly, as discussed in Note 1, the Department is phasing in the implementation of the Statement of Federal Financial Accounting Standards (SFFAS) 29, *Heritage Assets and Stewardship Land*.[1]

Except for the sections containing the financial statements and related notes, the information in the Performance and Accountability Report (PAR) is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and OMB Circular No. A-136. These other sections of the PAR contain a wide range of information, some of which is not directly related to the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. However, as a result of such limited procedures, we believe that the Required Supplementary Information related to deferred maintenance is lacking internal controls to ensure the accuracy, completeness, and timeliness of the reported information.

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of the audit, should be read in conjunction with this report. For internal control over financial reporting, we identified two significant deficiencies as follows:

- improvements are needed in overall financial management; and
- improvements are needed in information technology (IT) security and controls.

We believe that these two deficiencies are material weaknesses.

Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement Act, the Anti-Deficiency Act, and certain aspects of Appropriations Law.

USDA's response to the findings in our audit is included in exhibit C. We did not audit the response and, accordingly, express no opinion on it.

[1]SFFAS 29 was issued July 7, 2005 and reclassifies the reporting of Heritage and Stewardship Land information over time. SFFAS 29 will be fully implemented for reporting periods beginning after September 30, 2008.

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

Phyllis K. Fong
Inspector General

November 14, 2008

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General on Internal Control Over Financial Reporting

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2008, and 2007, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended and have issued our report thereon, dated November 14, 2008. Except as discussed in our opinion for credit reform processes in fiscal year 2007, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audits, we considered USDA's internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The objective of our audits was not to provide assurance on USDA's internal control. Consequently, we do not provide an opinion on internal control over financial reporting or on USDA's assertion on internal control included in Management's Discussion and Analysis.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect USDA's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the consolidated financial statements

being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters described in the "Findings and Recommendation" involving the internal control over financial reporting and its operation that we consider to be significant deficiencies as follows:

- improvements are needed in overall financial management (Section 1); and
- improvements are needed in information technology (IT) security and controls (Section 1).

We believe that these two deficiencies are also material weaknesses.

Additional Other Procedures

As required by OMB Bulletin No. 07-04, we considered USDA's internal controls over Required Supplementary Information (RSI) and Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal controls over such, RSI and RSSI; accordingly, we do not provide an opinion on such controls. However, as a result of such limited procedures, we believe that the RSI related to deferred maintenance is lacking controls to ensure the accuracy, completeness, and timeliness of the reported information.

The material weaknesses noted above were disclosed in USDA's FMFIA report.

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

Phyllis K. Fong
Inspector General

November 14, 2008

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General on Compliance With Laws and Regulations

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2008, and 2007, and the related consolidated statements of net cost; changes in net position; the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended and have issued our report thereon, dated November 14, 2008. Except as discussed in our opinion for credit reform processes in fiscal year 2007, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The management of USDA is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws and regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), except for those that, in our judgment, were clearly inconsequential. We noted no reportable instances of noncompliance with these laws and regulations, except as disclosed in this report. We limited our tests of compliance to the provisions described in the preceding sentences and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed two instances of noncompliance with laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04. Specifically, we reported noncompliance with the Anti-Deficiency Act and certain aspects of Appropriations Law.

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

Phyllis K. Fong
Inspector General

November 14, 2008

Findings and Recommendation

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the consolidated financial statements being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the findings discussed in this section are material internal control weaknesses.

Finding 1 — Improvements Are Needed in Overall Financial Management

During fiscal year 2008, the USDA continued to make improvements in its financial management. However, we noted areas where further improvements are needed. Details follow.

- Our review of the Commodity Credit Corporation's (CCC) credit reform models in fiscal year 2008 disclosed that the internal control weaknesses in the model validation and verification process continued to exist. Specifically, we identified certain errors in the Public Law 480 and the Farm Storage models related to data input and/or model logic. The errors were identified through the audit process, and as a result, the models were revised multiple times. All significant errors in the models were corrected by the end of the audit. As noted in fiscal year 2007, CCC's model validation and verification procedures were not sufficiently thorough. As such, management's oversight of the development, implementation, and maintenance of the cash flow models and the related calculations for the Credit Reform program were not effective and errors continue to exist in the model versions submitted for audit. The lack of effective management review and approval procedures related to the development, implementation, and maintenance of the cash flow model changes and functionality increased the risk that material errors in the models would exist and not be detected by CCC's internal controls, thereby increasing the risk of material misstatement to the financial statements and related disclosures.

- Overall, Rural Development made significant improvement in its credit reform processes. Considerable efforts were made to ensure adequate quality control was maintained. Those efforts resulted in deliverables that underwent quality control prior to our review and generally

provided timely and adequate support for the credit reform reestimates. However, we identified opportunities for further improvements to the direct Single Family Housing, non-housing, and electric underwriter models.[2]

In its fiscal year 2008 Federal Managers' Financial Integrity Act (FMFIA) of 1982 report, the Department noted that controls were lacking over credit reform. Specifically, the quality assurance process to ensure that the cash flow models, data inputs, estimates, and reestimates for financial reporting were not subject to appropriate controls and management oversight. The FMFIA report further stated that the U.S. Department of Agriculture (USDA) plans to reinstitute the Credit Reform Working Group in fiscal year 2009, to improve coordination and communication.

- We noted that obligations were not always valid because agencies were not effectively reviewing all unliquidated (open or active) obligations and taking appropriate actions (de-obligating).[3] Invalid obligations increase the risk that funds may be inappropriately diverted for purposes other than what Congress intended. The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin No. 2008-06, *Yearend Closing*, dated July 11, 2008) requires an annual review of unliquidated obligations. Departmental Regulation 2230-1, *Reviews of Unliquidated Obligations,* dated August 22, 2006, requires annual reviews and certifications from agency Chief Financial Officers (CFO) that the annual reviews were performed and unliquidated obligations were valid based on the reviews.

  During our fiscal year 2007 audit, we selected 60 unliquidated obligations from 11 agencies for which no activity had occurred for over 2 years. We noted that 29 of 60 (48 percent) of the obligations reviewed were invalid and agencies indicated the items would be de-obligated. This year, we selected a similar nonstatistical sample of 60 obligations from 6 agencies and found that 44 (73 percent) of the obligations reviewed were invalid and agencies planned to de-obligate the items. (Our sample was selected from activity as of May 31, 2008, and the annual certification was required to be complete by July 31, 2008. Therefore, we recognize that some of the items may have ultimately been resolved.)

  We also found that CCC did not timely analyze liabilities and obligations for the Direct and Countercyclical Payment Programs

[2]For Rural Development, this weakness was considered a significant deficiency. Details are discussed in Audit Report No. 85401-15-FM, *Rural Development's Financial Statements for Fiscal Years 2008 and 2007.*

[3]An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

related to the 2007 program year. The auditors identified significant errors as of September 30, 2008. As a result, CCC made adjusting entries to reduce accrued liabilities and undelivered orders by about $215 million and $510 million, respectively.

In its FMFIA report for 2008, USDA continued to report a material weakness relating to the lack of consistent review and follow up on unliquidated obligations. The Department has several planned actions for fiscal year 2009 and indicated that the material weakness will be resolved during fiscal year 2009.

- We also noted abnormal balances existed on the USDA fiscal yearend trial balance that were not fully researched and corrected. As of fiscal yearend, 29 abnormal account balances existed, totaling about $1.2 billion. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error.

- For fiscal year 2008, we attempted to perform the first year audit of Natural Resources Conservation Service's (NRCS) financial statements (Audit No. 10401-2-FM, *NRCS' Financial Statements for Fiscal Year 2008*). However, NRCS was unable to provide sufficient evidential matter in support of transactions and account balances particularly with respect to obligations, accrued expenses, undelivered orders, and unfilled customer orders. NRCS was not able to complete corrective actions and make adjustments, as necessary, to these and other financial statement amounts, prior to the completion of its audit.

Recommendation 1

Provide additional oversight to ensure that general ledgers reflect valid obligations and that agencies perform the required reviews timely and effectively.

Agency Response. OCFO concurred with the two material weaknesses and findings related to compliance with laws and regulations contained in your report. The Department plans to submit a detailed action plan no later than December 31, 2008, to address the findings and recommendations contained in our report.

OIG Position. Management decision should be achievable upon our review of the action plan.

Finding 2 **Improvements Are Needed in Information Technology (IT) Security and Controls**

We performed an independent evaluation of the Department's IT security program and practices as required by the Federal Information Security Management Act of 2002 (FISMA). We also performed reviews of the general control structure of the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC) and the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) located in Kansas City, Missouri, and New Orleans, Louisiana, respectively.

We noted that efforts of the USDA's OCIO and Office of Inspector General (OIG) in the past several years have heightened program management's awareness of the need to plan and implement effective IT security. Under OCIO's guidance, the Department has made significant progress in implementing an effective IT security program. Forest Service and CCC made significant improvements in the IT security area, and as a result weaknesses noted were only considered to be significant deficiencies in their fiscal year 2008 audit reports. Additionally, OCIO/NITC sustained its unqualified opinion on the general control environment. OCFO/NFC sustained its unqualified opinion on the design of its general control structure and improved to an unqualified opinion on the operating effectiveness of its controls. Additionally, the Department implemented a comprehensive tool for FISMA monitoring, which facilitates the Department's ability to identify common threats and vulnerabilities, supports a security control baseline to achieve FISMA compliance, and provides comprehensive IT weakness tracking.

The following summarizes the key problems identified.

- Agencies did not always assess the severity of plan of action and milestones (POA&M) and/or prioritize required actions.

- OCIO improved its concurrency review process in assessing the quality of the certification and accreditation (C&A), documentation during fiscal year 2008.[4] However, we found that agencies' C&A packages submitted to OCIO generally did not meet National Institute of Standards and Technology (NIST) requirements.[5]

[4]The USDA concurrency review is a quality control process by OCIO to review the C&A documentation prior to approving an Authority to Operate for the agency IT systems.
[5]NIST Special Publication (SP) 800-37, *Guide for the Security Certification and Accreditation of Federal Information Systems*, dated May 2004.

- The Department had not fully implemented its plan to protect personally identifiable information.

- Departmental agencies were not always using the mandated NIST security configuration checklists when deploying hardware and software.[6]

- On March 27, 2007, the Office of Management and Budget (OMB) required the deployment of the Federal Desktop Core Configurations (FDCC). FDCC defines the minimum IT security requirements. We noted that less than 5 percent of the Department's laptops/desktops were fully compliant with FDCC.

- The Department and its agencies were not always following documented policies and procedures for identifying and reporting incidents internally to OCIO and OIG and/or externally to law enforcement authorities and the U.S. Computer Emergency Readiness Team.

- We found that USDA was not adequately monitoring and prohibiting the downloading of peer to peer (P2P) software.[7] This occurred because OCIO believed P2P activity did not pose a significant threat compared to other types of incidents and, therefore, did not concentrate on this activity. As a result, USDA networks were vulnerable to damage that could be caused by malicious software, viruses, and worms imbedded within P2P files.

- Our review disclosed 265 vulnerabilities that existed for over 30 days without recorded POA&Ms. We also found devices on an agency's network that the agency was not aware of and, as a result, that were not scanned.

- We found that 134 of the 144 disaster recovery plans we reviewed were not documented in accordance with Federal and Departmental guidance.[8]

- Agencies were not always adequately patching software for known vulnerabilities. Routinely applying patches is an effective method of mitigating risk and/or correcting identified vulnerabilities.

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[6]NIST SP 800-70, *Security Configuration Checklists Program for IT Products – Guidance for Checklists, Users and Developers*, dated May 2005.

[7]P2P is a method of file sharing over a network in which individual computers are linked via the Internet or a private network to share programs/files, often illegally. Users download files directly from other users' computers rather than from a central server.

[8]NIST SP 800-34, *Contingency Planning Guide for Information Technology Systems*, dated June 2002; and DM 3570-001, *Disaster Recovery and Business Resumption Plans*, dated February 17, 2005.

Our audit work disclosed significant deficiencies for NRCS and CCC relating to the IT general control environment that is managed by the International Technology Service (ITS), a service organization within USDA. ITS manages the network/server infrastructure that supports major applications. The significant deficiency existed primarily because vulnerabilities identified on the ITS network were not consistently remediated according to Departmental policy and patches were not effectively applied. We did not consider the ITS weaknesses to be material.

The USDA is a complex organization with 29 separate agencies/offices. We understand that a robust IT security program takes time to mature. OCIO has implemented a plan to address the IT weaknesses and fiscal year 2008 was the first year of the three year plan. While many improvements were made, due to the significance of the issues noted during our FISMA review, IT security remained a material internal control weakness.

The Department and its agencies are in the process of addressing the above weaknesses. Therefore, we are making no recommendations in this report.

Section 2. Compliance With Laws and Regulations

The management of USDA is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws, regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including requirements referred to in FFMIA, except for those that, in our judgment, were clearly inconsequential. We noted noncompliance with certain aspects of FFMIA, the Anti-Deficiency Act (ADA), and certain aspects of Appropriations Law. Additionally, during fiscal year 2008 the Department completed several corrective actions relating to Managerial Cost Accounting practices and indicated substantial compliance had been achieved with applicable laws and regulations.[9] Therefore, we are no longer reporting the noncompliance relating to Managerial Cost Accounting.

Finding 3 — Lack of Substantial Compliance With FFMIA Requirements

FFMIA requires agencies to annually assess whether their financial management systems comply substantially with (1) Federal Financial Management System Requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger (SGL) at the transaction level. In addition, FISMA requires each agency to report significant information security deficiencies, relating to financial management systems, as a lack of substantial compliance under FFMIA. FFMIA also requires auditors to report in their CFO Act financial statement audit reports whether the financial management systems substantially comply with FFMIA's system requirements.

During fiscal year 2008, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not substantially compliant with FFMSR, applicable accounting standards, SGL at the transaction level, and FISMA requirements. Details follow.

- As part of its financial systems strategy, USDA indicated that its agencies are working to meet FFMIA and FISMA objectives, and that the Department had made substantial progress in addressing its IT

[9] This includes SFFAS No. 4, *Managerial Cost Accounting Standards*, issued July 31, 1995.

weaknesses. However, the Department noted that additional effort is needed to achieve substantial compliance. These noncompliances are discussed in detail in Section 1, "Internal Control Over Financial Reporting – Material Weaknesses," of this report.

- The Department also reported noncompliance for funds control management at three component agencies: NRCS, FS, and CCC. For all three agencies, noncompliance with FFMSR was noted. For FS and NRCS, noncompliance with the SGL at the transaction level was also reported. Additionally, noncompliance with applicable accounting standards was noted for NRCS.

As noted in its management's discussion and analysis, the Department plans to continue its effort to achieve compliance with the FFMIA requirements. Improving Federal financial management systems is critical to increasing the accountability of financial program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal Government.

Finding 4 Anti-Deficiency Act Violations

In our fiscal year 2007 audit report,[10] we discussed two ADA violations. At that time, the Department had reported one of the violations to the President, Congress, and OMB. Since that time, the Department formally reported the other ADA violation to the President, Congress, and OMB. Details follow:

- On September 30, 2008, USDA reported an ADA violation of about $18 million. This occurred when the Forest Service (FS) exceeded a $100 million apportionment limit for the acquisition of aviation resources. OMB had noted the limitation in a footnote when it apportioned funds on September 30, 2005. In May 2007, the Office of General Counsel (OGC) issued an opinion concluding that exceeding the apportionment footnote was an ADA violation. In February 2008, the U.S. Government Accountability Office (GAO) issued a decision (at the request of FS) which also found that the agency violated the ADA by exceeding the apportionment limit. FS determined not to impose any administrative discipline for this violation. With regard to improving performance on the apportionment footnotes, FS has instituted a more rigorous apportionment monitoring process.

- On November 1, 2007, USDA reported that an ADA violation in the amount of about $8 million occurred in fiscal year 2003 in connection

[10] Audit No. 50401-62-FM, *U.S. Department of Agriculture Consolidated Financial Statements for Fiscal Years 2007 and 2006*, issued November 15, 2007.

with CCC managers authorizing the donation of 24.7 million pounds of non-fat dry milk to a private feed mill. At the agency's request, OIG performed the audit which identified the violation. The three individuals named in the violation no longer work for the agency. USDA concluded that there was no willful or knowing violation of the ADA, so no administrative discipline was imposed. The agency implemented corrective actions to ensure proper disposition of CCC commodities in the future and implemented apportionment requirements for commodity transportation and handling costs.

Finding 5 **Transactions Were Not Always Obligated In Accordance With Appropriations Law**

FS and NRCS did not obligate all transactions in accordance with Appropriations Law. NRCS did not obligate contracts, purchase orders, travel expense, and various other transactions prior to payment. FS' current travel system does not allow it to obligate funds for temporary travel duty.

GAO Publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, "an action that creates a liability or definite commitment on the part of the Government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following fiscal year." Furthermore, GAO's Appropriations Law cites nine criteria for recording obligations. When one criterion is met, the agency not only may, but also must record that transaction as an obligation. Criterion 7 addresses travel expenses. With regard to the timing, Appropriations Law states that, "the obligation is not incurred until the travel is actually performed or until the ticket is purchased." While the precise amount of the liability should be recorded, the precise amount is not always known immediately. When this takes place, "the obligation should be recorded on the basis of the agency's best estimate."

Recommendations were included in the component agencies' financial statement audit reports. Therefore, we are making no additional recommendations in this report.

Exhibit A – *Audit Reports Related to the Fiscal Year 2008 Financial Statements*

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
05401-17-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2008 and 2007	November 2008
06401-23-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2008 and 2007	November 2008
08401-9-FM	Forest Service's Financial Statements for Fiscal Years 2008 and 2007	November 2008
10401-2-FM	Natural Resources and Conservation Service's Financial Statements for 2008	November 2008
11401-28-FM	Statement on Auditing Standards No. 70, Report on the National Finance Center General Controls Review – Fiscal Year 2008	September 2008
27401-33-HY	Food and Nutrition Service Financial Statements for Fiscal Years 2008 and 2007	November 2008
50501-13-FM	Fiscal Year 2008 Federal Information Security Management Act Report	September 2008
85401-15-FM	Rural Development's Financial Statements for Fiscal Years 2008 and 2007	November 2008
88501-12-FM	Statement on Auditing Standards No. 70, Report on the National Information Technology Center General Controls Review – Fiscal Year 2008	September 2008

Exhibit B – *Summary of Prior Year Recommendations*

PRIOR YEAR OF RECOMMENDATION[11]

NUMBER	RECOMMENDATION	DEPARTMENTAL STATUS	OIG RESULTS
1	Implement an effective quality control review process throughout the Department for credit reform processes that, at a minimum, includes independent quality assurance reviews of model changes, data extracts, and reestimates.	During fiscal year 2008, the Department established an Improved Credit Reform Management Council. The Department also reviewed the standard operating procedures for model changes, data extracts, and reestimates at the three lending agencies. The procedures at two agencies did not address data extracts and reestimates. The two agencies are in the process of developing adequate procedures for those processes. Additionally, the Department is monitoring the corrective action plans of the lending agencies. The Department plans for its corrective actions to be completed by December 31, 2008.	This Material Weakness continues to exist. As discussed in Finding 1, CCC needs further improvement.
2	Ensure that agencies verify the exempt status of Treasury symbols prior to recording activity and maintain appropriate supporting documentation of the exemption.	The Department began providing agencies with quarterly reports of changes to exempt Treasury symbols. Agencies are in the process of obtaining supporting documentation for exemptions from OMB. The Department estimates that corrective actions will be completed by December 31, 2008.	Our audit disclosed agencies maintained appropriate supporting documentation.

[11]Recommendation was made in Audit Report No. 50401-62-FM, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2007 and 2006*, issued November 15, 2007.

Exhibit B – Summary of Prior Year Recommendations

PRIOR YEAR OF RECOMMENDATION[12]

NUMBER	RECOMMENDATION	DEPARTMENTAL STATUS	OIG RESULTS
1	Ensure that agencies comply with FFIS Bulletin 02-12 by providing a standard and effective method of monitoring and reviewing overrides and taking remedial action to address inappropriate overrides or develop other compensating controls.	On February 22, 2008, the Department issued revised Bulletin 08-02, "Procedures for Reviewing the Override Logging Table in the Foundation Financial Information System". Additionally, agencies reviewed and certified overrides using a new retrieval and report tool during fiscal year 2008.	Our audit disclosed significant improvement in the monitoring and reviewing of overrides. We understand that the retrieval and report tool will continue to be enhanced, as appropriate.

[12]Recommendation was made in Audit Report No. 50401-59-FM, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2006 and 2005*, issued November 14, 2006.

Exhibit C – Agency Response

USDA

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW

Washington, DC
20250

NOV 13 2008

TO: Phyllis K. Fong
Inspector General
Office of Inspector General

FROM: Charles R. Christopherson, Jr.
Chief Financial Officer
Chief Information Officer

SUBJECT: Management's Response – Audit Report on the Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2008 and 2007

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2008 and 2007.

We concur with the two material weaknesses and findings related to compliance with laws and regulations contained in your report. The Department plans to submit a detailed Action Plan no later than December 31, 2008, to address the findings and recommendations contained in your report.

We generally agree with the recommendations in the report and will develop corrective action milestones accordingly.

The achievement of an unqualified audit opinion was accomplished through the joint efforts of your staff, contract auditors and the financial staffs of the Department and agencies.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit.

AN EQUAL OPPORTUNITY EMPLOYER

USDA Performance and Accountability Report for Fiscal Year 2008

(Prepared by USDA)

SECTIONS 1, 2, AND 4 ARE UNAUDITED.

Consolidated Balance Sheet

As of September 30, 2008 and 2007
(In Millions)

	2008	2007
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 64,595	$ 47,340
Investments (Note 5)	109	94
Accounts Receivable, Net (Note 6)	249	364
Other (Note 11)	5	-
Total Intragovernmental	64,958	47,798
Cash and Other Monetary Assets (Note 4)	348	218
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	10,049	8,854
Direct Loan and Loan Guarantees, Net (Note 7)	81,774	80,348
Inventory and Related Property, Net (Note 8)	15	185
General Property, Plant, and Equipment, Net (Note 9)	2,973	4,931
Other (Note 11)	253	151
Total Assets	160,373	142,488
Stewardship PP&E (Note 10)		
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	7	12
Debt (Note 13)	77,577	75,101
Other (Note 15)	13,678	13,753
Total Intragovernmental	91,262	88,866
Accounts Payable	848	806
Loan Guarantee Liability (Note 7)	1,333	1,258
Federal Employee and Veteran Benefits	832	775
Environmental and Disposal Liabilities (Note 14)	25	105
Benefits Due and Payable	2,764	2,854
Other (Notes 15 & 16)	23,908	20,117
Total Liabilities	120,972	114,781
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Earmarked Funds (Note 18)	1,428	1,113
Unexpended Appropriations - Other Funds	29,355	29,824
Cumulative Results of Operations - Earmarked Funds (Note 18)	(490)	803
Cumulative Results of Operations - Other Funds	9,108	(4,033)
Total Net Position	39,401	27,707
Total Liabilities and Net Position	$ 160,373	$ 142,488

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost
For the Years Ended September 30, 2008 and 2007
(In Millions)

	2008	2007
Enhance International Competitiveness of American Agriculture:		
Gross Cost	$ 2,484	$ 2,099
Less: Earned Revenue	455	615
Net Cost	2,029	1,484
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	20,995	21,424
Less: Earned Revenue	3,836	6,325
Net Cost	17,159	15,099
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	8,426	6,952
Less: Earned Revenue	4,547	4,750
Net Cost	3,879	2,202
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Cost	3,374	3,271
Less: Earned Revenue	935	762
Net Cost	2,439	2,509
Improve the Nation's Nutrition and Health:		
Gross Cost	60,181	53,991
Less: Earned Revenue	49	43
Net Cost	60,132	53,948
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	12,105	11,824
Less: Earned Revenue	1,010	745
Net Cost	11,095	11,079
Total Gross Costs	107,565	99,561
Less: Total Earned Revenues	10,832	13,240
Net Cost of Operations (Note 19)	$ 96,733	$ 86,321

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For The Year Ended September 30, 2008
(In Millions)

	Earmarked Funds (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 803	$ (4,033)	$ -	$ (3,230)
Changes in Accounting Principles (Note 30)	(14)	11,550	-	11,536
Beginning Balance, as Adjusted	789	7,517	-	8,306
Budgetary Financing Sources:				
Appropriations Used	3,517	86,379	-	89,896
Non-exchange Revenue	-	19	-	19
Donations and Forfeitures of Cash and Equivalents	1	23	-	24
Transfers In (Out) without Reimbursement	1,247	5,291	-	6,538
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	(32)	(359)	-	(391)
Imputed Financing	46	3,429	(2,568)	907
Other	84	(32)	-	52
Total Financing Sources	4,863	94,750	(2,568)	97,045
Net Cost of Operations	(6,142)	(93,159)	2,568	(96,733)
Net Change	(1,279)	1,591	-	312
Cumulative Results of Operations	(490)	9,108	-	8,618
Unexpended Appropriations:				
Beginning Balances	1,113	29,824	-	30,937
Changes in Accounting Principles (Note 30)	-	-	-	-
Beginning Balance, as Adjusted	1,113	29,824	-	30,937
Budgetary Financing Sources:				
Appropriations Received	4,157	86,854	-	91,011
Appropriations Transferred In (Out)	(3)	10	-	7
Other Adjustments	(322)	(954)	-	(1,276)
Appropriations Used	(3,517)	(86,379)	-	(89,896)
Total Budgetary Financing Sources	315	(469)	-	(154)
Unexpended Appropriations	1,428	29,355	-	30,783
Net Position	$ 938	$ 38,463	$ -	$ 39,401

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For The Year Ended September 30, 2007
(In Millions)

	Earmarked Funds (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 518	$ (16,627)	$ -	$ (16,109)
Changes in Accounting Principles (Note 30)	(59)	1,020	-	961
Beginning Balance, as Adjusted	459	(15,607)	-	(15,148)
Budgetary Financing Sources:				
Appropriations Used	4,116	89,175	-	93,291
Non-exchange Revenue	-	12	-	12
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	882	3,504	-	4,386
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	-	(460)	-	(460)
Imputed Financing	52	3,480	(2,527)	1,005
Other	4	-	-	4
Total Financing Sources	5,055	95,711	(2,527)	98,239
Net Cost of Operations	(4,711)	(84,137)	2,527	(86,321)
Net Change	344	11,574	-	11,918
Cumulative Results of Operations	803	(4,033)	-	(3,230)
Unexpended Appropriations:				
Beginning Balances	976	25,409	-	26,385
Changes in Accounting Principles (Note 30)	-	(209)	-	(209)
Beginning Balance, as Adjusted	976	25,200	-	26,176
Budgetary Financing Sources:				
Appropriations Received	4,392	94,999	-	99,391
Appropriations Transferred In (Out)	(5)	15	-	10
Other Adjustments	(134)	(1,215)	-	(1,349)
Appropriations Used	(4,116)	(89,175)	-	(93,291)
Total Budgetary Financing Sources	137	4,624	-	4,761
Unexpended Appropriations	1,113	29,824	-	30,937
Net Position	$ 1,916	$ 25,791	$ -	$ 27,707

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For The Years Ended September 30, 2008 And 2007
(In Millions)

	2008		2007	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1	$ 27,756	$ 5,208	$ 21,282	$ 3,715
Recoveries of prior year unpaid obligations	4,103	1,226	3,175	1,445
Budget Authority -				
Appropriation	102,655	-	108,428	-
Borrowing Authority	30,267	14,911	41,185	12,478
Earned -				
Collected	23,370	8,855	26,158	8,513
Change in receivables from Federal Sources	(45)	(177)	(1,069)	4
Change in unfilled customer orders -				
Advances received	(6)	-	(170)	-
Without advance from Federal Sources	12	241	96	8
Expenditure transfers from trust funds	963	-	934	-
Nonexpenditure transfers, net, anticipated and actual	(743)	-	(336)	-
Temporarily not available pursuant to Public Law	(11)	-	(36)	-
Permanently not available	(38,925)	(6,911)	(57,635)	(6,257)
Total Budgetary Resources	149,396	23,353	142,012	19,906
Status of Budgetary Resources:				
Obligations Incurred -				
Direct	95,085	18,039	83,743	14,698
Reimbursable	26,233	-	30,513	-
Unobligated Balance -				
Apportioned	7,925	2,784	8,794	1,917
Exempt from Apportionment	1,100	5	1,351	5
Unobligated balance not available	19,053	2,525	17,611	3,286
Total Status of Budgetary Resources	149,396	23,353	142,012	19,906
Change in Obligated Balances:				
Obligated balance, net, brought forward October 1	25,472	18,107	26,537	18,900
Obligations incurred	121,318	18,039	114,256	14,698
Gross outlays	(117,444)	(14,162)	(113,118)	(14,034)
Recoveries of prior year unpaid	(4,103)	(1,226)	(3,175)	(1,445)
Change in uncollected payments from Federal Sources	33	(64)	973	(12)
Obligated balance, net, end of period -				
Unpaid obligations	26,616	21,590	26,844	18,940
Uncollected customer payments from Federal Sources	(1,339)	(896)	(1,372)	(833)
Obligated Balance, net, end of period	25,277	20,694	25,472	18,107
Net Outlays:				
Gross outlays	117,444	14,162	113,118	14,034
Offsetting collections	(24,327)	(8,855)	(26,921)	(8,514)
Distributed offsetting receipts	(1,889)	(353)	(1,303)	(464)
Net Outlays	$ 91,228	$ 4,954	$ 84,894	$ 5,056

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements
As of September 30, 2008 and 2007
(In Millions)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Department of Agriculture (USDA) provides a wide variety of services in the United States and around the world. USDA is organized into seven distinct mission areas and their agencies that execute these missions.

Listed below are the missions and the agencies within each mission including four Government corporations:

Farm and Foreign Agricultural Services (FFAS)

- Farm Service Agency (FSA)
  - Commodity Credit Corporation (CCC)
- Foreign Agricultural Service (FAS)
- Risk Management Agency (RMA)
  - Federal Crop Insurance Corporation (FCIC)

Food, Nutrition, and Consumer Services (FNCS)

- Food and Nutrition Service (FNS)

Food Safety

- Food Safety and Inspection Service (FSIS)

Marketing and Regulatory Programs (MRP)

- Agricultural Marketing Service (AMS)
- Animal and Plant Health Inspection Service (APHIS)
- Grain Inspection, Packers and Stockyards Administration (GIPSA)

Natural Resources and Environment (NRE)

- Forest Service (FS)
- Natural Resources Conservation Service (NRCS)

Research, Education, and Economics (REE)

- Agricultural Research Service (ARS)
- Cooperative State Research, Education, and Extension Service (CSREES)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

Rural Development

- Rural Development (RD)
  - Rural Telephone Bank (RTB) – a corporation
  - Alternative Agricultural Research and Commercialization Corporation (AARC)

With the passage of the 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, Public Law No. 109-97, the legal restriction on redeeming Government-owned Class A stock was removed for RTB. As a result of this change, the process of liquidation and dissolution of the RTB began. During FY 2008, RTB was dissolved in its entirety and will no longer be a reportable entity.

Consolidation

The financial statements consolidate all the agencies' results. The effects of intradepartmental activity and balances are eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis. The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government.

Effective for FY 2007, the Statement of Financing will be presented as a note per Office of Management and Budget's (OMB) authority under Statement of Federal Financial Accounting Standards (SFFAS) 7 and will no longer be considered a Basic Statement. The Statement of Financing will now be a display in the notes and referred to as "Reconciliation of Budgetary Resources Obligated to Net Cost of Operations."

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. In FY 2008, liabilities for entitlements and grants were reclassified from Accounts Payable to Benefits Due and Payable and Other Liabilities, respectively to conform to OMB and Treasury guidance.

Use of Estimates

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

Revenue and Other Financing Sources

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

Investments

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

Accounts Receivable

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

Direct Loans and Loan Guarantees

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

year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

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

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are $25,000 and $100,000 for internal use software. There are no restrictions on the use or convertibility of PP&E.

Pension and Other Retirement Benefits

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

Other Post-employment Benefits

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

Earmarked Funds

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, which became effective in FY 2006, the Department has reported the earmarked funds for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

Stewardship PP&E

SFFAS 29, Heritage Assets and Stewardship Land, was issued in July 2005. SFFAS 29 reclassified all heritage assets and stewardship land information as basic except for condition information, which is classified as RSI. The reclassification as basic is being phased in per SFFAS 29. Heritage assets and stewardship land information that was previously reported in RSSI will temporarily shift to RSI until it moves to a note on the balance sheet as basic information. The phase-in of disclosure requirements being reported as basic information provides that SFFAS 29 will be fully implemented for reporting periods beginning after September 30, 2008.

Contingencies

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

Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

The Department allocates funds, as the parent, to the Department of Transportation, Department of the Interior, Department of Defense, Department of Housing and Urban Development, U.S. Agency for International Development and the Small Business Administration. The Department receives allocation transfers, as the child, from the Department of Labor, Department of Transportation, Department of the Interior, Economic Development Administration, Appalachian Regional Commission and the Delta Regional Authority.

Limitations of the Financial Statements

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

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the OMB, they also are 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. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.

Note 2. Non-Entity Assets

Non-entity assets include proceeds from the sale of timber payable to Treasury, timber contract performance bonds, employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center, property taxes and insurance for single family housing, interest, fines and penalties.

	FY 2008	FY 2007
Intragovernmental:		
Fund balance with Treasury	$ 62	$ 106
Accounts Receivable	23	-
Subtotal Intragovernmental	85	106
With the Public:		
Cash and other monetary assets	125	109
Accounts receivable	127	47
Subtotal With the Public	252	156
Total non-entity assets	337	262
Total entity assets	160,036	142,226
Total Assets	$ 160,373	$ 142,488

Note 3. Fund Balance with Treasury

Other Fund Types include deposit and clearing accounts. Borrowing Authority not yet Converted to Fund Balance represents un-obligated and obligated amounts recorded at year-end that will be funded by future borrowings. Non-Budgetary Fund Balance with Treasury includes special fund receipt accounts; and clearing and suspense account balances awaiting disposition or reclassification.

	FY 2008	FY 2007
Fund Balances:		
Trust Funds	$ 633	$ 449
Special Funds	17,239	1,498
Revolving Funds	8,338	6,395
General Funds	38,326	38,977
Other Fund Types	59	21
Total	64,595	47,340
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	11,814	12,067
Unavailable	21,577	20,897
Obligated Balance not yet Disbursed	45,841	43,471
Borrowing Authority not yet Converted to Fund Balance	(29,681)	(29,162)
Non-Budgetary Fund Balance with Treasury	15,044	67
Total	$ 64,595	$ 47,340

NOTE 4. CASH AND OTHER MONETARY ASSETS

In fiscal 2008 and 2007, cash includes Federal crop insurance escrow amounts of $130 million and $79 million, funds held in escrow for single family housing borrowers of $125 million and $109 million and certificates of deposit of $1 million and $29 million, respectively. In fiscal 2008, $92 million of price support transfers were in transit.

	FY 2008	FY 2007
Cash	$ 348	$ 218

NOTE 5. INVESTMENTS

FY 2008	Amortization Method	Cost	Unamortized Premium/ (Discount)	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	107	1	1	109	109
Total		$ 107	$ 1	$ 1	$ 109	$ 109
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

FY 2007	Amortization Method	Cost	Unamortized Premium/ (Discount)	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ 88	$ -	$ -	$ 88	$ -
Market-based	Straight Line	6	-	-	6	6
Total		$ 94	$ -	$ -	$ 94	$ 6
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

NOTE 6. ACCOUNTS RECEIVABLE, NET

FY 2008

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 249	$ -	$ 249
With the Public	10,079	(30)	10,049
Total	$ 10,328	$ (30)	$ 10,298

FY 2007

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 364	$ -	$ 364
With the Public	8,899	(45)	8,854
Total	$ 9,263	$ (45)	$ 9,218

NOTE 7. DIRECT LOANS AND GUARANTEES, NON-FEDERAL BORROWERS

Direct Loans

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

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

The net present value of Direct Loan and Loan Guarantees, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Direct Loan and Loan Guarantees, Net at the end of FY 2008 was $81,774 million compared to $80,348 million at the end of FY 2007. Loans exempt from the Federal Credit Reform Act of 1990 represent $643 million of the total compared to $779 million in FY 2007. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2008 and 2007.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance moved from $4,334 million to $4,475 million during FY 2008, an increase of $141 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2007 to FY 2008.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2008 was $461 million compared to negative $32 million in FY 2007. Table 3 illustrates the breakdown of total subsidy expense for FY 2008 and 2007 by program.

Direct loan volume increased from $8,274 million in FY 2007 to $8,758 million in FY 2008. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Estimated losses on loan and foreign credit guarantees are reported at net present value as Loan Guarantee Liability. Defaulted guaranteed loans are reported at net present value as Loans Receivable and Related Foreclosed Property, Net.

Guaranteed loans outstanding at the end of FY 2008 were $40,787 million in outstanding principal and $36,492 million in outstanding principal guaranteed, compared to $34,482 and $30,648 million, respectively at the end of FY 2007. Table 5 shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from $1,258 million to $1,333 million during FY 2008, an increase of $75 million. The post-1991 liability moved from $1,256 million to $1,332 million, an increase of $76 million. Table 7 shows the reconciliation of total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2008 was $82 million compared to negative $192 million in FY 2007. Table 8 illustrates the breakdown of total subsidy expense for FY 2008 and 2007 by program.

Guaranteed loan volume increased from $7,434 million in FY 2007 to $11,374 million in FY 2008. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the FFAS mission area through the FSA and the CCC, and in the RD mission area.

The Farm and Foreign Agricultural Services Mission Area

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

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

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and

debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

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

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

Farm and Foreign Agricultural Service List of Programs

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

The Rural Development Mission Area

Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with State, local and Indian tribal Governments, as well as private and not-for-profit organizations and user-owned cooperatives.

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

The Rural Business Program goal is to promote a dynamic business environment in rural America. RD partners with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

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

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

Rural Development List of Programs

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

Discussion of Administrative Expenses, Subsidy Costs and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2008 and 2007 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

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

RD's cash flow models are tailored for specific programs based on unique program characteristics. The models utilized are housing, guaranteed, electric underwriters, FFB modifications and a direct model that covers the remaining portfolio with similar characteristics.

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2008 reestimate process resulted in an $82 million increase in the post 1991 estimated cost of the direct loan portfolio and a $156 million reduction in the post 1991 estimated cost of the guaranteed loan portfolio.

Table 3 discloses the direct loan subsidy expense including the $82 million increase due to reestimates. The increase was a result of a $975 million increase in RD's programs less an $893 million decrease in the FFAS programs.

Table 8 discloses the loan guarantee subsidy expenses including the $156 million reduction due to reestimate. The reduction was most affected by a $53 million reduction in the business and industry program, a $49 million reduction in the farm program and a $43 million reduction in the export program.

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

The Inter-agency Country Risk Assessment System is a Federal interagency effort chaired by OMB under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign lending risks are sorted into risk categories, each associated with a default estimate.

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

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2008 and 2007 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

As a result of new guidance, CCC chose to reflect interest on downward reestimates in the Statement of Changes in Net Position as other financing sources for FY 2008 and 2007, respectively. The remainder of USDA credit programs chose to reflect downward reestimates in earned revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

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

As of September 30, 2008 and 2007, foreclosed property consisted of 800 and 591 rural single-family housing dwellings, with an average holding period of 17 and 23 months, respectively. As of September 30, 2008 and 2007, FSA-Farm Loan Program properties consist primarily of 58 and 61 farms, respectively. The average holding period for these properties in inventory for FY 2008 and 2007 was 64 and 68 months, respectively. Certain properties can be leased to eligible individuals.

Non-performing Loans

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Loan Modifications

A modification is any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. The cost of a modification is the difference between the present value of the cash flows before and after the modification.

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2008. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

In FY 2007, loan extension modifications were granted for two borrowers in the FFB electric program. The maturity dates were extended up to 20 years on selected advances. Interest rates on the advances did not change.

At the time of the modification, the liquidating fund was paid off and the advances were moved to the financing fund. The post-modification cash flows were discounted at the third quarter net present value discount factor from the FY 2007 President's Budget relative to the effective date of the loan extension modifications.

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

Interest Credit

Approximately $17,700 million and $17,800 million of Rural Housing Service (RHS) unpaid loan principal as of September 30, 2008, and 2007 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $947 million and $1,000 million higher for FY 2008 and 2007, respectively.

Restructured Loans

At the end of FY 2008 and 2007, the RD portfolio contained approximately 73,300 and 76,500 restructured loans with an outstanding unpaid principal balance of $2,400 million and $2,500 million, respectively. At the end of FY 2008 and 2007, the farm loan portfolio contained approximately 20,000 and 22,000 restructured loans with an outstanding unpaid principal balance of $1,100 million and $1,200 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2008 and 2007, were $3,100 million and $3,400 million, respectively.

Table 1. Direct Loan and Loan Guarantees, Net

FY 2008 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 1,406	$ 96	$ 12	$ (59)	$ 1,455
Export	-	-	-	-	-
Food Aid	4,813	121	-	(1,949)	2,985
Housing	10,462	111	33	(4,880)	5,726
Electric	8,273	5	-	(1,689)	6,589
Telecommunications	896	2	-	(54)	844
Water and Environmental	1,328	14	-	(159)	1,183
Business and Industry	-	-	-	-	-
Economic Development	38	-	-	(17)	21
Pre-1992 Total	27,216	349	45	(8,807)	18,803
Obligated Post-1991					
Farm	5,203	159	3	224	5,589
Export	-	-	-	-	-
Food Aid	1,837	79	-	(1,035)	881
Housing	17,044	98	34	(2,387)	14,789
Electric	29,216	28	-	(336)	28,908
Telecommunications	3,151	2	-	187	3,340
Water and Environmental	8,583	87	-	(829)	7,841
Business and Industry	35	-	-	(25)	10
Economic Development	530	2	-	(175)	357
Post-1991 Total	65,599	455	37	(4,376)	61,715
Total Direct Loan Program Receivables	92,815	804	82	(13,183)	80,518
Defaulted Guarantee Loans					
Pre-1992					
Farm	1	-	-	(1)	-
Export	136	1	-	(90)	47
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	3	-	-	-	3
Economic Development	-	-	-	-	-
Pre-1992 Total	140	1	-	(91)	50
Post-1991					
Farm	58	-	-	(56)	2
Export	615	7	-	(185)	437
Food Aid	-	-	-	-	-
Housing	61	-	-	(33)	28
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	103	3	-	(10)	96
Economic Development	-	-	-	-	-
Post-1991 Total	837	10	-	(284)	563
Total Defaulted Guarantee Loans	977	11	-	(375)	613
Loans Exempt from Credit Reform Act:					
Commodity Loans	630	13	-	-	643
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	630	13	-	-	643
Total Direct Loan and Loan Guarantees, Net					$ 81,774

Table 1. Direct Loan and Loan Guarantees, Net (cont'd)

FY 2007 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 1,679	$ 115	$ 10	$ (129)	$ 1,675
Export	-	-	-	-	-
Food Aid	5,204	31	-	(2,365)	2,870
Housing	11,014	118	21	(5,040)	6,113
Electric	10,045	88	-	(1,373)	8,760
Telecommunications	1,047	2	-	(24)	1,025
Water and Environmental	1,438	12	-	(182)	1,268
Business and Industry	-	-	-	-	-
Economic Development	44	-	-	(20)	24
Pre-1992 Total	30,471	366	31	(9,133)	21,735
Obligated Post-1991					
Farm	4,877	161	4	(440)	4,602
Export	-	-	-	-	-
Food Aid	2,414	33	-	(1,192)	1,255
Housing	16,023	81	24	(2,090)	14,038
Electric	26,006	170	-	(42)	26,134
Telecommunications	2,936	6	-	328	3,270
Water and Environmental	7,839	70	-	(638)	7,271
Business and Industry	51	-	-	(38)	13
Economic Development	509	2	-	(168)	343
Post-1991 Total	60,655	523	28	(4,280)	56,926
Total Direct Loan Program Receivables	91,126	889	59	(13,413)	78,661
Defaulted Guarantee Loans					
Pre-1992					
Farm	8	-	-	(5)	3
Export	349	5	-	(114)	240
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	3	1	-	-	4
Economic Development	-	-	-	-	-
Pre-1992 Total	360	6	-	(119)	247
Post-1991					
Farm	49	2	-	(32)	19
Export	630	16	-	(114)	532
Food Aid	-	-	-	-	-
Housing	23	-	-	(22)	1
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	118	3	-	(12)	109
Economic Development	-	-	-	-	-
Post-1991 Total	820	21	-	(180)	661
Total Defaulted Guarantee Loans	1,180	27	-	(299)	908
Loans Exempt from Credit Reform Act:					
Commodity Loans	744	15	-	-	759
Other Foreign Receivables	21	-	-	(1)	20
Total Loans Exempt	765	15	-	(1)	779
Total Direct Loan and Loan Guarantees, Net					$ 80,348

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

	FY 2008	FY 2007
Beginning balance of the subsidy cost allowance	$ 4,334	$ 5,080
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(60)	(56)
Default costs (net of recoveries)	211	142
Fees and other collections	(2)	(3)
Other subsidy costs	226	286
Total subsidy expense prior to adjustments and reestimates	375	369
Adjustments		
Loan modifications	4	(3)
Fees received	36	29
Loans written off	(196)	(274)
Subsidy allowance amortization	(414)	(467)
Other	254	(2)
Total subsidy cost allowance before reestimates	4,393	4,732
Add or subtract subsidy reestimates by component		
Interest rate reestimate	636	12
Technical/default reestimate	(554)	(410)
Total reestimates	82	(398)
Ending balance of the subsidy cost allowance	$ 4,475	$ 4,334

Table 3. Subsidy Expense for Direct Loans by Program and Component

FY 2008

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (18)	$ 130	$ -	$ (9)	$ 103	$ -	$ -	$ (549)	$ (549)	$ (446)
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	9	2	-	-	11	-	(181)	(163)	(344)	(333)
Housing	(123)	66	(1)	245	187	4	184	(52)	132	323
Electric	(32)	11	-	(6)	(27)	-	334	155	489	462
Telecommunications	(1)	1	-	-	-	-	211	(19)	192	192
Water and Environmental	86	1	-	(4)	83	-	94	63	157	240
Business and Industry	-	-	-	-	-	-	-	-	-	-
Economic Development	19	-	-	(1)	18	-	(6)	11	5	23
Total Direct Loan Subsidy Expense	$ (60)	$ 211	$ (1)	$225	$ 375	$ 4	$ 636	$ (554)	$ 82	$ 461

FY 2007

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ 23	$ 73	$ -	$ (6)	$ 90	$ -	$ (64)	$ (76)	$ (140)	$ (50)
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	4	1	-	-	5	-	(29)	(12)	(41)	(36)
Housing	(154)	61	(3)	306	210	1	(76)	1	(75)	136
Electric	(26)	5	-	(10)	(31)	(4)	122	(108)	14	(21)
Telecommunications	1	2	-	(1)	2	-	16	(124)	(108)	(106)
Water and Environmental	75	1	-	(4)	72	-	31	(66)	(35)	37
Business and Industry	-	-	-	-	-	-	-	(13)	(13)	(13)
Economic Development	20	-	-	-	20	-	12	(11)	1	21
Total Direct Loan Subsidy Expense	$ (57)	$ 143	$ (3)	$285	$ 368	$ (3)	$ 12	$ (409)	$ (397)	$ (32)

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

	FY 2008	FY 2007
Direct Loan Programs		
Farm	$ 1,317	$ 1,069
Export	-	-
Food Aid	20	9
Housing	1,750	1,856
Electric	4,047	3,814
Telecommunications	551	503
Water and Environmental	1,017	969
Business and Industry	-	-
Economic Development	56	54
Total Direct Loans Disbursed	$ 8,758	$ 8,274

Table 5. Guaranteed Loans Outstanding

FY 2008	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 43	$ 10,081	$ 10,124	$ 38	$ 9,061	$ 9,099
Export	-	3,918	3,918	-	3,829	3,829
Food Aid	-	-	-	-	-	-
Housing	5	22,514	22,519	4	20,270	20,274
Electric	174	214	388	174	214	388
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	68	68	-	59	59
Business and Industry	14	3,756	3,770	10	2,833	2,843
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 236	$ 40,551	$ 40,787	$ 226	$ 36,266	$ 36,492

FY 2007	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 66	$ 10,045	$ 10,111	$ 58	$ 9,027	$ 9,085
Export	-	2,371	2,371	-	2,312	2,312
Food Aid	-	-	-	-	-	-
Housing	8	17,872	17,880	7	16,075	16,082
Electric	184	218	402	184	218	402
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	37	37	-	30	30
Business and Industry	14	3,667	3,681	10	2,727	2,737
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 272	$ 34,210	$ 34,482	$ 259	$ 30,389	$ 30,648

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

FY 2008	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ -	$ 114	$ 114
Export	-	162	162
Food Aid	-	-	-
Housing	-	766	766
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	290	291
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 1	$ 1,332	$ 1,333

FY 2007	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 1	$ 126	$ 127
Export	-	184	184
Food Aid	-	-	-
Housing	-	655	655
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	291	292
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 2	$ 1,256	$ 1,258

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2008	FY 2007
Beginning balance of the loan guarantee liability	$ 1,255	$ 1,293
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest supplement costs	29	33
Default costs (net of recoveries)	418	280
Fees and other collections	(209)	(126)
Other subsidy costs	-	-
Total of the above subsidy expense components	238	187
Adjustments		
Loan guarantee modifications	(90)	-
Fees received	169	105
Interest supplements paid	15	(10)
Claim payments to lenders	(90)	(107)
Interest accumulation on the liability balance	99	(29)
Other	(109)	195
Ending balance of the subsidy cost allowance before reestimates	1,487	1,634
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	34	(64)
Technical/default reestimate	(189)	(315)
Total of the above reestimate components	(155)	(379)
Ending balance of the loan guarantee liability	$ 1,332	$ 1,255

Table 8. Subsidy Expense for Loan Guarantees by Program and Component

FY 2008

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 15	$ 49	$ (18)	$ -	$ 46	$ -	$ 3	$ (52)	$ (49)	$ (3)
Export	-	58	(10)	-	48	-	(5)	(38)	(43)	5
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	14	228	(146)	-	96	-	(1)	(10)	(11)	85
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	83	(35)	-	48	-	37	(90)	(53)	(5)
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 29	$ 418	$ (209)	$ -	$ 238	$ -	$ 34	$ (190)	$ (156)	$ 82

FY 2007

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 21	$ 51	$ (17)	$ -	$ 55	$ -	$ -	$ (37)	$ (37)	$ 18
Export	-	48	(7)	-	41	-	(95)	(294)	(389)	(348)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	12	126	(80)	-	58	-	12	(25)	(13)	45
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	(1)	1	-	-
Business and Industry	-	55	(22)	-	33	-	21	39	60	93
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 33	$ 280	$ (126)	$ -	$ 187	$ -	$ (63)	$ (316)	$ (379)	$ (192)

Table 9. Guaranteed Loans Disbursed

	FY 2008		FY 2007	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,163	$ 1,944	$ 2,110	$ 1,896
Export	1,907	1,909	1,086	1,037
Food Aid	-	-	-	-
Housing	6,484	5,832	3,643	3,275
Electric	-	-	-	-
Telecommunications	-	-	-	-
Water and Environmental	40	33	7	6
Business and Industry	780	609	588	459
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 11,374	$ 10,327	$ 7,434	$ 6,673

Table 10. Administrative Expenses

	FY 2008	FY 2007
Direct Loan Programs	$ 537	$ 527
Guaranteed Loan Programs	293	230
Total Administrative Expenses	$ 830	$ 757

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2008	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	(1.11)	13.94	-	(0.14)	12.69
Indian Land Acquisition	2.83	0.31	-	-	3.14
Emergency Disaster	6.72	5.24	-	(0.82)	11.14
Boll Weevil Eradication	(2.00)	1.45	-	0.28	(0.27)
Farm Ownership	(6.72)	11.00	-	0.17	4.45
Farm Storage Facility Loan Program	0.02	1.10	(0.11)	-	1.01
Sugar Storage Facility Loan Program	0.36	0.62	-	-	0.98
Community Facility Loans	5.40	0.73	-	(0.58)	5.55
Water and Waste Disposal Loans	7.03	0.09	-	(0.31)	6.81
Distance Learning and Telemedicine Loans	-	2.15	-	(0.01)	2.14
Broadband Treasury Loans	-	2.17	-	(0.02)	2.15
Electric Hardship Loans	(0.03)	0.96	-	(0.81)	0.12
FFB Electric Loans	(1.37)	0.67	-	-	(0.70)
Telecommunication Hardship Loans	(0.96)	1.00	-	0.04	0.08
FFB Telecommunications Loans	(0.01)	0.85	-	(0.22)	0.62
Treasury Telecommunication Loans	-	0.64	-	0.03	0.67
Single-Family Housing Credit Sales	(15.38)	7.85	-	6.38	(1.15)
Multi-Family Housing Credit Sales	(17.41)	5.41	-	49.15	37.15
Section 502 Single-Family Housing	(13.44)	5.73	-	17.09	9.38
Section 504 Housing Repair	29.14	0.94	-	(1.81)	28.27
Section 515 Multi-Family Housing	(17.92)	1.13	-	59.39	42.60
Section 523 Self-Help Site Development	2.84	-	-	-	2.84
Section 524 Site Development	(1.71)	0.92	-	-	(0.79)
Section 514 Farm Labor Housing	44.45	8.93	-	(10.11)	43.27
Multi-Family Housing Relending Program	46.39	-	-	-	46.39
Intermediary Relending Program	43.53	-	-	(0.64)	42.89
Rural Economic Development Loans	23.15	0.21	-	(0.77)	22.59

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	1.02	10.49	-	0.18	11.69
Indian Land Acquisition	5.49	15.66	-	-	21.15
Emergency Disaster	12.38	0.08	-	(0.69)	11.77
Boll Weevil Eradication	2.85	(0.95)	-	-	1.90
Farm Ownership	3.88	0.43	-	(0.12)	4.19
Farm Storage Facility Loan Program	0.03	7.27	(0.11)	(6.81)	0.38
Sugar Storage Facility Loan Program	0.63	7.40	-	(10.74)	(2.71)
Community Facility Loans	7.04	0.18	-	(0.81)	6.41
Water and Waste Disposal Loans	10.31	0.09	-	(0.44)	9.96
Distance Learning and Telemedicine Loans	(0.72)	1.35	-	-	0.63
Broadband Treasury Loans	-	2.19	-	(0.04)	2.15
Electric Hardship Loans	2.25	-	-	(0.11)	2.14
Municipal Electric Loans	1.26	-	-	0.25	1.51
FFB Electric Loans	(1.21)	0.02	-	-	(1.19)
Telecommunication Hardship Loans	0.36	0.01	-	-	0.37
FFB Telecommunications Loans	(1.21)	0.02	-	(0.30)	(1.49)
Treasury Telecommunication Loans	-	0.03	-	-	0.03
FFB Guaranteed Underwriting	(1.24)	0.80	-	-	(0.44)
Single-Family Housing Credit Sales	(16.88)	9.56	-	7.80	0.48
Multi-Family Housing Credit Sales	(19.19)	0.11	-	64.41	45.33
Section 502 Single-Family Housing	(14.99)	5.37	-	19.65	10.03
Section 504 Housing Repair	30.08	1.47	-	(2.00)	29.55
Section 515 Multi-Family Housing	(18.32)	0.07	-	63.92	45.67
Section 523 Self-Help Site Development	2.47	-	-	-	2.47
Section 524 Site Development	(2.59)	0.93	-	-	(1.66)
Section 514 Farm Labor Housing	45.52	0.21	-	2.22	47.95
Multi-Family Housing Relending Program	47.81	-	-	0.01	47.82
Intermediary Relending Program	44.93	-	-	(0.86)	44.07
Rural Economic Development Loans	23.45	0.18	-	(1.79)	21.84

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2008	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	7.08	(4.74)	-	2.34
Farm Operating—Unsubsidized	-	3.32	(0.90)	-	2.42
Farm Operating—Subsidized	11.05	2.29	-	-	13.34
Farm Ownership—Unsubsidized	-	1.28	(0.88)	-	0.40
Business and Industry Loans	-	7.33	(3.01)	-	4.32
Guaranteed Business & Industry NadBank Loans	-	10.84	(3.14)	-	7.70
Community Facility Loans	-	4.54	(0.86)	-	3.68
Water and Waste Disposal Loans	-	-	(0.82)	-	(0.82)
Section 502 Single-Family Housing Purchase	-	3.20	(2.00)	-	1.20
Section 502 Single-Family Housing Refinance	-	1.31	(0.50)	-	0.81
538 Multi-Family Housing-Subsidized	16.91	0.42	(7.94)	-	9.39
Renewable Energy	-	11.97	(2.28)	-	9.69

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	9.28	(1.35)	-	7.93
Farm Operating—Unsubsidized	-	3.37	(0.90)	-	2.47
Farm Operating—Subsidized	7.59	2.48	-	-	10.07
Farm Ownership—Unsubsidized	-	1.48	(0.90)	-	0.58
Community Facility Loans	-	4.52	(0.86)	-	3.66
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Section 502 Single-Family Housing Purchase	-	3.21	(2.00)	-	1.21
Section 502 Single-Family Housing Refinance	-	1.00	(0.50)	-	0.50
538 Multi-Family Housing-Subsidized	14.59	0.50	(7.35)	-	7.74
Renewable Energy	-	8.03	(1.54)	-	6.49

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries and providing price support and stabilization. Commodity loan forfeitures during the fiscal years ended September 30, 2008 and 2007 were $8 million and $77 million, respectively.

	FY 2008		FY 2007	
Inventories		$ -		$ 1
Commodities:	Volume (in millions)	Amount	Volume (in millions)	Amount
Corn (In Bushels):				
On hand at the beginning of the year	1	2	1	2
Acquired during the year	3	25	4	12
Disposed of during the year				
Sales	-	-	(4)	(12)
Donations	(3)	(25)	-	-
Other	(1)	(2)	-	-
On hand at the end of the year	-	-	1	2
Wheat (In Bushels):				
On hand at the beginning of the year	39	144	43	159
Acquired during the year	29	295	35	182
Disposed of during the year				
Sales	(56)	(124)	(30)	(179)
Donations	(6)	(295)	(7)	(12)
Other	(6)	(20)	(2)	(6)
On hand at the end of the year	-	-	39	144
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	14	13	49	40
Acquired during the year	-	-	-	-
Disposed of during the year				
Sales	(1)	(1)	(1)	(1)
Donations	(11)	(11)	(34)	(36)
Other	(2)	(1)	-	10
On hand at the end of the year	-	-	14	13
Other:				
On hand at the beginning of the year		25		24
Acquired during the year		879		5,274
Disposed of during the year				
Sales		(1)		(5,223)
Donations		(888)		(46)
Other		-		(4)
On hand at the end of the year		15		25
Allowance for losses		-		-
Total Commodities		15		184
Total Inventory and Related Property, Net		$ 15		$ 185

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2008 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 76	$ -	$ 76
Improvements to Land	10 - 50	697	(588)	109
Construction-in-Progress		982	-	982
Buildings, Improvements and Renovations	15 - 30	1,936	(1,214)	722
Other Structures and Facilities	15 - 50	1,728	(1,296)	432
Equipment	5 - 20	1,650	(1,325)	325
Assets Under Capital Lease	3 - 20	143	(78)	65
Leasehold Improvements	10	66	(42)	24
Internal-Use Software	5 - 8	560	(376)	184
Internal-Use Software in Development		51	(1)	50
Other General Property, Plant and Equipment	5 - 15	4	-	4
Total		$ 7,893	$ (4,920)	$ 2,973

FY 2007 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ -	$ 77
Improvements to Land	10 - 50	5,028	(2,823)	2,205
Construction-in-Progress		884	-	884
Buildings, Improvements and Renovations	15 - 30	1,903	(1,161)	742
Other Structures and Facilities	15 - 50	1,685	(1,248)	437
Equipment	5 - 20	1,687	(1,359)	328
Assets Under Capital Lease	3 - 20	70	(34)	36
Leasehold Improvements	10	63	(38)	25
Internal-Use Software	5 - 8	482	(311)	171
Internal-Use Software in Development		23	(1)	22
Other General Property, Plant and Equipment	5 - 15	4	-	4
Total		$ 11,906	$ (6,975)	$ 4,931

NOTE 10. STEWARDSHIP PP&E

Stewardship PP&E consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E include heritage assets and stewardship land.

Heritage Assets

Heritage assets are unique and are generally expected to be preserved indefinitely. Heritage assets may be unique because they have historical or natural significance, are of cultural, educational or artistic importance, or have significant architectural characteristics. The assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No amounts are shown on the balance sheet for heritage assets, except for multi-use heritage assets in which the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of multi-use heritage assets is capitalized as general PP&E and depreciated. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use is considered an expense in the period incurred when determining the net cost of operations. Heritage assets consist of collection type, such as objects gathered and maintained for exhibition, for example library collections; and non-collection-type, such as memorials, monuments and buildings.

National Forests, National Grasslands and Other Sites—FS manages its heritage assets by site. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Collection type assets held at museums and universities are managed by those entities. Heritage assets include historic structures consciously created to serve some human purpose, such as buildings, monuments, logging and

mining camps and ruins. Heritage assets designated as National Historic Landmarks include buildings or structures that possess exceptional value in commemorating or illustrating the history of the U.S., and exceptional value or quality in illustrating and interpreting the heritage of the U.S. Heritage assets listed on the National Register of Historic Places include properties, buildings and structures that are significant in U.S. history, architecture and archaeology and in the cultural foundation of the Nation.

Research Centers—ARS conducts research at 36 research centers nationwide to develop and transfer solutions to agricultural problems of high national priority and provides information access and dissemination to ensure high-quality, safe food and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole. NRCS owns one research center, the Tucson Plant Material Center (TPMC). The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas and desert lands. Research centers are considered heritage assets because one or more buildings or structures at these centers is on the National Register of Historic Places or have been identified as eligible for inclusion on the National Register.

Library Collections—The National Agricultural Library (NAL) as a whole is the largest collection of materials devoted to agriculture in the world. The collections are in constant use to support the research activities of USDA, departmental operations and to answer citizen inquiries. NAL houses and provides access to millions of books and periodicals. The overwhelming number of these items were published more than 25 years ago and almost all of them are out-of-print and unavailable for purchase. By statute, NAL is the primary depository of publications and information concerning the research and other activities of USDA. Included in the collection are government documents and many items that are unique and irreplaceable. NAL collects, preserves and provides access to manuscripts, rare books, photographs, posters, oral histories and other unique materials. Collection concentrations include the fields of agriculture, horticulture, entomology, poultry sciences, botany, natural history and agricultural history. Although focused primarily on American agriculture and related sciences, NAL holds numerous items of international origin.

Stewardship Land

Stewardship land is land and land rights not acquired for or in connection with items of general PP&E. Land is defined as the solid surface of the earth, excluding natural resources. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states, and counties. These assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No asset amount is shown on the balance sheet for stewardship land. The acquisition cost of stewardship land is considered an expense in the period acquired when determining the net cost of operations. Stewardship land consists primarily of the national forests and grasslands owned by the FS and conservation easements purchased by NRCS.

National Forests—National forests are formally established and permanently set aside and reserved for national forest purposes, including National Wilderness, National Primitive, National Wild and Scenic River, National Recreation, National Scenic Research, National Game Refuges and Wildlife Preserve, and National Monument areas.

National Grasslands—National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Research and Experimental Areas—Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a national forest or national grassland.

National Preserves and Other Areas—National preserves are units established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural and recreational values; and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the FS that are not included in one of the above groups.

Conservation Easements—NRCS provides landowners financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land. NRCS acquires conservation easements on private lands through the Wetlands Reserve, Grassland Reserve, Emergency Wetlands Reserve and Watershed Protection, Farm and Ranch Land Protection, and Healthy Forest Reserve programs. For the purpose of stewardship asset reporting in the financial statements, all easements where NRCS is named as grantee on the easement deed are included as a stewardship asset when the easement deed is signed by the grantor. Also included are easements where NRCS is not specifically named as grantee but has contributed to the purchase of a conservation easement under cooperative agreement and the agency has assumed the management responsibility of the easement due to non-compliance by the cooperator under the terms of the agreement.

	FY 2008
Heritage Assets	
National Forests	155
National Grasslands	20
Other Sites	22
Research Centers	37
Library Collections	1
Total	235
Stewardship Land	
National Forests	155
National Grasslands	20
Research and Experimental Areas	3
National Preserves and Other Areas	3
Conservation Easements	10,431
Total	10,612

NOTE 11. OTHER ASSETS

In fiscal 2008 and 2007, other assets include investments in trust for loan asset sales of $35 million and $34 million, respectively.

	FY 2008	FY 2007
Intragovernmental:		
Advances to Others	$ 5	$ -
With the Public:		
Advances to Others	216	114
Prepayments	-	-
Other Assets	37	37
Total Other Assets	$ 258	$ 151

Note 12. Liabilities Not Covered By Budgetary Resources

In fiscal 2008 and 2007, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $164 million and $162 million, respectively, and contract disputes claims payable to Treasury's Judgment Fund of $17 million and $15 million, respectively.

In fiscal 2008 and 2007, other liabilities with the public not covered by budgetary resources include, Tobacco Transition Payment Program of $5,302 million and $5,380 million, accruals for rental payments under the Conservation Reserve Program (CRP) of $1,776 million and $1,810 million, unfunded leave of $616 million and $592 million, Payments to States $531 million and $394 million, and contingent liabilities of $29 million and $48 million, respectively. In fiscal 2008, RMA reported a liability in the amount of $2,145 million for future funded indemnity costs.

	FY 2008	FY 2007
Intragovernmental:		
Other	$ 190	$ 178
Subtotal Intragovernmental	190	178
With the Public:		
Federal employee and veterans' benefits	832	775
Environmental and disposal liabilities	18	105
Other	10,410	8,222
Subtotal With the Public	11,260	9,102
Total liabilities not covered by budgetary resources	11,450	9,280
Total liabilities covered by budgetary resources	109,522	105,501
Total Liabilities	$ 120,972	$ 114,781

Note 13. Debt

FY 2008	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 49,197	$ 2,004	$ 51,201
Debt to the Federal Financing Bank	25,904	472	26,376
Total Intragovernmental	75,101	2,476	77,577
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 75,101	$ 2,476	$ 77,577

FY 2007	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 58,187	$ (8,990)	$ 49,197
Debt to the Federal Financing Bank	25,260	644	25,904
Total Intragovernmental	83,447	(8,346)	75,101
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 83,447	$ (8,346)	$ 75,101

Note 14. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. In FY 2008, the FS and CCC estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $18 million and $7 million respectively, $97 million for FS and $8 million for CCC in FY 2007, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

Note 15. Other Liabilities

In fiscal 2008, other liabilities with the public include estimated losses on crop insurance claims of $3,881 million, estimated underwriting gains on crop insurance of $2,491 million, crop insurance premium subsidy deficiency reserve of $887 million, Payments to States of $531 million, estimated program delivery cost to reinsurer of $31 million, loans paid in advance for multi-family housing of $20 million, and credit reform programs of $10 million.

In fiscal 2007, other liabilities with the public include estimated losses on crop insurance claims of $2,579 million, estimated underwriting gains on crop insurance of $1,509 million, crop insurance premium subsidy deficiency reserve of $565 million, Payments to States of $394 million, credit reform programs of $12 million, undistributed credits for insured loans of $11 million and estimated program delivery cost to reinsurer of $9 million.

FY 2008	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 17	$ 126	$ 143
Employer Contributions and Payroll Taxes	-	75	75
Unfunded FECA Liability	-	164	164
Advances from Others	-	12	12
Liability for Deposit Funds, Clearing Accounts	-	(15)	(15)
Liability for Subsidy Related to Undisbursed Loans	-	525	525
Resources Payable to Treasury	-	12,702	12,702
Custodial Liability	-	72	72
Other Liabilities	-	-	-
Subtotal Intragovernmental	17	13,661	13,678
With the Public:			
Other Accrued Liabilities	-	14,070	14,070
Accrued Funded Payroll and Leave	-	201	201
Unfunded Leave	-	616	616
Advances from Others	-	52	52
Deferred Credits	-	645	645
Liability for Deposit Funds, Clearing Accounts	-	285	285
Contingent Liabilities	14	115	129
Capital Lease Liability	28	37	65
Custodial Liability	-	2	2
Other Liabilities	20	7,823	7,843
Subtotal With the Public	62	23,846	23,908
Total Other Liabilities	$ 79	$ 37,507	$ 37,586

FY 2007	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 15	$ 550	$ 565
Employer Contributions and Payroll Taxes	-	45	45
Unfunded FECA Liability	-	162	162
Advances from Others	-	35	35
Liability for Deposit Funds, Clearing Accounts	-	(29)	(29)
Liability for Subsidy Related to Undisbursed Loans	-	-	-
Resources Payable to Treasury	-	12,921	12,921
Custodial Liability	-	54	54
Subtotal Intragovernmental	15	13,738	13,753
With the Public:			
Other Accrued Liabilities	-	13,644	13,644
Accrued Funded Payroll and Leave	-	44	44
Unfunded Leave	-	550	550
Other Unfunded Employment Related Liability	-	41	41
Advances from Others	-	63	63
Deferred Credits	-	406	406
Liability for Deposit Funds, Clearing Accounts	-	205	205
Contingent Liabilities	11	37	48
Capital Lease Liability	32	4	36
Custodial Liability	-	2	2
Other Liabilities	20	5,058	5,078
Subtotal With the Public	63	20,054	20,117
Total Other Liabilities	$ 78	$ 33,792	$ 33,870

NOTE 16. LEASES

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, South Building and Cotton Annex) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999.

At current market rate, the estimated yearly rental payment for the above mentioned space would be $51 million. This agreement is still in effect and as a result, USDA activities located in the Headquarter complex are not billed for rental costs.

Effective September 30, 2007, the Department released the Cotton Annex to GSA and no longer occupies the building.

FY 2008		
Capital Leases:		
Summary of Assets Under Capital Leases		
Land and Building	$	142
Machinery and Equipment		1
Accumulated Amortization		(78)
Future Payments Due:		
	Land & Buildings	
Fiscal Year		
2009		22
2010		20
2011		19
2012		16
2013		13
After 5 Years		57
Total Future Lease Payments		147
Less: Imputed Interest		48
Less: Executory Costs		19
Less: Lease Renewal Options		15
Net Capital Lease Liability		65
Lease liabilities covered by budgetary resources		65

Operating Leases:
Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2009	106	1	-	107
2010	94	1	-	95
2011	84	-	-	84
2012	73	-	-	73
2013	63	-	-	63
After 5 Years	426	-	-	426
Total Future Lease Payments	$ 846	$ 2	$ -	$ 848

FY 2007	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 68
Machinery and Equipment	2
Accumulated Amortization	(34)

Future Payments Due:

	Land & Buildings
Fiscal Year	
2008	11
2009	10
2010	10
2011	10
2012	10
After 5 Years	65
Total Future Lease Payments	116
Less: Imputed Interest	55
Less: Executory Costs	25
Less: Lease Renewal Options	-
Net Capital Lease Liability	36
Lease liabilities covered by budgetary resources	36

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2008	82	1	-	83
2009	73	-	-	73
2010	68	-	-	68
2011	62	-	-	62
2012	56	-	-	56
After 5 Years	441	1	-	442
Total Future Lease Payments	$ 782	$ 2	$ -	$ 784

Note 17. Commitments and Contingencies

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

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $129 million and $48 million has been accrued in the financial statements as of September 30, 2008 and 2007, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $50 million to $260 million as of September 30, 2008, compared to $2,867 million to $2,969 million as of September 30, 2007.

CRP rental payments are estimated to be $1,900 million annually through FY 2016. Commitments to extend loan guarantees are estimated to be $3,846 million and $2,719 million in fiscal 2008 and 2007, respectively.

Note 18. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by

statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues.

Financial information for all significant earmarked funds follows the descriptions of each fund's purpose shown below.

Risk Management Agency

Federal Crop Insurance Corporation Fund (FCIC)

Resources for the FCIC Fund includes funds collected from the public for insurance premiums and other insurance related fees that are used with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program. Funds are available under 7 U.S.C. 1501-1519.

Agricultural Marketing Service

Funds for Strengthening Markets, Income, and Supply

This fund is used to purchase commodities for schools and elderly feeding programs, to provide goods and other necessities in emergencies and disasters, and to purchase agricultural commodities to stabilize markets. The fund is permanently financed by statutory transfer of an amount equal to 30 percent of customs receipts collected during each calendar year and is automatically appropriated for expanding outlets for perishable, non-price supported commodities. An amount equal to 30 percent of receipts collected on fishery products is transferred to the Food and Nutrition Service and is used to purchase commodities under section 6 of the National School Lunch Act and other authorities specified in the child nutrition appropriation. Funds are available under section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c).

Expenses and Refunds, Inspection and Grading of Farm Products

The commodity grading programs provide grading, examination, and certification services for a wide variety of fresh and processed food commodities using federally approved grade standards and purchase specifications. This fund is financed by the collection of fees charged to producers of various food commodities who request, on a voluntary basis, inspection and grading of agricultural food commodities. This program is authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627).

Animal Plant Health Inspection Service

Agricultural Quarantine Inspection User Fee Account

This fund is used to record and report expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services, and to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund their expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

Forest Service

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Land Acquisition

Each fiscal year this fund receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 460l-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Payments to States, National Forest Fund

The Payments to States, National Forest Fund receives receipts from the National Forest Fund. These monies are generated from the sale of goods and services at the national forests. Annually, revenue-sharing payments are made to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund program.

Timber Salvage Sales

The Timber Salvage Sale Fund was established to facilitate the timely removal of timber damaged by fire, wind, insects, disease, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

State, Private, and International Forestry Land and Water Conservation Fund

The Fiscal Year 2004 Department of the Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of the Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of Treasury established a new special fund, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase, but no real property will be procured or constructed.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program fund receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration Program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by 16 U.S.C. 4601-6(a).

National Forest Fund Receipts

The Federal Lands Recreation Enhancement Act (FLREA) (Public Law 108-447) sets forth provisions for collection of recreation fees and retention of special recreation permit fees by the FS. The FS deposits 85 percent of special use permit revenues from these authorizations into the National Forest Fund.

Restoration of Forest Lands and Improvements

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) provides that any moneys received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment,

compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the United States Treasury and are appropriated and made available until expended to cover the cost to the United States of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement: Provided, that any portion of the moneys received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

Acquisition of Lands to Complete Land Exchanges

As authorized by 7 statutes, this program is funded annually by congressional appropriation action, with forest revenues generated by the occupancy of public land or from the sale of natural resources other than minerals. All funds appropriated that remain unobligated at the end of the fiscal year are returned to the receipts of the affected national forests. These funds are used to purchase land and for related expenditures such as title search, escrow, recording, and personnel costs when the purchase is considered necessary to minimize soil erosion and flood damage. This appropriation is available for land acquisition within the exterior boundaries of the national forests.

Cooperative State Research Education and Extension Service

Native American Institutions Endowment Fund

The Native American Institutions Endowment Fund is authorized by Public Law 103-382 (7 U.S.C. 301 note). This program provides for an endowment for the 1994 land-grant institutions (31 Tribally controlled colleges) to strengthen the infrastructure of these institutions and develop Indian expertise for the food and agricultural sciences and businesses and their own communities. At the termination of each fiscal year, the Secretary shall withdraw the income from the endowment fund for the fiscal year, and after making adjustments for the cost of administering the fund, distribute the adjusted income on a formula basis to the 1994 land-grant institutions.

Farm Service Agency

Agricultural Disaster Relief Trust Fund

The Agricultural Disaster Relief Trust Fund shall make amounts available for the purpose of expenditures to meet the obligations of the United States incurred under section 901 or section 531 of the Federal Crop Insurance Act. The trust fund will be used to make payments to farmers and ranchers under five disaster assistance programs: (1) Supplemental Revenue Assistance Payments (SURE) Program, (2) Livestock Feed Program (LFP), (3) Livestock Indemnity Program (LIP), (4) Tree Assistance Program (TAP), and (5) Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP). The fund has appropriated an amount equivalent to 3.08 percent of the amounts received in the general fund of the Treasury of the United States during fiscal years 2008 through 20011 attributable to the duties collected on articles entered, or withdrawn from warehouse, for consumption under the Harmonized Tariff Schedule of the United States.

Other

Financial information is summarized for all other earmarked funds with total assets less than $50 million listed below.

Agricultural Marketing Service

Perishable Agricultural Commodities Act

Animal Plant Health Inspection Service

Miscellaneous Contributed Funds

Forest Service

Roads and Trails for States, National Forest Fund

Reforestation Trust Fund

Payments to Counties, National Grasslands
Timber Sales Pipeline Restoration Fund
Operation and Maintenance of Forest Service Quarters
Timber Roads, Purchaser Elections
Expenses, Brush Disposal
Range Betterment Fund
Acquisition of Lands for National Forests, Special Acts
Construction of Facilities or Land Acquisition
Recreation Fees for Collection Costs
Payment to Minnesota (Cook, Lake and Saint Louis Counties)
Licensee Program
Tongass Timber Supply Fund
Resource Management Timber Receipts
Quinault Special Management Area
MNP Rental Fee Account
Midewin National Tallgrass Prairie Restoration Fund
Land Between the Lakes Management Fund
Administration of Rights-of-Way and Other Land Uses Fund
Valles Caldera Fund
Hardwood Technology Transfer and Applied Research Fund
Stewardship Contracting Product Sales
Mount Saint Helens Highway
Gifts, Donations and Bequests for Forest and Rangeland Research
Land Between the Lakes Trust Fund
Gifts and Bequests

Natural Resources Conservation Service

Miscellaneous Contributed Funds

Agricultural Research Service

Concessions Fees and Volunteer Services
Gifts and Bequests
Miscellaneous Contributed Funds

Rural Development

Alternative Agricultural Research and Commercialization Revolving Fund

Foreign Agricultural Service

Miscellaneous Contributed Funds

Grain Inspection, Packers and Stockyards Administration

Inspection and Weighing Services

Office of the Inspector General

Inspector General Assets Forfeiture, Department of Justice
Inspector General Assets Forfeiture, Department of Treasury

Earmarked Funds

Balance Sheet As of September 30, 2008	RMA Federal Crop Insurance Corporation Fund	AMS Funds for Strengthening Markets, Income, and Supply	AMS Expenses and Refunds, Inspection and Grading of Farm Products	APHIS Agricultural Quarantine Inspection User Fee Account	FS Cooperative Work	FS Land Acquisition	FS Payments to States, National Forests Fund	FS Timber Salvage Sales	FS State, Private, and International Forestry, Land and Water Conservation Fund
Fund Balance with Treasury	$ 2,364	$ 362	$ 95	$ 153	$ 296	$ 32	$ 96	$ 66	$ 107
Investments	-	-	-	-	-	-	-	-	-
Other Assets	3,744	329	18	148	21	49	3	4	4
Total Assets	6,108	691	113	301	317	81	99	70	111
Other Liabilities	8,318	11	60	81	54	1	134	4	4
Total Liabilities	8,318	11	60	81	54	1	134	4	4
Unexpended Appropriations	944	302	-	130	-	-	-	-	1
Cumulative Results of Operations	(3,154)	378	53	90	263	80	(35)	66	106
Total Liabilities and Net Position	6,108	691	113	301	317	81	99	70	111
Statement of Net Cost For the Period Ended September 30, 2008									
Gross program costs	7,081	717	185	199	139	40	169	43	47
Less Earned Revenues	1,440	1	155	607	105	-	59	36	-
Net Cost of Operations	5,641	716	30	(408)	34	40	110	7	47
Statement of Changes in Net Position For the period Ended September 30, 2008									
Net Position Beginning of Period	(393)	854	25	132	304	66	76	73	100
Changes in Accounting Principles	-	-	-	-	(3)	-	(1)	-	-
Beginning Balance, as Adjusted	(393)	854	25	132	301	66	75	73	100
Non-Exchange Revenue	3,824	542	25	(320)	(4)	54	-	-	54
Other Financing Sources	-	-	33	-	-	-	-	-	-
Net Cost of Operations	(5,641)	(716)	(30)	408	(34)	(40)	(110)	(7)	(47)
Change in net Position	(1,817)	(174)	28	88	(38)	14	(110)	(7)	7
Net Position End of Period	$ (2,210)	$ 680	$ 53	$ 220	$ 263	$ 80	$ (35)	$ 66	$ 107

Earmarked Funds

	FS	FS	FS	FS	CSREES	FSA		
Balance Sheet As of September 30, 2008	Recreation Fee Demonstration Program	National Forest Fund Receipts	Restoration of Forest Lands and Improvements	Acquisition of Lands to Complete Land Exchanges	Native American Institutions Endowment Fund	Agricultural Disaster Relief Trust Fund	Other	Total
Fund Balance with Treasury	$ 147	$ 74	$ 113	$ 51	$ 11	$ 833	$ 315	$ 5,115
Investments	-	-	-	-	101	-	10	111
Other Assets	4	6	41	23	-	-	33	4,427
Total Assets	151	80	154	74	112	833	358	9,653
Other Liabilities	4	-	-	-	-	-	44	8,715
Total Liabilities	4	-	-	-	-	-	44	8,715
Unexpended Appropriations	-	-	-	-	48	-	3	1,428
Cumulative Results of Operations	147	80	154	74	64	833	311	(490)
Total Liabilities and Net Position	151	80	154	74	112	833	358	9,653
Statement of Net Cost For the Period Ended September 30, 2008								
Gross program costs	65	-	5	10	2	-	237	8,939
Less Earned Revenues	61	34	108	20	4	-	167	2,797
Net Cost of Operations	4	(34)	(103)	(10)	(2)	-	70	6,142
Statement of Changes in Net Position For the period Ended September 30, 2008								
Net Position Beginning of Period	151	48	51	64	98	-	267	1,916
Changes in Accounting Principles	-	-	-	-	-	-	(10)	(14)
Beginning Balance, as Adjusted	151	48	51	64	98	-	257	1,902
Non-Exchange Revenue	-	-	-	-	12	833	60	5,080
Other Financing Sources	-	(2)	-	-	-	-	67	98
Net Cost of Operations	(4)	34	103	10	2	-	(70)	(6,142)
Change in net Position	(4)	32	103	10	14	833	57	(964)
Net Position End of Period	$ 147	$ 80	$ 154	$ 74	$ 112	$ 833	$ 314	$ 938

Earmarked Funds

	RMA	AMS	AMS	APHIS	FS	FS	FS	FS
Balance Sheet As of September 30, 2007	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
Fund Balance with Treasury	$ 2,344	$ 560	$ 48	$ 135	$ 338	$ 17	$ 146	$ 77
Investments	-	-	-	-	-	-	-	-
Other Assets	2,459	296	35	5	24	50	4	4
Total Assets	4,803	856	83	140	362	67	150	81
Other Liabilities	5,196	2	58	8	58	1	74	8
Total Liabilities	5,196	2	58	8	58	1	74	8
Unexpended Appropriations	642	302	-	129	-	-	-	-
Cumulative Results of Operations	(1,035)	552	25	3	304	66	76	73
Total Liabilities and Net Position	4,803	856	83	140	362	67	150	81
Statement of Net Cost For the Period Ended September 30, 2007								
Gross program costs	4,869	926	163	176	171	55	31	62
Less Earned Revenues	1,018	1	141	472	97	-	(21)	43
Net Cost of Operations	3,851	925	22	(296)	74	55	52	19
Statement of Changes in Net Position For the period Ended September 30, 2007								
Net Position Beginning of Period	(782)	682	15	123	378	89	128	92
Changes in Accounting Principles	-	-	-	-	-	-	-	-
Beginning Balance, as Adjusted	(782)	682	15	123	378	89	128	92
Non-Exchange Revenue	4,240	1,097	2	(287)	-	32	-	-
Other Financing Sources	-	-	30	-	-	-	-	-
Net Cost of Operations	(3,851)	(925)	(22)	296	(74)	(55)	(52)	(19)
Change in net Position	389	172	10	9	(74)	(23)	(52)	(19)
Net Position End of Period	$ (393)	$ 854	$ 25	$ 132	$ 304	$ 66	$ 76	$ 73

Earmarked Funds

Balance Sheet As of September 30, 2007	FS Timber Roads, Purchaser Elections	FS Expenses, Brush Disposal	FS State, Private, and International Forestry, Land and Water Conservation Fund	FS Recreation Fee Demonstration Program	FS Restoration of Forest Lands and Improvements	FS Acquisition of Lands to Complete Land Exchanges	CSREES Native American Institutions Endowment Fund	Other	Total
Fund Balance with Treasury	$ 29	$ 40	$ 101	$ 149	$ 41	$ 48	$ 9	$ 209	$ 4,291
Investments	-	-	-	-	-	-	88	9	97
Other Assets	2	1	2	5	10	17	1	58	2,973
Total Assets	31	41	103	154	51	65	98	276	7,361
Other Liabilities	-	1	3	3	-	1	-	32	5,445
Total Liabilities	-	1	3	3	-	1	-	32	5,445
Unexpended Appropriations	-	-	-	-	-	-	37	3	1,113
Cumulative Results of Operations	31	40	100	151	51	64	61	241	803
Total Liabilities and Net Position	31	41	103	154	51	65	98	276	7,361
Statement of Net Cost For the Period Ended September 30, 2007									
Gross program costs	2	13	41	57	(9)	5	3	205	6,770
Less Earned Revenues	7	10	-	60	16	20	5	190	2,059
Net Cost of Operations	(5)	3	41	(3)	(25)	(15)	(2)	15	4,711
Statement of Changes in Net Position For the period Ended September 30, 2007									
Net Position Beginning of Period	66	56	84	135	25	45	84	274	1,494
Changes in Accounting Principles	-	-	-	-	-	-	-	(59)	(59)
Beginning Balance, as Adjusted	66	56	84	135	25	45	84	215	1,435
Non-Exchange Revenue	(40)	(13)	57	13	1	4	12	18	5,136
Other Financing Sources	-	-	-	-	-	-	-	26	56
Net Cost of Operations	5	(3)	(41)	3	25	15	2	(15)	(4,711)
Change in net Position	(35)	(16)	16	16	26	19	14	29	481
Net Position End of Period	$ 31	$ 40	$ 100	$ 151	$ 51	$ 64	$ 98	$ 244	$ 1,916

NOTE 19. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2008	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 176	$ 1,892	$ 95	$ 328
Less: Earned Revenue	-	-	71	347	99	-
Net Cost	-	-	105	1,545	(4)	328
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	953	3,434	1,339	7,254	-	-
Less: Earned Revenue	213	578	16	1,394	-	-
Net Cost	740	2,856	1,323	5,860	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	-	-	-	-
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	236	1,889	-	-
Less: Earned Revenue	-	-	-	2	-	-
Net Cost	-	-	236	1,887	-	-
Total Gross Costs	953	3,434	1,751	11,035	95	328
Less: Total Earned Revenues	213	578	87	1,743	99	-
Net Cost of Operations	$ 740	$ 2,856	$ 1,664	$ 9,292	$ (4)	$ 328

FY 2008	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	53	7,124	-	-	-	-
Less: Earned Revenue	-	1,440	-	-	-	-
Net Cost	53	5,684	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	-	-	340	864
Gross Cost	-	-	-	-	4	162
Less: Earned Revenue	-	-	-	-	336	702
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	815	59,735	-	-
Less: Earned Revenue	-	-	1	27	-	-
Net Cost	-	-	814	59,708	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	53	7,124	815	59,735	340	864
Less: Total Earned Revenues	-	1,440	1	27	4	162
Net Cost of Operations	$ 53	$ 5,684	$ 814	$ 59,708	$ 336	$ 702

FY 2008	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ 13	$ 19
Less: Earned Revenue	-	-	-	-	-	20
Net Cost	-	-	-	-	13	(1)
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	122	934	-	-	18	43
Less: Earned Revenue	7	212	-	-	-	26
Net Cost	115	722	-	-	18	17
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	361	1,094	-	-
Less: Earned Revenue	-	-	28	703	-	-
Net Cost	-	-	333	391	-	-
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	122	934	361	1,094	31	62
Less: Total Earned Revenues	7	212	28	703	-	46
Net Cost of Operations	$ 115	$ 722	$ 333	$ 391	$ 31	$ 16

FY 2008	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	-	-	102	398
Less: Earned Revenue	-	-	-	-	27	13
Net Cost	-	-	-	-	75	385
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	100	390
Less: Earned Revenue	-	-	-	-	26	11
Net Cost	-	-	-	-	74	379
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	22	84
Less: Earned Revenue	-	-	-	-	6	2
Net Cost	-	-	-	-	16	82
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	1,223	5,487	562	2,615	58	227
Less: Earned Revenue	250	616	74	73	15	7
Net Cost	973	4,871	488	2,542	43	220
Total Gross Costs	1,223	5,487	562	2,615	282	1,099
Less: Total Earned Revenues	250	616	74	73	74	33
Net Cost of Operations	$ 973	$ 4,871	$ 488	$ 2,542	$ 208	$ 1,066

FY 2008	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ 5	$ 8	$ 10	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	5	8	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	13	306	16	20	46	91
Less: Earned Revenue	16	-	1	-	9	2
Net Cost	(3)	306	15	20	37	89
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	6	142	3	4	22	44
Less: Earned Revenue	7	-	-	-	5	1
Net Cost	(1)	142	3	4	17	43
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	7	163	2	2	-	-
Gross Cost	9	-	-	-	-	-
Less: Earned Revenue	(2)	163	2	2	-	-
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	5	108	9	12	-	-
Less: Earned Revenue	6	-	-	-	-	-
Net Cost	(1)	108	9	12	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	6	140	4	6	-	1
Less: Earned Revenue	7	-	-	-	-	-
Net Cost	(1)	140	4	6	-	1
Total Gross Costs	37	864	42	54	68	136
Less: Total Earned Revenues	45	-	1	-	14	3
Net Cost of Operations	$ (8)	$ 864	$ 41	$ 54	$ 54	$ 133

FY 2008	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 12	$ 20	$ 304	$ 2,274
Less: Earned Revenue	-	-	18	-	188	367
Net Cost	-	-	(6)	20	116	1,907
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	125	210	2,787	19,814
Less: Earned Revenue	-	-	187	2	476	3,667
Net Cost	-	-	(62)	208	2,311	16,147
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	3,858	4,358	67	111	3,956	4,659
Less: Earned Revenue	360	4,183	99	1	471	4,185
Net Cost	3,498	175	(32)	110	3,485	474
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	107	179	917	2,692
Gross Cost	-	-	160	2	227	878
Less: Earned Revenue	-	-	(53)	177	690	1,814
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	61	103	912	60,042
Less: Earned Revenue	-	-	92	1	105	30
Net Cost	-	-	(31)	102	807	60,012
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	111	184	2,200	10,549
Less: Earned Revenue	-	-	165	2	511	700
Net Cost	-	-	(54)	182	1,689	9,849
Total Gross Costs	3,858	4,358	483	807	11,076	100,030
Less: Total Earned Revenues	360	4,183	721	8	1,978	9,827
Net Cost of Operations	$ 3,498	$ 175	$ (238)	$ 799	$ 9,098	$ 90,203

FY 2008	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Cost	$ (94)	$ 2,484
Less: Earned Revenue	(100)	455
Net Cost	6	2,029
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	(1,606)	20,995
Less: Earned Revenue	(307)	3,836
Net Cost	(1,299)	17,159
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	(189)	8,426
Less: Earned Revenue	(109)	4,547
Net Cost	(80)	3,879
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	(235)	3,374
Gross Cost	(170)	935
Less: Earned Revenue	(65)	2,439
Net Cost		
Improve the Nation's Nutrition and Health:		
Gross Cost	(773)	60,181
Less: Earned Revenue	(86)	49
Net Cost	(687)	60,132
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	(644)	12,105
Less: Earned Revenue	(201)	1,010
Net Cost	(443)	11,095
Total Gross Costs	(3,541)	107,565
Less: Total Earned Revenues	(973)	10,832
Net Cost of Operations	$ (2,568)	$ 96,733

FY 2007	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 176	$ 1,537	$ 67	$ 290
Less: Earned Revenue	-	-	320	232	106	(44)
Net Cost	-	-	(144)	1,305	(39)	334
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	918	1,423	1,482	11,313	-	-
Less: Earned Revenue	220	485	13	4,402	-	-
Net Cost	698	938	1,469	6,911	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	-	-	-	-
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	245	1,913	-	-
Less: Earned Revenue	-	-	-	1	-	-
Net Cost	-	-	245	1,912	-	-
Total Gross Costs	918	1,423	1,903	14,763	67	290
Less: Total Earned Revenues	220	485	333	4,635	106	(44)
Net Cost of Operations	$ 698	$ 938	$ 1,570	$ 10,128	$ (39)	$ 334

FY 2007	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	54	4,904	-	-	-	-
Less: Earned Revenue	1	1,017	-	-	-	-
Net Cost	53	3,887	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	275	790
Less: Earned Revenue	-	-	-	-	2	148
Net Cost	-	-	-	-	273	642
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	838	53,509	-	-
Less: Earned Revenue	-	-	2	22	-	-
Net Cost	-	-	836	53,487	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	54	4,904	838	53,509	275	790
Less: Total Earned Revenues	1	1,017	2	22	2	148
Net Cost of Operations	$ 53	$ 3,887	$ 836	$ 53,487	$ 273	$ 642

FY 2007	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ 18	$ 32
Less: Earned Revenue	-	-	-	-	-	20
Net Cost	-	-	-	-	18	12
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	195	1,046	-	-	17	30
Less: Earned Revenue	9	194	-	-	-	19
Net Cost	186	852	-	-	17	11
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	309	1,132	-	-
Less: Earned Revenue	-	-	131	555	-	-
Net Cost	-	-	178	577	-	-
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	195	1,046	309	1,132	35	62
Less: Total Earned Revenues	9	194	131	555	-	39
Net Cost of Operations	$ 186	$ 852	$ 178	$ 577	$ 35	$ 23

FY 2007	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	-	-	85	397
Less: Earned Revenue	-	-	-	-	29	12
Net Cost	-	-	-	-	56	385
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	82	386
Less: Earned Revenue	-	-	-	-	28	11
Net Cost	-	-	-	-	54	375
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	18	88
Less: Earned Revenue	-	-	-	-	6	3
Net Cost	-	-	-	-	12	85
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	1,203	5,112	515	2,636	49	232
Less: Earned Revenue	143	455	60	93	17	7
Net Cost	1,060	4,657	455	2,543	32	225
Total Gross Costs	1,203	5,112	515	2,636	234	1,103
Less: Total Earned Revenues	143	455	60	93	80	33
Net Cost of Operations	$ 1,060	$ 4,657	$ 455	$ 2,543	$ 154	$ 1,070

FY 2007	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ 5	$ 6	$ 10	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	5	6	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	12	541	11	18	37	93
Less: Earned Revenue	12	-	-	-	15	3
Net Cost	-	541	11	18	22	90
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	5	231	2	4	13	33
Less: Earned Revenue	6	-	-	-	5	1
Net Cost	(1)	231	2	4	8	32
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	6	276	2	3	1	2
Gross Cost	7	-	-	-	-	-
Less: Earned Revenue	(1)	276	2	3	1	2
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	4	182	7	12	-	-
Less: Earned Revenue	5	-	-	-	-	-
Net Cost	(1)	182	7	12	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	5	248	3	5	1	4
Less: Earned Revenue	6	-	-	-	1	-
Net Cost	(1)	248	3	5	-	4
Total Gross Costs	32	1,483	31	52	52	132
Less: Total Earned Revenues	36	-	-	-	21	4
Net Cost of Operations	$ (4)	$ 1,483	$ 31	$ 52	$ 31	$ 128

FY 2007	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 14	$ 24	$ 281	$ 1,898
Less: Earned Revenue	-	-	20	-	446	208
Net Cost	-	-	(6)	24	(165)	1,690
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	152	278	2,963	20,043
Less: Earned Revenue	-	-	213	3	512	6,135
Net Cost	-	-	(61)	275	2,451	13,908
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	4,120	2,561	50	93	4,190	2,922
Less: Earned Revenue	314	4,431	71	1	396	4,433
Net Cost	3,806	(1,870)	(21)	92	3,794	(1,511)
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	70	128	745	2,717
Gross Cost	-	-	98	1	266	715
Less: Earned Revenue	-	-	(28)	127	479	2,002
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	48	88	915	53,879
Less: Earned Revenue	-	-	69	-	82	25
Net Cost	-	-	(21)	88	833	53,854
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	88	162	2,109	10,312
Less: Earned Revenue	-	-	123	2	350	558
Net Cost	-	-	(35)	160	1,759	9,754
Total Gross Costs	4,120	2,561	422	773	11,203	91,771
Less: Total Earned Revenues	314	4,431	594	7	2,052	12,074
Net Cost of Operations	$ 3,806	$ (1,870)	$ (172)	$ 766	$ 9,151	$ 79,697

FY 2007	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Cost	$ (80)	$ 2,099
Less: Earned Revenue	(39)	615
Net Cost	(41)	1,484
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	(1,582)	21,424
Less: Earned Revenue	(322)	6,325
Net Cost	(1,260)	15,099
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	(160)	6,952
Less: Earned Revenue	(79)	4,750
Net Cost	(81)	2,202
Enhance Protection and Safety of the Nation's		
Agriculture and Food Supply:	(191)	3,271
Gross Cost	(219)	762
Less: Earned Revenue	28	2,509
Net Cost		
Improve the Nation's Nutrition and Health:		
Gross Cost	(803)	53,991
Less: Earned Revenue	(64)	43
Net Cost	(739)	53,948
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	(597)	11,824
Less: Earned Revenue	(163)	745
Net Cost	(434)	11,079
Total Gross Costs	(3,413)	99,561
Less: Total Earned Revenues	(886)	13,240
Net Cost of Operations	$ (2,527)	$ 86,321

Note 20. Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2008 and FY 2007 was $228 million and $236 million, respectively.

Note 21. Apportionment Categories of Obligations Incurred

FY 2008

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 66,732	$ 639	$ 67,371
Apportionment for Special Activities	45,431	25,593	71,024
Exempt from Apportionment	961	1	962
Total Obligations Incurred	$ 113,124	$ 26,233	$ 139,357

FY 2007

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 69,018	$ 932	$ 69,950
Apportionment for Special Activities	28,400	29,573	57,973
Exempt from Apportionment	1,023	8	1,031
Total Obligations Incurred	$ 98,441	$ 30,513	$ 128,954

Note 22. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2008 and 2007 was $29,369 million and $28,899 million, respectively.

Note 23. Terms of Borrowing Authority Used

The Secretary of Agriculture has the authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's nonreimbursed realized losses and debt related to foreign assistance programs. The permanent indefinite borrowing authority includes both interest bearing and non–interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with the Federal Credit Reform Act of 1990 as amended, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the Federal Financing Bank (FFB) in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA

repayment guarantee. CBO's outstanding with the FFB are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer are used for program financing.

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

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

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

Note 24. Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, (3) certain commodity program costs and 4) certain costs associated with FS programs.

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs.

The permanent indefinite appropriation for commodity program costs is used to encourage the exportation of agricultural commodities and products, to encourage domestic consumption of agricultural products by diverting them, and to reestablish farmers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

The permanent indefinite appropriation for FS programs is used to fund Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

Note 25. Legal Arrangements Affecting Use of Unobligated Balances

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in

previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

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

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

The differences between the fiscal 2007 Statement of Budgetary Resources and the fiscal 2007 actual numbers presented in the fiscal 2009 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations. Adjustments were made subsequent to the Budget submission as follows:

AMS returned to Treasury Section 32 funds in excess of its authorized funding level and reduced obligations for disaster relief.

Unavailable collections for the Native American Institution Endowment Fund were included as budgetary resources in the Statement of Budgetary Resources.

The Budget includes the Milk Market Orders Assessment Fund since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available for use by the Department.

Other items mainly consist of balances in suspense accounts and differences due to rounding that are excluded from the Budget.

A comparison between the fiscal 2008 Statement of Budgetary Resources and the fiscal 2008 actual numbers presented in the fiscal 2010 Budget cannot be performed as the fiscal 2010 Budget is not yet available. The fiscal 2010 Budget is expected to be published in February 2009 and will be available from the Government Printing Office.

FY 2007

	Budgetary Resources	Obligations incurred	Distributed offsetting receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 161,918	$ 128,954	$ 1,767	$ 89,950
Reconciling items:				
Expired accounts	(10,657)	(1,008)	-	-
Adjustment - AMS	89	9	-	-
Native American Institutions	(5)	(3)	-	-
Milk Market Orders Fund	49	49	-	-
Other	(2)	(6)	6	(7)
Budget of the United States Government	$ 151,392	$ 127,995	$ 1,773	$ 89,943

Note 27. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2008 and 2007 was $37,794 million and $35,851 million, respectively.

NOTE 28. INCIDENTAL CUSTODIAL COLLECTIONS

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

Revenue Activity:	FY 2008	FY 2007
Sources of Collections:		
Miscellaneous	$ 83	$ 75
Total Cash Collections	83	75
Accrual Adjustments	-	(4)
Total Custodial Revenue	83	71
Disposition of Collections:		
Transferred to Others:		
Treasury	(15)	(63)
(Increase)/Decrease in Amounts Yet to be Transferred	(68)	(8)
Net Custodial Activity	$ -	$ -

Note 29. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 139,357	$ 128,954
Less: Spending authority from offsetting collections and recoveries	38,542	39,094
Obligations net of offsetting collections and recoveries	100,815	89,860
Less: Distributed Offsetting receipts	2,242	1,767
Net Obligations	98,573	88,093
Other Resources -		
Transfers in(out) without reimbursement	(391)	(460)
Imputed financing from costs absorbed by others	907	1,005
Other	52	4
Net other resources used to finance activities	568	549
Total resources used to finance activities	99,141	88,642
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	(1,926)	501
Resources that fund expenses recognized in prior periods	(144)	(649)
Budgetary offsetting collections and receipts that do not affect net cost of operations -		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	13,357	13,534
Change in Unfilled Customer Orders	77	967
Decrease in exchange revenue receivable from public	7,625	6,810
Other	1,024	(287)
Resources that finance the acquisition of assets	(24,997)	(27,000)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(194)	(1,412)
Total resources used to finance items not part of the net cost of operations	(5,178)	(7,536)
Total resources used to finance the net cost of operations	93,963	81,106
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods -		
Increase in annual leave liability	25	3
Increase in environmental and disposal liability	-	44
Upward/Downward reestimates of credit subsidy expense	608	(293)
Increase in exchange revenue receivable from the public	-	-
Other	1,633	926
Total components of Net Cost of Operations that will require or generate resources in future periods	2,266	680
Components not Requiring or Generating Resources -		
Depreciation and amortization	408	433
Revaluation of assets or liabilities	(134)	(176)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(753)	(1,256)
Cost of Goods Sold	1,047	5,413
Other	(64)	121
Total components of Net Cost of Operations that will not require or generate resources	504	4,535
Total components of Net Cost of Operations that will not require or generate resources in the current period	2,770	5,215
Net Cost of Operations	$ 96,733	$ 86,321

NOTE 30. CHANGES IN ACCOUNTING PRINCIPLES

The Department of Homeland Security (DHS) deposits 30% of customs duties collected into an unavailable receipt account. AMS receives an amount annually from this account in accordance with 7 USC 612c to encourage exportation and domestic consumption of agricultural products. Responsibility for the unavailable receipt account had been assigned to DHS in the Governmentwide Accounting (GWA) system. Treasury and OMB decided that AMS should be assigned responsibility for the unavailable receipt account to improve governmentwide reporting.

Accordingly, the GWA was changed effective October 1, 2007. Consequently, the cumulative effect of this change on prior periods increased the beginning balance of Cumulative Results of Operations by $13,621 million.

Effective October 1, 2007, the FS implemented a voluntary change in accounting principle to reclassify its road prism assets from General PP&E to Stewardship PP&E. This change removes the capitalized road prism assets, with a net book value of $2,085 million as of September 30, 2007, from the Balance Sheet as reflected in the adjustment to the FY 2008 beginning balance of Cumulative Results of Operations in the Statement of Changes in Net Position. This change was adopted to more accurately reflect the stewardship nature of these assets, consistent with other federal land management agencies.

Effective for FY 2007, OMB Circular A-136, requires the parent to report all budgetary and proprietary allocation transfer activity in its financial statements, whether material to the child, or not. Adjustments of $961 million to the beginning balance of Cumulative Results of Operations and negative $209 million to the beginning balance of Unexpended Appropriations reflected in the Statement of Changes in Net Position were made to comply with reporting requirements for allocation transfers.

Required Supplementary Stewardship Information

Stewardship Investments (Unaudited)

Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. Such investments are measured in terms of expenses incurred for non-federal physical property, human capital, and research and development.

Stewardship Investments (in millions)

	FY 2008 Expense	FY 2007 Expense	FY 2006 Expense	FY 2005 Expense	FY 2004 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Food Stamp Program	$ 32	$ 20	$ 21	$ 22	$ 36
Special Supplemental Nutrition Program	10	15	12	17	8
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	17	17	17	17	15
Total Non-Federal Property	$ 59	$ 52	$ 50	$ 56	$ 59
Human Capital:					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	$ 521	$ 524	$ 525	$ 507	$ 502
Food and Nutrition Service					
Food Stamp Program	36	51	66	49	75
Agricultural Research Service					
National Agricultural Library	22	22	22	21	21
Risk Management Agency					
Risk Management Education	10	11	10	10	7
Total Human Capital	$ 589	$ 608	$ 623	$ 587	$ 605
Research and Development:					
Agricultural Research Service					
Human Nutrition	85	86	85	84	83
Collaborative Research Program	4	3	7	6	5
Product Quality/Value Added	105	106	107	105	104
Livestock Production	85	85	85	84	82
Crop Production	201	202	201	197	194
Food Safety	104	105	105	103	96
Livestock Protection	82	83	90	78	64
Crop Protection	196	198	199	193	183
Environmental Stewardship	223	224	223	219	216
Homeland Security	-	-	-	-	21
Cooperative State Research, Education, and Extension Service					
Land-grant University System	663	661	661	645	610
Forest Service	304	261	318	295	312
Economic Research Service					
Economic and Social Science	77	75	75	74	71
National Agricultural Statistics Service					
Statistical	8	6	5	5	5
Total Research and Development	$ 2,137	$ 2,095	$ 2,161	$ 2,088	$ 2,046

Non-Federal Physical Property

Food and Nutrition Service

FNS' non-Federal physical property consists of computer systems and other equipment obtained by State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program Expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' non-Federal physical property also consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children.

Cooperative State Research, Education and Extension Service

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities.

Human Capital

Cooperative State Research, Education and Extension Service

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, a resident instruction grant program for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. CSREES also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. CSREES supported the Outreach and Assistance for Disadvantaged Farmers Program for the first time in fiscal 2003. The purpose is to enhance the ability of minority and small farmers and ranchers to operate farming or ranching enterprises independently to assure adequate income and maintain reasonable lifestyles.

Food and Nutrition Service

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

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 779,173 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,318,019 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Agricultural Research Service

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

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

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the Federal Agricultural Improvement and Reform Act of 1996, the FCIC has formed new partnerships with the CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was

launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation since 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal years 2008 and 2007, the RME worked toward the goals by funding risk management sessions, most of which targeted producers directly. The number of producers reached through these sessions is approximately 49,000 in fiscal years 2008 and 2007. Additionally, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately $10 million for fiscal year 2008 and $11 million for fiscal year 2007. The following table summarizes the RME initiatives since fiscal year 2004:

(dollars in millions)		2008	2007	2006	2005	2004
RME Obligations	$	10	11	10	9.4	10
Number of producers attending RME sessions		49,000	49,000	48,000	47,000	46,000

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

Natural Resources Conservation Service

The Agency's investment in human capital is expensed each year and is primarily for education and training programs intended to (1) increase or maintain national economic productive capacity and (2) produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

As the Nation's conservation agenda continues to become more complex, the need for technical information and advice will increasingly exceed the capacity of the Federal workforce to respond timely. NRCS is expanding the capacity of its workforce through three strategies:

1. Relying on the non-Federal entities to provide technical assistance to participants in NRCS conservation programs. Under authority of the 2002 Farm Bill, NRCS established processes to certify individual Technical Service Providers (TSP's) and to enter into agreements with governmental and non-governmental entities to provide services. In FY 2008 NRCS signed agreements or renewed the certification of 375 individual TSP's and 35 Business TSP's. There are now more that 1100 individual TSP's and 102 businesses certified and available to help program participants apply conservation. Since passage of the 2002 Farm Bill, NRCS has obligated over $248 million to acquire technical service. Web-based orientations and proficiency statements have been developed to help ensure that TSP's have the necessary technical competencies to carry out the Agency's programs.

2. Acquiring the services of experienced workers on a temporary basis. NRCS is acquiring the expertise of older workers through the Agricultural Conservation Enrollees/Seniors (ACES) project conducted in partnership with the National Older Worker Career Center. This project evolved from and complements the TSP initiative to leverage conservation technical assistance capacity and help landowners meet

conservation goals. NRCS has filled 300 ACES positions across the country including 260 at the field level.

3. Using the time, talent, and energy of volunteers. Since the organization of local conservation districts in the 1930's people have volunteered their time and talent to help get conservation on the land. In 1981, using new authority enacted by Congress, NRCS established the National Volunteer Program. In 1985, that program became the Earth Team. During 2008, over 70,000 Earth Team Volunteers donated over 1 million hours. Their time was valued at $19 million.

Research and Development

Agricultural Research Service

The ARS mission is to conduct research to develop and transfer solutions to agricultural problems of high national priority and provide information access and dissemination to: ensure high quality, safe food, and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole.

ARS has revised its Strategic Plan to align it with the Department's new Strategic Plan. ARS' major program areas are being aligned as follows:

GOAL: Enhance the Competitiveness and Sustainability of Rural and Farm Economies.

Product Quality/Value Added—Many agricultural products are marketed as low value commodities and harvested commodities often suffer losses due to spoilage or damage during shipping, storage, and handling. Healthy foods are often not convenient and/or are not widely accepted by many consumers. Biobased products represent a small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products.

ARS has active research programs directed toward: 1) improving the efficiency and reducing the cost for the conversion of agricultural products into biobased products and biofuels; 2) developing new and improved products to help establish them in domestic and foreign markets; and 3) providing higher quality, healthy foods that satisfy consumer needs in the United States and abroad.

Livestock Production—ARS' livestock production program is directed toward: 1) safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatic tools; 2) developing a basic understanding of the physiology of livestock and poultry; and 3) developing information, tools, and technologies that can be used to improve animal production systems. The research is heavily focused on the development and application of genomics technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems.

Current areas of emphasis include increasing efficiency of nutrient utilization; increasing animal well-being and reducing stress in production systems; increasing reproductive rates and breeding animal longevity; developing and evaluating non-traditional production systems (e.g., organic, natural); and evaluating and conserving animal genetic resources.

Crop Production—ARS' crop production program focuses on developing and improving ways to reduce crop losses while protecting and ensuring a safe and affordable food supply. The research program concentrates on effective production strategies that are environmentally friendly, safe to consumers, and compatible with sustainable and profitable crop production systems. Research activities are directed at safeguarding and utilizing plant genetic resources and its associated genetic, genomic, and bioinformatic databases that facilitate selection of varieties and/or germplasm with significantly improved traits.

Current research activities attempt to minimize the impacts of crop pests while maintaining healthy crops and safe commodities that can be sold in markets throughout the world. ARS is conducting research to: discover and exploit naturally occurring and engineered genetic mechanisms for plant pest control; develop agronomic germplasm with durable defensive traits; and transfer genetic resources for commercial use. ARS is also providing taxonomic information on invasive species that strengthen prevention techniques, aid in detection/identification of invasives, and increase control through management tactics which restore habitats and biological diversity.

GOAL: Enhance Protection and Safety of the Nation's Agriculture and Food Supply.

Food Safety—Assuring that the United States has the highest levels of affordable, safe food requires that the food system be protected at each stage from production through processing and consumption from pathogens, toxins, and chemical contaminants that cause diseases in humans. The U.S. food supply is very diverse, extensive, easily accessible, and thus vulnerable to the introduction of biological and chemical contaminants through natural processes, intentional means, or by global commerce.

ARS' current food safety research is designed to yield science-based knowledge on the safe production, storage, processing, and handling of plant and animal products, and on the detection and control of toxin producing and/or pathogenic bacteria and fungi, parasites, chemical contaminants, and plant toxins. ARS' research activities involve a high degree of cooperation and collaboration both within the USDA-REE agencies as well as with USDA's Food Safety and Inspection Service and the Animal and Plant Health Inspection Service, and with other entities, including the Food and Drug Administration, the Centers for Disease Control, the Department of Homeland Security, and the Environmental Protection Agency. ARS also collaborates in international research programs to address and resolve global food safety issues.

Specific research efforts are directed toward developing new technologies that assist ARS stakeholders and customers, that is, regulatory agencies, industry, and commodity and consumer organizations in detecting, identifying, and controlling foodborne diseases that affect human health.

Livestock Protection—ARS' animal health program is directed at protecting and ensuring the safety of the Nation's agriculture and food supply through improved disease detection, prevention, control, and treatment. Basic and applied research approaches are used to solve animal health problems of high national priority. Emphasis is given to methods and procedures to control animal diseases.

The research program has ten strategic objectives: 1) establish ARS' laboratories into a fluid, highly effective research network to maximize use of core competencies and resources; 2) access specialized high containment facilities to study zoonotic and emerging diseases; 3) develop an integrated animal and microbial genomics research program; 4) establish centers of excellence in animal immunology; 5) launch a biotherapeutic discovery program providing alternatives to animal drugs; 6) build a technology driven vaccine and diagnostic discovery research program; 7) develop core competencies in field epidemiology and predictive biology; 8) develop internationally recognized expert collaborative research laboratories; 9) establish a best in class training center for our Nation's veterinarians and scientists; and 10) develop a model technology transfer program to achieve the full impact of ARS' research discoveries.

ARS' current animal research program includes eight core components: 1) biodefense research, 2) animal genomics and immunology, 3) zoonotic diseases, 4) respiratory diseases, 5) reproductive and neonatal diseases, 6) enteric diseases, 7) parasitic diseases, and 8) transmissible spongiform encephalopathies.

Crop Production—ARS research on crop protection is directed toward epidemiological investigations to understand pest and disease transmission mechanisms, and to identify and apply new technologies that increase our understanding of virulence factors and host defense mechanisms.

Currently, ARS' research priorities include: 1) identification of genes that convey virulence traits in pathogens and pests; 2) factors that modulate infectivity, gene functions, and mechanisms; 3) genetic profiles that provide specified levels of disease and insect resistance under field conditions; and 4) mechanisms that facilitate the spread of pests and infectious diseases.

ARS is developing new knowledge and integrated pest management approaches to control pest and disease outbreaks as they occur. Its research will improve the knowledge and understanding of the ecology, physiology, epidemiology, and molecular biology of emerging diseases and pests. This knowledge will be incorporated into pest risk assessments and management strategies to minimize chemical inputs and increase production. Strategies and approaches will be available to producers to control emerging crop diseases and pest outbreaks

GOAL: Improve the Nation's Nutrition and Health.

Human Nutrition—Maintenance of health throughout the lifespan along with prevention of obesity and chronic diseases via food-based recommendations are the major emphases of ARS' human nutrition research program. These health related goals are based on the knowledge that deficiency diseases are no longer the most important public health concerns. Excessive consumption has become the primary nutrition problem in the American population. This is reflected by increased emphasis on prevention of obesity from basic science through intervention studies to assessments of large populations. ARS' research programs also actively study bioactive components of foods that have no known requirement but have health promoting activities.

Four specific areas of research are currently emphasized: 1) nutrition monitoring and the food supply, e.g., a national diet survey and the food composition databank; 2) dietary guidance for health promotion and disease prevention, i.e., specific foods, nutrients, and dietary patterns that maintain health and prevent disease; 3) prevention of obesity and related diseases, including research as to why so few of the population do not follow the *Dietary Guidelines for Americans*; and 4) life stage nutrition and metabolism, in order to better define the role of nutrition in pregnancy, growth of children, and for healthier aging.

GOAL: Protect and Enhance the Nation's Natural Resource Base and Environment.

Environmental Stewardship—ARS' research programs in environmental stewardship support scientists at seventy locations. Emphasis is given to developing technologies and systems that support profitable production and enhance the Nation's vast renewable natural resource base.

ARS is currently developing the scientific knowledge and technologies needed to meet the challenges and opportunities facing U.S. agriculture in managing water resource quality and quantity under different climatic regimes, production systems, and environmental conditions. ARS' air resources research is developing measurement, prediction, and control technologies for emissions of greenhouse gases, particulate matter, ammonia, hydrogen sulfide, and volatile organic compounds affecting air quality and land-surface climate interactions. The agency is a leader in developing measurement and modeling techniques for characterizing gaseous and particulate matter emissions from agriculture. In addition, ARS is evaluating strategies for enhancing the health and productivity of soils, including developing predictive tools to assess the sustainability of alternative land management practices. Finding mechanisms to aid agriculture in adapting to changes in atmospheric composition and climatic variations are also important components of ARS' research program.

ARS' grazing and range land research includes the conservation and restoration of the Nation's range land and pasture ecosystems and agroecosystems through improved management of fire, invasive weeds, grazing, global change, and other agents of ecological change. ARS is currently developing improved grass and forage legume germplasm for livestock, conservation, bioenergy, and bioproduct systems as well as grazing-based livestock systems that reduce risk and increase profitability. In addition, the agency is developing whole system management strategies to reduce production costs and risks.

Management Initiative—Provide Agricultural Library and Information Services to USDA and the Nation via the National Agricultural Library.

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

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data.

The Library delivered 90 million direct customer service transactions in FY 2008. Recently, NAL, with partners in the land-grant university and agricultural information service communities, has initiated development of the National Digital Library for Agriculture (NDLA). Specific efforts are directed toward achieving two goals: 1) continuing to meet the needs of its customers, and 2) implementing the NDLA.

Management Initiative—Provide Adequate Federal Facilities Required to Support the Research Mission of ARS.

ARS has over 100 laboratories, primarily located throughout the United States. ARS' facilities program is designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.

Cooperative State Research, Education, and Extension Service Program

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

Forest Service

FS Research and Development (R&D) provides reliable, science-based information that is incorporated into natural resource decision making. Efforts consist of developing new technology and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include the following:

- Fire
- Invasives
- Recreation
- Research Management and Use
- Water and Air
- Fish and Wildlife
- Research Data and Analysis

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

A representative summary of FY 2008 accomplishments include the following:

- 40 new interagency agreements and contracts
- 12 interagency agreements and contracts continued
- 1,903 articles published in journals
- 1,487 articles published in all other publications
- 6 patents granted
- 1 patent licenses executed

Economic Research Service

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

National Agricultural Statistics Service

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

Required Supplementary Information

Stewardship Property, Plant and Equipment (Unaudited)

In accordance with SFFAS 29, physical units added and withdrawn during the year, and a description of the methods of acquisition and withdrawal are classified as RSI for FY 2008. For reporting periods beginning after September 30, 2008, all information on heritage assets and stewardship land will be reported as basic information, except for condition information which is classified as RSI.

Heritage Assets

Acquisition and Withdrawal of Heritage Assets

The FS generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets may be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of "additions." For FY 2008 there were no additions or withdrawals of heritage asset sites.

Condition

The condition of FS heritage assets depends on the type of asset and varies from poor to fair.

Stewardship Land

Acquisition and Withdrawal of Stewardship Lands

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the National Forest System (NFS) of the FS. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans (LMPs) and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands. For FY 2008, there were no additions or withdrawals of stewardship land sites.

Condition

The condition of NFS lands varies by purpose and location. The FS monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis (FIA) and Forest Health Monitoring (FHM).

The FIA program conducts annual inventories of forest status and trends. FIA has historic inventory data in all 50 States and is currently collecting annual inventory data in 47 States, including 39 of the 41 States containing NFS land. Active throughout all 50 States, FHM provides surveys and evaluations of forest health conditions and trends.

Although most of the estimated 193 million acres of NFS lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires. There are 25 million acres of NFS forestlands at risk to future mortality from insects and diseases, based on the 2007 Insect and Disease Risk Map. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. The FS completed insect and disease prevention and suppression treatments on over 53,000 acres of NFS lands in FY 2008.

	FY 2008	Additions	Withdrawals	FY 2007
Heritage Assets				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Other Sites	22	-	-	22
Research Centers	37	-	-	37
Library Collections	1	-	-	1
Total	235	-	-	235
Stewardship Land				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
Conservation Easements	10,431	712	-	9,719
Total	10,612	712	-	9,900

Deferred Maintenance (Unaudited)

Deferred maintenance is maintenance that was scheduled to be performed but was delayed until a future period. Deferred maintenance represents a cost that the Federal Government has elected not to fund and, therefore, the costs are not reflected in the financial statements.

Maintenance is defined to include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

Forest Service

FY 2008	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 133	$ 28	$ 105
Buildings	712	117	595
Dam	24	9	15
Minor Constructed Features	102	-	102
Fence	301	301	-
Handling Facility	23	23	-
Heritage	16	5	11
Road	3,400	782	2,618
Trail Bridge	10	3	7
Wastewater	35	20	15
Water	103	60	43
Wildlife, Fish, TES	7	5	2
Trails	279	7	272
General Forest Area	-	-	-
Total Forest Service	$ 5,145	$ 1,360	$ 3,785

FY 2007	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 123	$ 29	$ 94
Buildings	543	114	429
Dam	21	7	14
Minor Constructed Features	90	-	90
Fence	324	324	-
Handling Facility	23	23	-
Heritage	17	5	12
Road	8,134	3,675	4,459
Trail Bridge	9	3	6
Wastewater	32	17	15
Water	89	54	35
Wildlife, Fish, TES	6	4	2
Trails	224	2	222
General Forest Area	-	-	-
Total Forest Service	$ 9,635	$ 4,257	$ 5,378

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E), heritage assets, and stewardship assets. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of asset to its acceptable operating condition. Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

The FS uses condition surveys to estimate deferred maintenance on all major classes of PP&E. No deferred maintenance exists for fleet vehicles and computers that are managed through the agency's working capital fund (WCF). Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

The agency's deferred maintenance for roads is determined from surveys of an annual random sample of a sufficient number of roads to achieve estimates of 95 percent accuracy and 95 percent confidence. Five hundred roads were included in the FY 2008 sample.

Deferred maintenance needs for all other asset groups are determined from surveys of all individual assets on a revolving schedule where the interval between visits does not exceed 5 years.

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows.

Conditions of roads and bridges within the National Forest System (NFS) road system are measured by various standards:

- Federal Highway Administration regulations for the Federal Highway Safety Act;
- Best management practices (BMP) for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;
- Road management objectives developed through the National Forest Management Act (NFMA) forest planning process;
- Forest Service Directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (January 2003 amendment was superseded with August 25, 2005, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams shall be managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook, as determined by condition surveys. The overall condition of dams is below acceptable. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. For dams to be rated as in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 36 percent needing major repairs or renovations; approximately 11 percent of in fair condition; and 53 percent of the facilities in good condition.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. All developed sites are managed in accordance with Federal laws and regulations (CFR 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest-level and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally

intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.

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

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

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species (TES) is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

Agricultural Research Service

	FY 2008	FY 2007
Asset Class		
Buildings	$ 241	$ 314
Structures	36	44
Heritage	80	4
Total Agricultural Research Service	$ 357	$ 362

Deferred Maintenance (DM) includes work needed to meet laws, regulations, codes and other legal direction as long as the original intent or purpose of the fixed asset is not changed. Also includes work performed to bring an asset up to present environmental standards or correction of safety problems. Critical DM is DM that is identified for critical systems including HVAC, electrical, roofing, and plumbing tasks. Non-critical DM is all other systems. DM is reported for buildings, structures and heritage assets.

Executive Order (EO) 13327 requires all Federal agencies to assess the condition of their facilities and plan for their full life cycle management. The Condition Index (CI) is a general measure of the constructed asset's condition at a specific point in time. It is calculated as the ration of repair needs, or DM, to plant replacement value (PRV). PRV can be calculated systematically and without much effort. The condition of the constructed asset is a more difficult figure to determine. A repair need is the amount necessary to ensure a constructed asset is restored to a condition substantially equivalent to the originally intended and designed capacity, efficiency or capability. Ideally, with enough money and time, repair needs would be determined for each asset by inspection, evaluation of the repairs required, and consistent estimating of the repairs throughout ARS. ARS does not have available manpower in-house to complete this type of inspection and estimating, nor the funding to contract. ARS looked at approaches to model ARS assets and evaluate the results for management purposes.

Whitestone Research is a company that estimates DM based on the age of the facility, geographic location, typical major components and size of the structure. Whitestone first inspected a sample of representative buildings from eleven ARS sights (roughly 40 percent of the total inventory) and used parametric models to estimate DM and PRV. These results were generalized to the entire population of ARS facilities. Assuming a PRV of $3.5 billion, the CI ratio (1 - $DM/PRV) is 91 percent, an outcome commonly classified as "adequate."

Statement of Budgetary Resources (Unaudited)

FY 2008	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 3,165	$ 1,820	$ 1,604	$ 2,139	$ 387	$ 2,262	$ 14,891	$ 57	$ 603	$ 362
Recoveries of prior year unpaid obligations	40	81	1,246	27	96	2	637	1,074	14	129
Budget Authority:										
Appropriation	3,410	-	16,154	-	261	4,222	53,836	940	7,844	1,437
Borrowing Authority	-	1,897	30,267	302	-	-	-	-	-	-
Earned -										
Collected	791	1,499	13,812	1,250	141	2,068	85	150	110	111
Change in receivables from Federal Sources	(3)	-	10	(177)	(42)	-	-	5	-	(9)
Change in unfilled customer orders -										
Advances received	-	-	3	-	-	-	-	-	-	(19)
Without advance from Federal Sources	(1)	(1)	-	194	22	-	-	-	-	-
Expenditure transfers from trust funds	-	-	959	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(2,620)	-	2	1	6,277	(2)	(6,296)	(225)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not available	(365)	(2,323)	(33,375)	(350)	(35)	(1)	(838)	(19)	(687)	(24)
Total Budgetary Resources	7,037	2,973	28,060	3,385	832	8,554	74,888	2,205	1,588	1,762
Status of Budgetary Resources:										
Obligations Incurred:										
Direct	4,413	2,104	2,868	869	325	6,497	60,602	2,008	1,096	1,068
Reimbursable	409	-	23,094	-	125	-	28	168	59	326
Unobligated Balance:										
Apportioned	1,092	65	276	1,662	12	2,053	974	8	92	335
Exempt from Apportionment	-	-	811	5	-	-	-	-	289	-
Unobligated balance not available	1,123	804	1,011	849	370	4	13,284	21	52	33
Total Status of Budgetary Resources	7,037	2,973	28,060	3,385	832	8,554	74,888	2,205	1,588	1,762
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	215	432	7,734	(53)	11	180	4,154	137	112	407
Obligations incurred	4,822	2,104	25,962	869	450	6,497	60,630	2,176	1,155	1,394
Gross outlays	(4,504)	(2,127)	(24,797)	(766)	(365)	(6,219)	(59,859)	(1,072)	(1,132)	(1,291)
Recoveries of prior year unpaid	(40)	(81)	(1,246)	(27)	(96)	(2)	(637)	(1,074)	(14)	(129)
Change in uncollected payments from Federal Sources	5	1	(10)	(17)	20	-	-	(5)	-	9
Obligated balance, net, end of period -										
Unpaid obligations	512	343	7,968	200	106	456	4,288	190	124	410
Uncollected customer payments from Federal Sources	(15)	(13)	(322)	(194)	(86)	-	-	(28)	(2)	(19)
Obligated balance, net, end of period	497	330	7,646	6	20	456	4,288	162	122	391
Net Outlays:										
Gross outlays	4,504	2,127	24,797	766	365	6,219	59,859	1,072	1,132	1,291
Offsetting collections	(791)	(1,499)	(14,773)	(1,249)	(141)	(2,068)	(85)	(150)	(111)	(93)
Distributed offsetting receipts	(581)	-	-	(353)	(1)	-	(1)	(13)	(185)	(20)
Net Outlays	$ 3,132	$ 628	$ 10,024	$ (836)	$ 223	$ 4,151	$ 59,773	$ 909	$ 836	$ 1,178

FY 2008	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1:	$ 13	$ 1,672	$ 1,047	$ 210	$ 126	$ 3	$ 5	$ 1,182	$ 1,249	$ 167	$ 27,756	$ 5,208
Recoveries of prior year unpaid obligations	4	78	491	56	33	2	1	171	1,118	29	4,103	1,226
Budget Authority:												
Appropriation	39	6,309	1,434	1,202	1,211	78	165	3,669	-	444	102,655	-
Borrowing Authority	-	-	-	-	-	-	-	-	12,712	-	30,267	14,911
Earned -												
Collected	46	561	148	81	38	1	19	4,374	6,106	834	23,370	8,855
Change in receivables from Federal Sources	(1)	38	(9)	3	3	-	(3)	(21)	-	(16)	(45)	(177)
Change in unfilled customer orders -												
Advances received	-	(7)	(3)	(1)	17	-	-	-	-	4	(6)	-
Without advance from Federal Sources	-	3	27	16	(3)	-	-	-	48	(52)	12	241
Expenditure transfers from trust funds	-	4	-	-	-	-	-	-	-	-	963	-
Nonexpenditure transfers, net, anticipated and actual	-	(2)	1,956	4	35	1	1	120	-	5	(743)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(11)	-	-	-	-	-	(11)	-
Permanently not available	(3)	(71)	(7)	(17)	(17)	(2)	(2)	(3,455)	(4,238)	(7)	(38,925)	(6,911)
Total Budgetary Resources	98	8,585	5,084	1,554	1,432	83	186	6,040	16,995	1,408	149,396	23,353
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	42	6,055	3,174	1,212	1,245	78	166	3,701	15,066	535	95,085	18,039
Reimbursable	42	360	117	101	60	1	16	512	-	815	26,233	-
Unobligated Balance:												
Apportioned	7	982	517	216	123	1	2	1,234	1,057	1	7,925	2,784
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	1,100	5
Unobligated balance not available	7	1,188	1,276	25	4	3	2	593	872	57	19,053	2,525
Total Status of Budgetary Resources	98	8,585	5,084	1,554	1,432	83	186	6,040	16,995	1,408	149,396	23,353
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	4	1,859	3,176	478	1,411	31	14	5,381	17,728	168	25,472	18,107
Obligations incurred	84	6,415	3,291	1,313	1,305	79	182	4,213	15,066	1,350	121,318	18,039
Gross outlays	(78)	(6,448)	(2,951)	(1,376)	(1,193)	(79)	(179)	(4,528)	(11,269)	(1,373)	(117,444)	(14,162)
Recoveries of prior year unpaid	(4)	(78)	(491)	(56)	(33)	(2)	(1)	(171)	(1,118)	(29)	(4,103)	(1,226)
Change in uncollected payments from Federal Sources	-	(41)	(18)	(19)	-	-	3	21	(48)	68	33	(64)
Obligated balance, net, end of period -												
Unpaid obligations	11	2,132	3,092	436	1,566	29	23	4,924	21,047	349	26,616	21,590
Uncollected customer payments from Federal Sources	(5)	(425)	(86)	(96)	(77)	-	(3)	(8)	(689)	(167)	(1,339)	(896)
Obligated balance, net, end of period	6	1,707	3,006	340	1,489	29	20	4,916	20,358	182	25,277	20,694
Net Outlays:												
Gross outlays	78	6,448	2,951	1,376	1,193	79	179	4,528	11,269	1,373	117,444	14,162
Offsetting collections	(47)	(558)	(145)	(81)	(55)	(1)	(19)	(4,374)	(6,107)	(835)	(24,327)	(8,855)
Distributed offsetting receipts	-	(514)	3	(23)	(4)	-	(1)	(494)	-	(55)	(1,889)	(353)
Net Outlays	$ 31	$ 5,376	$ 2,809	$ 1,272	$ 1,134	$ 78	$ 159	$ (340)	$ 5,162	$ 483	$ 91,228	$ 4,954

FY 2007	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 370	$ 781	$ 1,165	$ 1,627	$ 296	$ 1,269	$ 12,418	$ 41	$ 248	$ 358
Recoveries of prior year unpaid obligations	40	84	717	15	132	3	761	104	15	156
Budget Authority:										
Appropriation	4,480	-	25,873	-	346	4,456	51,313	901	7,262	1,341
Borrowing Authority	-	1,351	41,185	281	-	-	-	-	-	-
Earned -										
Collected	808	1,342	16,885	1,188	58	1,364	86	135	187	189
Change in receivables from Federal Sources	6	-	(963)	4	6	-	-	6	(3)	9
Change in unfilled customer orders -										
Advances received	-	-	(181)	-	-	-	(2)	-	-	(5)
Without advance from Federal Sources	-	-	-	-	62	-	(1)	-	-	-
Expenditure transfers from trust funds	-	-	934	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(1,831)	-	8	(6)	5,746	(1)	(5,812)	(235)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not available	(419)	(286)	(51,934)	(69)	(3)	(3)	(1,034)	(17)	(120)	(4)
Total Budgetary Resources	5,285	3,272	31,850	3,046	905	7,083	69,287	1,169	1,777	1,809
Status of Budgetary Resources:										
Obligations Incurred:										
Direct	1,707	1,452	2,894	907	357	4,820	54,372	976	1,111	1,054
Reimbursable	413	-	27,352	-	161	1	24	136	63	393
Unobligated Balance:										
Apportioned	3,045	396	401	1,083	107	2,260	639	22	37	330
Exempt from Apportionment	-	-	808	5	-	-	-	-	539	-
Unobligated balance not available	120	1,424	395	1,051	280	2	14,252	35	27	32
Total Status of Budgetary Resources	5,285	3,272	31,850	3,046	905	7,083	69,287	1,169	1,777	1,809
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	245	462	8,006	(99)	38	276	4,165	96	107	449
Obligations incurred	2,120	1,452	30,246	907	518	4,821	54,396	1,112	1,174	1,447
Gross outlays	(2,104)	(1,398)	(30,764)	(843)	(346)	(4,914)	(53,648)	(961)	(1,155)	(1,324)
Recoveries of prior year unpaid	(40)	(84)	(717)	(15)	(132)	(3)	(761)	(104)	(15)	(156)
Change in uncollected payments from Federal Sources	(6)	-	963	(4)	(68)	-	1	(6)	3	(9)
Obligated balance, net, end of period -										
Unpaid obligations	235	446	8,046	125	117	180	4,154	160	115	436
Uncollected customer payments from Federal Sources	(20)	(14)	(312)	(178)	(106)	-	-	(23)	(3)	(29)
Obligated balance, net, end of period	215	432	7,734	(53)	11	180	4,154	137	112	407
Net Outlays:										
Gross outlays	2,104	1,398	30,764	843	346	4,914	53,648	961	1,155	1,324
Offsetting collections	(808)	(1,343)	(17,637)	(1,189)	(58)	(1,364)	(84)	(135)	(187)	(184)
Distributed offsetting receipts	(89)	-	-	(464)	-	-	3	(7)	(140)	(25)
Net Outlays	$ 1,207	$ 55	$ 13,127	$ (810)	$ 288	$ 3,550	$ 53,567	$ 819	$ 828	$ 1,115

FY 2007	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1:	$ 9	$ 1,809	$ 864	$ 308	$ 133	$ 1	$ 3	$ 1,818	$ 1,307	$ 172	$ 21,282	3,715
Recoveries of prior year unpaid obligations	10	112	564	98	213	5	6	169	1,346	70	3,175	1,445
Budget Authority:												
Appropriation	38	5,586	874	1,148	1,208	75	148	2,821	-	558	108,428	-
Borrowing Authority	-	-	-	-	-	-	-	-	10,846	-	41,185	12,478
Earned -												
Collected	39	525	173	83	31	1	23	4,797	5,983	774	26,158	8,513
Change in receivables from Federal Sources	1	(44)	(21)	(3)	-	-	1	(44)	-	(20)	(1,069)	4
Change in unfilled customer orders -												
Advance received	-	5	-	-	13	-	-	-	-	-	(170)	-
Without advance from Federal Sources	-	(5)	6	(1)	13	-	(6)	-	8	28	96	8
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	934	-
Nonexpenditure transfers, net, anticipated and actual	-	21	1,747	3	5	-	-	14	-	5	(336)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(36)	-	-	-	-	-	(36)	-
Permanently not available	-	-	(1)	(6)	(2)	-	-	(4,086)	(5,902)	(6)	(57,635)	(6,257)
Total Budgetary Resources	97	8,009	4,206	1,630	1,578	82	175	5,489	13,588	1,581	142,012	19,906
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	45	6,048	3,000	1,336	1,388	78	151	3,790	12,339	616	83,743	14,698
Reimbursable	39	289	159	84	64	1	19	517	-	798	30,513	-
Unobligated Balance:												
Apportioned	7	840	234	189	117	1	4	427	438	134	8,794	1,917
Exempt from Apportionment	-	-	4	-	-	-	-	-	-	-	1,351	5
Unobligated balance not available	6	832	809	21	9	2	1	755	811	33	17,611	3,286
Total Status of Budgetary Resources	97	8,009	4,206	1,630	1,578	82	175	5,489	13,588	1,581	142,012	19,906
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	9	1,950	3,484	538	1,365	30	13	5,652	18,537	114	26,537	18,900
Obligations incurred net	84	6,337	3,159	1,420	1,452	79	170	4,307	12,339	1,414	114,256	14,698
Gross outlays	(78)	(6,366)	(2,918)	(1,387)	(1,181)	(74)	(166)	(4,452)	(11,793)	(1,280)	(113,118)	(14,034)
Recoveries of prior year unpaid	(10)	(112)	(564)	(98)	(213)	(5)	(6)	(169)	(1,346)	(70)	(3,175)	(1,445)
Change in uncollected payments from Federal Sources	(1)	49	15	4	(12)	-	4	44	(7)	(8)	973	(11)
Obligated balance, net, end of period												
Unpaid obligations	10	2,243	3,244	555	1,488	31	20	5,410	18,369	400	26,844	18,940
Uncollected customer payments from Federal Sources	(6)	(384)	(68)	(77)	(77)	-	(6)	(29)	(641)	(232)	(1,372)	(833)
Obligated Balance, net, end of period	4	1,859	3,176	478	1,411	31	14	5,381	17,728	168	25,472	18,107
Net Outlays:												
Gross outlays	78	6,366	2,918	1,387	1,181	74	166	4,452	11,793	1,280	113,118	14,034
Offsetting collections	(39)	(530)	(173)	(83)	(44)	(1)	(23)	(4,798)	(5,982)	(773)	(26,921)	(8,514)
Distributed offsetting receipts	-	(500)	6	(19)	(3)	-	-	(488)	-	(41)	(1,303)	(464)
Net Outlays	$ 39	$ 5,336	$ 2,751	$ 1,285	$ 1,134	$ 73	$ 143	$ (834)	$ 5,811	$ 466	$ 84,894	$ 5,056

Risk Assumed Information (Unaudited)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $9,859 million and $6,579 million as of September 30, 2008 and 2007, respectively.