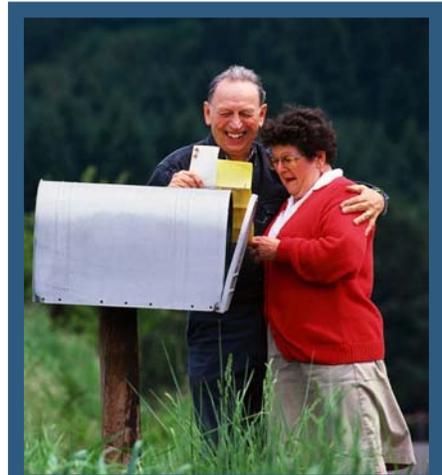


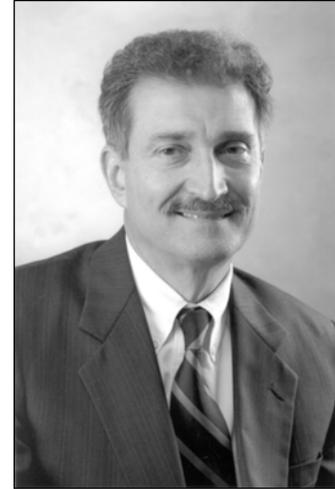
Financial Statements



A Message from the Chief Financial Officer

The Social Security Administration (SSA) continued its high quality of financial management and reporting during fiscal year (FY) 2002. It has been a successful year for the Agency's financial operations. During the year, SSA:

- Published its FY 2002 Performance and Accountability Report over 2 months ahead of the required date thus supporting the Government's goal to accelerate its financial reporting;
- Prepared quarterly financial statements at the end of the second and third quarters in FY 2002 and submitted unaudited interim statements by May 31, 2002 as required;
- Received an unqualified opinion on its financial statements for the ninth consecutive year;
- Received a "yellow" light for status and a "green" light for progress in implementing the President's Management Agenda in both financial performance and budget and performance integration;
- Received the prestigious "Certificate of Excellence in Accountability Reporting" from the Association of Government Accountants for the fourth year in a row; and
- Corrected a material weakness previously declared under the Federal Managers' Financial Integrity Act (FMFIA) pertaining to properly accounting for title XVI debt management information leaving the Agency with no open material weaknesses.



The unqualified opinion on our financial statements attests to the fact that SSA's financial statements are fairly presented and demonstrates discipline and accountability in the execution of our fiscal responsibilities as stewards of the Social Security programs. The auditor stated, however, that SSA had a reportable condition that required the Agency to further strengthen controls to protect its information. They also indicated that SSA had made notable progress in strengthening those controls by implementing a comprehensive security framework. During the next year, SSA will monitor those security improvements to ensure compliance throughout the Agency. SSA's plans to correct this reportable condition and a description of the Agency's FMFIA program are addressed in the "Systems and Controls" section of this report.

Our goals in the coming year will include continuing this same high level of quality financial services that resulted in the successes mentioned above and to improve those services. We will focus on the initiatives outlined in the President's Management Agenda and in the financial area will continue to work toward developing a modernized cost accounting system and implementing an improved financial accounting system. Through these efforts, we will strive to continue to produce timely, reliable and useful data.

A handwritten signature in black ink that reads "Dale W. Sopper".

Dale W. Sopper
Acting Chief Financial Officer

Consolidated Balance Sheets as of September 30, 2002 and 2001

| | (Dollars in Millions) | |
|---|-----------------------|---------------------|
| Assets | 2002 | 2001 |
| | | RESTATED |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 4) | \$ 2,098 | \$ 4,058 |
| Investments (Note 5) | 1,329,045 | 1,169,956 |
| Interest Receivable, Net (Note 6) | 20,262 | 18,476 |
| Accounts Receivable, Net (Note 6) | 751 | 1,218 |
| Total Intragovernmental | 1,352,156 | 1,193,708 |
| Accounts Receivable, Net (Notes 3 and 6) | 5,692 | 4,464 |
| Property, Plant and Equipment, Net (Note 7) | 690 | 565 |
| Other | 4 | 2 |
| Total Assets | 1,358,542 | 1,198,739 |
| Liabilities (Note 8) | | |
| Intragovernmental: | | |
| Accrued Railroad Retirement Interchange | 3,713 | 3,673 |
| Other | 7,148 | 5,984 |
| Total Intragovernmental | 10,861 | 9,657 |
| Benefits Due and Payable | 47,684 | 43,187 |
| Accounts Payable | 494 | 289 |
| Other | 1,142 | 1,112 |
| Total | 60,181 | 54,245 |
| Net Position | | |
| Unexpended Appropriations | 794 | 3,528 |
| Cumulative Results of Operations | 1,297,567 | 1,140,966 |
| Total Net Position | 1,298,361 | 1,144,494 |
| Total Liabilities and Net Position | \$ 1,358,542 | \$ 1,198,739 |

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

Consolidated Statements of Net Cost for the Years Ended
September 30, 2002 and 2001

| | (Dollars in Millions) | |
|---|-----------------------|--------------|
| | 2002 | 2001 |
| OASI Program | | |
| Benefit Payments | \$ 385,777 | \$ 369,142 |
| Operating Expenses (Note 9) | <u>2,299</u> | <u>2,169</u> |
| Total Cost of OASI Program | 388,076 | 371,311 |
| Less: Exchange Revenues (Notes 10 and 11) | <u>8</u> | <u>7</u> |
| Net Cost of OASI Program | 388,068 | 371,304 |
| DI Program | | |
| Benefit Payments | 66,964 | 59,207 |
| Operating Expenses (Note 9) | <u>1,953</u> | <u>1,749</u> |
| Total Cost of DI Program | 68,917 | 60,956 |
| Less: Exchange Revenues (Notes 10 and 11) | <u>7</u> | <u>6</u> |
| Net Cost of DI Program | 68,910 | 60,950 |
| SSI Program | | |
| Benefit Payments | 30,239 | 27,733 |
| Operating Expenses (Note 9) | <u>2,788</u> | <u>2,261</u> |
| Total Cost of SSI Program | 33,027 | 29,994 |
| Less: Exchange Revenues (Notes 10 and 11) | <u>278</u> | <u>253</u> |
| Net Cost of SSI Program | 32,749 | 29,741 |
| Other | | |
| Benefit Payments | 458 | 484 |
| Operating Expenses (Note 9) | <u>1,251</u> | <u>1,151</u> |
| Total Cost of Other | 1,709 | 1,635 |
| Less: Exchange Revenues (Notes 10 and 11) | <u>10</u> | <u>13</u> |
| Net Cost of Other | 1,699 | 1,622 |
| Total Costs | 491,729 | 463,896 |
| Less: Total Exchange Revenue | 303 | 279 |
| Net Cost of Operations | 491,426 | 463,617 |

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

Consolidated Statements of Changes in Net Position for the Years Ended
September 30, 2002 and 2001

| | (Dollars in Millions) | | | |
|---|--|------------------------------|--|------------------------------|
| | 2002 | | 2001 | RESTATED |
| | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| Net Position, Beginning Balance | \$ 1,140,966 | \$ 3,528 | \$ 982,733 | \$ 399 |
| Prior Period Adjustments | 0 | 0 | (5,083) | 0 |
| Beginning Balances, As Adjusted | 1,140,966 | 3,528 | 977,650 | 399 |
| Budgetary Financing Sources (other than Exchange Revenues) | | | | |
| Appropriations Received | | 46,400 | | 46,191 |
| Other Adjustments | (8) | (12) | | (5) |
| Appropriations Used | 49,122 | (49,122) | 43,057 | (43,057) |
| Tax Revenues (Note 12) | 537,733 | | 528,194 | |
| Interest Revenues | 78,614 | | 70,922 | |
| Transfers-In/Out (Note 13) | | | | |
| Trust Fund Draws and Other - In | 1,138 | | 1,747 | |
| Trust Fund Draws and Other - Out | (15,323) | | (13,520) | |
| Railroad Retirement Interchange | <u>(3,686)</u> | | <u>(3,859)</u> | |
| Net Transfers-In/Out | (17,871) | | (15,632) | |
| Other Budgetary Financing Sources | 81 | | 77 | |
| Other Financing Sources | | | | |
| Other Revenue | 5 | | 0 | |
| Imputed Financing Sources (Note 14) | <u>351</u> | | <u>315</u> | |
| Total Financing Sources | 648,027 | (2,734) | 626,933 | 3,129 |
| Net Cost of Operations | 491,426 | | \$ 463,617 | |
| Ending Balances | \$ 1,297,567 | \$ 794 | \$ 1,140,966 | \$ 3,528 |

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

Combined Statements of Budgetary Resources for the Years Ended September 30, 2002 and 2001

| | (Dollars in Millions) | |
|---|-----------------------|------------|
| | 2002 | 2001 |
| Budgetary Resources Made Available (Note 15) | | RESTATED |
| Budget Authority | | |
| Appropriations Received | \$ 661,470 | \$ 643,047 |
| Net transfers (+/-) | (0) | 109 |
| Unobligated Balances | | |
| Beginning of Period | 2,842 | 456 |
| Spending Authority from Offsetting Collections | | |
| Earned | | |
| Collected | 3,866 | 3,509 |
| Change in Receivable | 1 | (236) |
| Change in Obligations | | |
| Advance Received | 0 | (2) |
| Without Advance | 0 | (3) |
| Transfers from Trust Funds | | |
| Collected | 7,581 | 7,166 |
| Anticipated | 139 | (51) |
| Subtotal | 11,587 | 10,383 |
| Recoveries of Prior Year Obligations | 229 | 214 |
| Temporarily Not Available Pursuant to Public Law | (154,054) | (154,003) |
| Permanently Not Available | (11) | (22) |
| Total Budgetary Resources | 522,063 | 500,184 |
| Status of Budgetary Resources: (Note 15) | | |
| Obligations Incurred: | | |
| Direct | 517,284 | 493,987 |
| Reimbursable | 3,758 | 3,186 |
| Subtotal | 521,042 | 497,173 |
| Unobligated Balances | | |
| Apportioned | 846 | 2,856 |
| Unobligated Balances - Not Available | 175 | 155 |
| Total Status of Budgetary Resources | 522,063 | 500,184 |
| Relationship of Obligations to Outlays: | | |
| Obligated Balances - Beginning of the Period | 51,442 | 43,073 |
| Obligated Balance - End of the Period | | |
| Accounts Receivable | (1,707) | (1,566) |
| Undelivered Orders | 1,031 | 1,476 |
| Accounts Payable | 56,975 | 51,532 |
| Outlays: | | |
| Disbursements | 515,815 | 487,484 |
| Collections | (11,446) | (10,675) |
| Subtotal | 504,369 | 476,809 |
| Less: Offsetting Receipts | 15,761 | 14,310 |
| Net Outlays | \$ 488,608 | \$ 462,499 |

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

Consolidated Statements of Financing for the Years Ended September 30, 2002 and 2001

| | (Dollars in Millions) | |
|--|-----------------------|------------|
| | 2002 | 2001 |
| Resources Used to Finance Activities: | | RESTATED |
| Budgetary Resources Obligated | | |
| Obligations Incurred | \$ 521,042 | \$ 497,173 |
| Less: Offsetting Collections | (11,816) | (10,597) |
| Obligations Net of Offsetting Collections | 509,226 | 486,576 |
| Less: Offsetting Receipts | (15,761) | (14,310) |
| Net Obligations | 493,465 | 472,266 |
| Other Resources | | |
| Imputed Financing | 351 | 315 |
| Other | (267) | (160) |
| Net Other Resources used to finance activities | 84 | 155 |
| Total Resources Used to Finance Activities | \$ 493,549 | \$ 472,421 |
| Resources Not Part of the Net Cost of Operations: | | |
| Change in Undelivered Orders | \$ 445 | \$ (361) |
| Resources that Fund Capitalized Costs | (120) | (220) |
| Resources that Fund Expenses Recognized in Prior Periods | (1,649) | (283) |
| Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations | 15,761 | 14,310 |
| Other Resources or Adjustments to Net Obligated Resources that do not affect net cost of operations | (16,444) | (22,585) |
| Total Resources Not Part of the Net Cost of Operations | \$ (2,007) | \$ (9,139) |
| Total Resources Used to Finance the Net Cost of Operations | \$ 491,542 | \$ 463,282 |
| 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 (Note 16) | | |
| Increase in Annual Leave | 18 | 11 |
| Other | 71 | 39 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | \$ 89 | \$ 50 |
| Components Not Requiring or Generating Resources | | |
| Depreciation and Amortization | 141 | 138 |
| Other | (346) | 147 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | \$ (205) | \$ 285 |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | \$ (116) | \$ 335 |
| Net Cost of Operations | \$ 491,426 | \$ 463,617 |

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

Notes to the Principal Financial Statements

1. *Summary of Significant Accounting Policies*

Reporting Entity

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance programs (OASDI), the Supplemental Security Income (SSI) program and Part B of the Black Lung (BL) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources as required by the Chief Financial Officers Act of 1990.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). These statements are different from the financial reports, also prepared by SSA, pursuant to OMB directives that are used to monitor and control SSA's use of budgetary resources. The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated financial statements include the accounts of all funds under SSA control, consisting of three trust funds, three deposit funds, and five general fund appropriations. The trust funds are the Old-Age and Survivors Insurance (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund and the Limitations on Administrative Expenses (LAE). The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by the Social Security Administration. The five general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds, SSI Program, Special Benefits for Disabled Coal Miners, and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI and Other. Other consists primarily of Payments to the Trust Fund (PTF) appropriations and BL. The fund balance with the Department of the Treasury, shown on the Balance Sheet, represents the total of all SSA's account balances with the Department of the Treasury.

Investments

Trust fund balances not required to meet current expenditures are invested on a daily basis in interest-bearing obligations of the U.S. Government. Trust fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the Social Security Act. These investments consist of U.S. Treasury special issues and bonds. Special issues are special public debt obligations for purchase exclusively by the trust funds and for which interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Balance Sheet. U.S. Treasury bonds are carried at amortized cost.

Property, Plant and Equipment

SSA's property, plant and equipment (PP&E) are considered assets of the OASI and DI Trust Funds. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund

activities reimburse the trust funds for their use of trust fund assets through the calculation of user charge credits. SSA capitalizes new property, plant and equipment costing over \$100,000.

The change in PP&E from one reporting period to the next is presented on the Statement of Financing's (SOF) Resources that Fund Capitalized Costs. This line item presents the effect on budgetary obligations for capital assets purchased by the OASI, DI and Health Insurance/Supplemental Medical Insurance (HI/SMI) Trust Funds. However, HI/SMI's share of capital assets is presented on the Centers for Medicare and Medicaid Services' financial statements.

Benefits Due and Payable

Liabilities are accrued for OASI, DI and BL benefits to which recipients are entitled for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals and civil litigation cases which were not paid at the close of the fiscal year (See Note 8, Liabilities).

Administrative Expenses

SSA initially charges administrative expenses to the Limitation on Administrative Expenses (LAE) appropriation. Section 201 (g) of the Social Security Act requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate trust or general fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate trust fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Recognition of Financing Sources

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)), drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. Governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations used includes payments and accruals for the SSI and BL programs and funding from Treasury's General Fund for the OIG and PTF appropriations.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual FICA taxes payable, actual SECA taxes paid and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate), credits for military service, income taxation of Social Security benefits and interest on trust fund unnegotiated benefit payment checks are also included in tax revenues (See Note 12, Tax Revenues).

Exchange revenue from sales of goods and services primarily include payments SSA receives from those States choosing to have SSA administer their State supplementation of Federal SSI benefits. Reimbursements are recognized as the services are performed (See Note 10, Exchange Revenues). These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as property, plant and equipment as specified by law.

Capitalized expenditures are recognized in the Statement of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

Restatements

Certain amounts within the FY 2001 financial statements have been restated to reflect reporting changes for the LAE and PTF as required by OMB guidance.

LAE comprises non-benefit payment expenses incurred by SSA. Fund sources for LAE include, but are not limited to the OASI, DI, HI/SMI Trust Funds, as well as the SSI and Benefits for Certain WWII Veterans Appropriations. Prior to FY 2002, the sources of funding for LAE and the related obligations were reflected within the trust funds, general funds and LAE accounts on a fund expenditure basis. For financial reporting purposes, LAE's budgetary activity was eliminated in the Statement of Budgetary Resources, and accordingly, LAE's separate budgetary resources and obligations were not combined in the FY 2001 presentation of the Statement of Budgetary Resources.

In July 2001, OMB informed SSA that LAE had been established as a separate budget account in the MAX System, a computer system used to collect and process most of the information required for preparing the Federal Budget. In addition, OMB directed SSA to recognize LAE's funding sources as offsetting collections. SSA acknowledged the receipt of this directive from OMB, and implemented this methodology October 1, 2001. Following OMB's accounting guidance for budget accounts, SSA now recognizes LAE's funding sources as offsetting collections and combines the LAE activity within the Statement of Budgetary Resources.

The recognition of LAE as a separate budget account represents a change in SSA's reporting entity, as the FY 2002 reporting entity consists of a different set of budget accounts than did the FY 2001 reporting entity.

FASAB Standard No. 21, Reporting Corrections of Errors and Changes in Accounting Principles, provides guidance to Federal Government entities related to restatements. However, this standard does not address the issue of a change in reporting entity. In accordance with the accounting hierarchy for Federal Government entities, SSA has deferred to Accounting Principles Board (APB) Opinion No. 20, Accounting Changes, to ensure that the treatment of this issue complies with GAAP. Following the guidance of APB No. 20, and the determination that a change in SSA's reporting entity has occurred, SSA has restated FY 2001 balances in the Consolidated Balance Sheet, Consolidated Statement of Changes in Net Position, Combined Statements of Budgetary Resources, and Consolidated Statements of Financing to appropriately reflect the changes in SSA's reporting entity.

PTF represents taxes paid by certain SSA recipients on SSA benefit payments. These taxes are ultimately returned to the SSA trust funds. On a quarterly basis, SSA receives a general fund warrant for PTF, which is recorded in a designated receipt account. The funds are then transferred from the receipt account to the SSA trust funds.

Prior to FY 2002, SSA reported the cash entries regarding the PTF transactions within the SSA financial statements. However, for financial reporting purposes PTF's budgetary activity was eliminated within the Statement of Budgetary Resources, and accordingly PTF's separate budgetary resources and obligations were not combined in the presentation.

Subsequent to the issuance of the FY 2001 financial statements, OMB directed SSA to change the manner in which PTF's budgetary activity should be treated. Specifically, SSA was directed to combine PTF's budgetary activity within the Statement of Budgetary Resources. This new accounting treatment was applied during FY 2002. SSA believes that the new accounting treatment represents a change in SSA's reporting entity similar to LAE. Therefore, in accordance with APB No. 20 the FY 2001 balances in the Statement of Budgetary Resources have been restated to appropriately reflect the changes in SSA's budgetary reporting entity.

Reclassifications

Certain FY 2001 balances have been reclassified to conform to FY 2002 financial statement presentations, the effect of which is immaterial.

Prior Period Adjustment and Change in Accounting Estimate

During FY 2001 SSA recorded a prior period adjustment for \$5,083 million for a correction of an error that was identified through SSA's internal quality assurance process. The correction related to an estimated population of SSI beneficiaries who were eligible to receive Old-Age and Survivors Insurance (OASI) or Disability Insurance (DI) benefits because they had earned sufficient work credits to qualify for the OASI or DI program; and an estimated population of OASI beneficiaries who were eligible to receive DI benefits because they had earned sufficient work credits to qualify for the DI program. The prior period adjustment was based on an estimate and made in accordance with the Federal Accounting Standards Advisory Board Statement No. 7, Accounting for Revenue and Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

Since September 30, 2001 SSA has continued to study this complex issue and updated the estimation models used to calculate the Special Disability Workload liability. The estimates prepared in FY 2001 focused primarily on SSI recipients who were in payment status. The estimates prepared for FY 2002 have been expanded to include all persons ever on the SSI rolls who would be entitled to a worker benefit under OASI and/or DI programs. Changes in the resulting liabilities have been treated as a change in estimate within the financial statements.

2. *Centralized Federal Financing Activities*

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance and health benefit programs. Accordingly, SSA's financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statement of Changes in Net Position may be from tax revenue, public borrowing or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to CSRS were \$159.5 and \$156.9 million for FY 2002 and 2001, respectively. SSA contributions to FERS were \$157.6 and \$137.8 million for FY 2002 and 2001, respectively. In addition, SSA contributions to the FERS savings plan were \$59.0 and \$39.2 million for FY 2002 and 2001, respectively. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

3. *Non-Entity Assets*

SSA's Non-Entity Assets consist of SSI Federal benefit overpayments classified as accounts receivable, net in the amounts of \$6,871 and \$5,666 million as of September 30, 2002 and 2001. However, the accounts receivable has been reduced by \$4,679 and \$4,026 million for FY 2002 and 2001, respectively as an intra agency elimination. Refer to Note 6, Interest and Accounts Receivable. The FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI benefit overpayments be deposited in the General Fund of the Treasury. These funds, upon deposit, are assets of the General Fund of the Treasury and shall not used by SSA as an SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, they are classified as non-entity assets. Cash collections for these overpayments are deposited directly to a Treasury General Fund receipt account and qualify as custodial activity; however, these collections are not primary to the mission of SSA or material to the overall financial statements. Consequently, SSI Federal benefit overpayment collections are not reported on a Statement of Custodial Activity, but are disclosed in Note 17, Incidental Custodial Collections.

Also included in SSA's non-entity assets are a portion of the fees collected to administer SSI State Supplementation that are returned to the General Fund. This portion is classified as exchange revenue and is used to decrease the net cost of administration of the SSI program. A corresponding accounts payable to the General Fund is presented so that net position is not affected by this activity. Refer to Note 10, Exchange Revenues, for a description of the SSI State Supplementation fees.

4. *Fund Balance with Treasury*

The fund balance with Treasury, shown on the Balance Sheet, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Other fund types consist of deposit funds and receipt accounts.

| Fund Balances: | <i>(In Millions)</i> | | Status of Fund Balances: | <i>(In Millions)</i> | |
|--------------------|----------------------|------------------|----------------------------|----------------------|------------------|
| | 2002 | Restated 2001 | | 2002 | Restated 2001 |
| Trust Funds | | | Unobligated Balance | | |
| OASI | \$ (31) | \$ (71) | Available | \$ 667 | \$ 2,875 |
| DI | (148) | (49) | Unavailable | 75 | 30 |
| Appropriated Funds | | | Obligated Balance not yet | | |
| SSI | 2,171 | 4,048 | Disbursed | 956 | 724 |
| Other | 106 | 130 | Expended | (179) | (119) |
| Total | \$ 2,098 | \$ 4,058 | Deposit & Receipt Accounts | 579 | 548 |
| | | | Total | \$ 2,098 | \$ 4,058 |

Transfers between the trust funds and Treasury are managed to favor the financial position of the trust funds. Therefore, investments held by the trust funds are liquidated only as needed by Treasury to cover benefit payment checks. In FY 2002 and FY 2001, the negative fund balances reported for the trust funds are the result of the policy to protect the trust fund investments by not liquidating the investments until the cash is needed. To maintain consistency with Treasury year-end reporting requirements, the trust fund balances were not reclassified as liabilities on the Balance Sheet.

5. Investments

Treasury uses an average market yield to calculate interest rates for non-marketable Treasury securities, including those held by the Social Security Trust Funds. Investments held for the trust funds mature at various dates ranging from the present to the year 2017. The interest rates on these investments range from 4 3/8 percent to 9 1/4 percent; the effective rate for FY 2002 was 6.52 percent, a decrease from the FY 2001 rate of 6.76 percent.

| | <i>(In Millions)</i> | |
|--|----------------------|---------------------|
| | 2002 | 2001 |
| Special Issue U.S. Treasury Securities | \$ 1,329,015 | \$ 1,169,916 |
| U.S. Treasury Bonds - Carrying value | 30 | 40 |
| Total Investments | \$ 1,329,045 | \$ 1,169,956 |

6. Interest and Accounts Receivable

Interest Receivable

Intragovernmental receivables consist primarily of accrued interest receivable on investments. These were \$20,262 and \$18,476 million on trust fund investments with the U.S. Treasury for the period June 30 through September 30, 2002 and 2001, respectively.

Accounts Receivable

Intragovernmental

Intragovernmental accounts receivable for fiscal years 2002 and 2001 consist primarily of \$517 million to be transferred to the OASI and DI Trust Funds from the Department of Defense (DOD) for military service wage credits. It also includes LAE receivables of \$224 million for FY 2002 and \$297 million for FY 2001 to be paid from the HI/SMI Trust Funds. The FY 2002 military wage service credits represent the FY 2001 and FY 2000 balances still unpaid from DOD.

| Intragovernmental Accounts Receivable by Major Program: | | | | | | |
|--|---------------|----------------------------------|---------------|------------------|----------------------------------|-----------------|
| <i>(In Millions)</i> | | | | | | |
| | 2002 | | | Restated 2001 | | |
| | Gross Rec. | Allowance for Doubtful Accts. | Net Rec. | Gross Rec. | Allowance for Doubtful Accts. | Net Rec. |
| OASI | \$ 448 | \$ 0 | \$ 448 | \$ 842 | \$ 0 | \$ 842 |
| DI | 79 | 0 | 79 | 79 | 0 | 79 |
| SSI | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | 224 | 0 | 224 | 297 | 0 | 297 |
| Total | \$ 751 | \$ 0 | \$ 751 | \$ 1,218 | \$ 0 | \$ 1,218 |
| <i>Accounts Receivable net of intra-agency eliminations.</i> | | | | | | |

With the Public

Accounts receivable with the public consists mainly of monies due to SSA from individuals who received benefits in excess of their entitlement under the OASI, DI, SSI and BL programs. All SSI overpayment amounts are presented under SSI. The BL receivable is presented as Other. See Note 3, Non-Entity Assets, for a discussion of the SSI Federal overpayments.

In FY 2001, SSA detected an error which affects about 228,000 SSI recipients who were eligible to receive DI benefits but were paid either SSI or OASI benefits. Therefore, OASI and Other accounts receivable amounts were established for \$56 and \$3,770 million respectively. For FY 2002, the SSI accounts receivable amount increased to \$4,401 million and the number of SSI recipients increased to 250,000. Estimates of these special liabilities were last provided as of September 30, 2001. Since that time, the liabilities have grown due to continued benefit accrual for the cases not yet adjudicated and decreased by the amount of the discharged liabilities for cases that have been adjudicated.

| Accounts Receivable with the Public by Major Program: | | | | | | |
|--|-----------------|----------------------------------|-----------------|------------------|----------------------------------|-----------------|
| <i>(In Millions)</i> | | | | | | |
| | 2002 | | | Restated 2001 | | |
| | Gross Rec. | Allowance for Doubtful Accts. | Net Rec. | Gross Rec. | Allowance for Doubtful Accts. | Net Rec. |
| OASI | \$ 1,332 | \$ (92) | \$ 1,240 | \$ 1,340 | \$ (96) | \$ 1,244 |
| DI | 2,786 | (887) | 1,899 | 2,498 | (1,169) | 1,329 |
| SSI* | 3,910 | (1,393) | 2,517 | 3,501 | (1,624) | 1,877 |
| Other | 36 | 0 | 36 | 14 | 0 | 14 |
| Total | \$ 8,064 | \$ (2,372) | \$ 5,692 | \$ 7,353 | \$ (2,889) | \$ 4,464 |

*See Note 3, Non-Entity Assets Accounts Receivable net of intra-agency eliminations.

Also in FY 2002 and FY 2001, total accounts receivable was reduced by \$4,679 and \$4,080 million, respectively as an intra-agency elimination. This activity consists of individuals receiving SSI benefits that were also eligible but not receiving OASI or DI benefits. Since payment of the retroactive OASI and DI benefits results in an overpayment of SSI benefits, the overpaid SSI amounts are offset from the OASI and DI retroactive payments. Therefore, these offsets are presented as an intra-agency elimination.

The estimated allowance for doubtful accounts is determined using a 5-year average of write-offs divided by clearances comprised of write-offs, waivers and collections. That percentage is then applied to outstanding receivables.

7. *Property, Plant and Equipment*

The Statement of Federal Financial Accounting Standards No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf software (COTS). SSA's capitalized internal use software for FY 2002 and FY 2001 is \$365 and \$311 million, respectively. Full costs for internally-developed software and actual costs for contractor-developed software and COTS greater than \$100,000 are capitalized. These internal software costs are amortized using a 3-10 year useful life, modified straight-line methodology that divides costs among SSA's components.

| <i>(In Millions)</i> | | | | | | |
|---|-----------------|-----------------|----------------|-----------------|-----------------|----------------|
| Major Classes: | 2002 | | | 2001 | | |
| | Cost | Accum. Deprec | Net Book Value | Cost | Accum. Deprec | Net Book Value |
| Land | \$ 5 | \$ 0 | \$ 5 | \$ 5 | \$ 0 | \$ 5 |
| Buildings | 362 | (171) | 191 | 354 | (163) | 191 |
| Equipment (incl. ADP Hardware and Software) | 741 | (274) | 467 | 646 | (316) | 330 |
| Leasehold Improvements | 130 | (103) | 27 | 123 | (84) | 39 |
| Total | \$ 1,238 | \$ (548) | \$ 690 | \$ 1,128 | \$ (563) | \$ 565 |

| Major Classes: | Estimated Useful Life | Method of Depreciation |
|---|-----------------------|------------------------|
| Land | N/A | -- |
| Buildings | over 20 years | Straight Line |
| Equipment (incl. ADP Hardware and Software) | 3 to 10 years | Modified Straight Line |
| Leasehold Improvements | over 20 years | Straight Line |

8. Liabilities

Liabilities Covered by Budgetary Resources

Accrued Railroad Retirement Interchange

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. Refer to Note 13, Intra-Governmental Financing Sources, for a description of the RRB transfer.

Accounts Payable

Intragovernmental Accounts Payable consist of amounts due Federal agencies for goods or services received.

Benefits Due and Payable

Benefits Due and Payable for SSA's major programs as of September 30, 2002 and 2001 are shown in the following table. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

Due to the public includes amounts related to the Special Disability Workload. The estimated liabilities due from DI are \$7,629 million and \$5,083 million for FY 2002 and FY 2001. The amounts due from OASI are \$1,077 million and \$45 million for FY 2002 and FY 2001.

Inter-agency payables in the amount of \$4,679 million for FY 2002 and \$4,080 million for FY 2001 exist for individuals receiving SSI benefits who were eligible for, but not receiving OASI or DI benefits; and for individuals receiving OASI benefits who were eligible for, but not receiving DI benefits. The payment of the retroactive OASI and DI benefits will offset against receivables from SSI or OASI. Therefore, the retroactive payments and the offsets are presented as intra-agency eliminations and not included within the consolidated balance sheet. The estimated collections ultimately received by SSI from the public will be remitted to the General Fund.

| | <i>(In Millions)</i> | |
|---|----------------------|-----------|
| | 2002 | 2001 |
| OASI | \$ 34,087 | \$ 32,368 |
| DI | 12,195 | 9,481 |
| SSI | 1,364 | 1,297 |
| Other | 38 | 41 |
| Total | \$ 47,684 | \$ 43,187 |
| <u>Benefits Due and Payable net of intra-agency eliminations.</u> | | |

Other Liabilities

SSA's Other Liabilities is comprised of accrued payroll, lease liability for purchase contract buildings and unapplied deposit funds.

Liabilities Not Covered by Budgetary Resources

Other Intragovernmental Liabilities

Included in the Intragovernmental Accounts Payable Not Covered by Budgetary Resources is SSI Receivables Owed to Treasury. This custodial liability is recorded for the collection of SSI benefit overpayments that are payable from SSA to the General Fund of the Treasury when overpayments are identified. It directly relates to the accounts receivable established in the asset portion of the Balance Sheet. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

Other Liabilities

The Federal Employees' Compensation Act (FECA), administered by the Department of Labor (DOL), provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. Current fiscal year claim amounts to be paid by SSA within two years are the current portion; these are included in the Intragovernmental, Other Liabilities line item. SSA's current portion of FECA liability was \$47 and \$46 million as of September 30, 2002 and 2001, respectively. The non-current portion of FECA actuarial liability is comprised of claims that will be paid more than two years in the future. The non-current portion, of \$281 and \$278 million as of September 30, 2002 and 2001, respectively, is recorded in the Other Liabilities line item. This actuarial liability was calculated using historical payment data to project future costs.

| Intragovernmental Liabilities as Reported on the Balance Sheet: | | | | | | |
|---|----------------------|-------------|-----------|---------------|-------------|-----------|
| | <i>(In Millions)</i> | | | | | |
| | 2002 | | | Restated 2001 | | |
| | Covered | Not Covered | Total | Covered | Not Covered | Total |
| Intragovernmental: | | | | | | |
| Accrued RR Retirement Interchange | \$ 3,713 | \$ 0 | \$ 3,713 | \$ 3,673 | \$ 0 | \$ 3,673 |
| Other | 229 | 6,919 | 7,148 | 272 | 5,712 | 5,984 |
| Total Intragovernmental | 3,942 | 6,919 | 10,861 | 3,945 | 5,712 | 9,657 |
| Benefits Due and Payable | 46,320 | 1,364 | 47,684 | 41,890 | 1,297 | 43,187 |
| Accounts Payable | 494 | 0 | 494 | 289 | 0 | 289 |
| Other | 592 | 550 | 1,142 | 582 | 530 | 1,112 |
| Total | \$ 51,348 | \$ 8,833 | \$ 60,181 | \$ 46,706 | \$ 7,539 | \$ 54,245 |

The remaining portion of Other Liabilities Not Covered by Budgetary Resources is leave earned but not taken.

Contingent Liabilities

There is a potential non-material retroactive liability associated with the Federal Court case *Thomas v. Barnhart* which was decided against SSA in the 3rd Circuit on June 21, 2002. As of this time, no final decision has been reached as to whether this decision will be appealed to the United States Supreme Court. If the 3rd Circuit Court decision stands, then certain denials in the 3rd Circuit States of Delaware, New Jersey, Pennsylvania, and the U.S. Virgin Islands may be readjudicated; resulting in retroactive OASI, DI, and SSI payments for months prior to October 2002. There is only limited data available at this time, but it is estimated that a potential liability will exist for OASDI and SSI. In the opinion of management and legal counsel, the resolution of this case and other claims and lawsuits will not materially affect the financial position or operations of SSA.

9. Classification of Operating Expenses by Strategic Goal

SSA's Annual Performance Plan (APP) is characterized by broad-based strategic goals that are supported by the entire Agency. The five goals are:

- To promote valued, strong and responsive social security programs and conduct effective policy development, research and program evaluation;
- To deliver customer-responsive, world-class service;
- To ensure the integrity of Social Security programs, with zero tolerance for fraud and abuse;
- To be an employer that values and invests in each employee; and
- To strengthen public understanding of the Social Security programs.

These goals are also complementary, pursuit of one tends to support and advance the others. This reflects the highly integrated nature of SSA's programs, workloads and organizational components.

SSA has aligned its strategic goals with its request for new budget authority as part of its annual budget request. Costs associated with each major goal represent a combination of several administrative funding limitations contained in SSA's budget, including the LAE, the SSI research budget and separate funding for SSA's OIG.

| SSA's Operating Costs Reported on the Statement of Net Cost: | | | |
|--|----------|----------|--|
| <i>(In Millions)</i> | | | |
| | 2002 | 2001 | |
| LAE | \$ 7,890 | \$ 6,939 | |
| Trust Fund Operations | 266 | 269 | |
| Vocational Rehabilitation | 130 | 117 | |
| BL | 5 | 5 | |
| | \$ 8,291 | \$ 7,330 | |

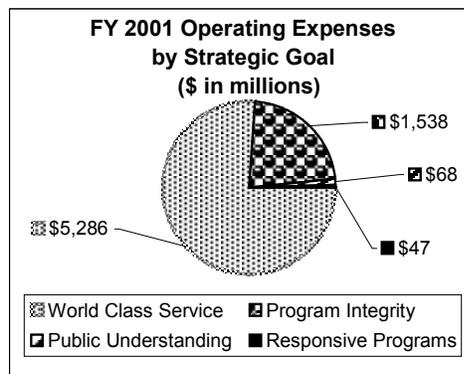
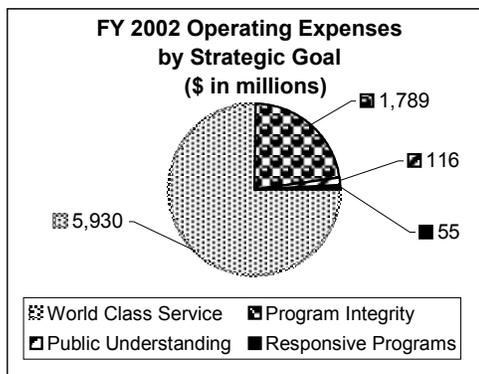
SSA programs incur additional administrative expenses that are not part of LAE, but are reported on the Statement of Net Cost. These include expenses of the Department of Treasury to assist in managing the OASI and DI Trust Funds, expenditures of State agencies for vocational rehabilitation of DI and SSI beneficiaries and SSA's operational costs to administer the Black Lung, Part B program, which is performed for SSA on a reimbursable basis by the DOL.

By applying the same methodology used to allocate SSA's budget request by performance goal to SSA's corresponding actual total administrative costs (taken primarily from SSA's administrative cost accounting system),

it is possible to allocate SSA’s operating expenses to its strategic goals. SSA’s primary administrative expenses, funded through LAE are aligned to strategic goals.

Applying this basic methodology results in the following cost allocations that drive the distributions:

- The costs of SSA’s Office of the Chief Actuary (OCACT) and Office of the Deputy Commissioner for Policy (ODCP), together with the costs of the SSI appropriation’s extramural research budget are assigned to the “Responsive Programs” goal.
- The costs of SSA’s Office of the Deputy Commissioner for Communications (OComm) and issuing Social Security Statements are assigned to the “Public Understanding” goal.
- The costs of SSA’s OIG and for its “Overpayments”, “Annual Reports of Earnings”, “School Attendance”, Representative Payees”, “Continuing Disability Reviews”, “Redeterminations”, “Annual Earnings”, “Employer Identification Number”, and “Earnings Corrections” workloads (except for costs assigned to those workloads in OCACT, ODCP and OComm, as noted above) are assigned to the “Program Integrity” goal.
- All other SSA administrative costs are assigned to the “World-Class Service” goal.
- Because SSA’s fifth strategic goal, “Valued Employees”, supports the accomplishment of all our basic functions, SSA resources are inherently included in the other four goals in its APP.



10. Exchange Revenues

Revenue from exchange transactions is recognized when goods and services are provided. Total exchange revenue was \$303 and \$279 million for FY 2002 and 2001, respectively. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 25 States and the District of Columbia to administer some or all of the States' supplement to Federal SSI benefits. SSA is reimbursed by the States in full for earned administration fee revenue, in the amount of \$267 and \$243 million for FY 2002 and 2001, respectively. A portion of the fees, \$152 million for both FY 2002 and 2001, is transferred to the Department of Treasury General Fund while the remainder is maintained in the SSA trust funds. In addition, SSA earned \$36 and \$36 million in other exchange revenue in both FY 2002 and 2001. The goods and services provided in these transactions are priced so that charges do not exceed the Agency's cost.

11. Gross Cost and Earned Revenue by Budget Functional Classification

Shown below are SSA's Gross Cost and Earned Revenue by Budget Functional Classification and SSA's Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification. General Retirement and Disability Insurance, classification code 601, includes the costs and revenues associated with the BL program.

Income Security for Veterans, classification code 701, includes the costs and revenues to administer the Title VIII, Special Benefits for Certain World War II Veterans program. Other Income Security, classification code 609, includes the costs and revenues associated with the SSI program. And finally, Social Security, classification code 651, includes the costs and revenues associated with the OASI, DI and Other programs. The Other program reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

| Gross Cost and Earned Revenue by Budget Functional Classification | | | | | | |
|---|-------------------|------------------------|-------------------|-------------------|------------------------|-------------------|
| <i>(In Millions)</i> | | | | | | |
| | 2002 | | | 2001 | | |
| | Gross Cost | Less Earned Revenue | Net Cost | Gross Cost | Less Earned Revenue | Net Cost |
| General Retirement and Disability Insurance | \$ 449 | \$ 0 | \$ 449 | \$ 484 | \$ 0 | \$ 484 |
| Income Security for Veterans | 14 | (5) | 9 | 5 | 0 | 5 |
| Other Income Security | 33,027 | (278) | 32,749 | 29,994 | (253) | 29,741 |
| Social Security | | | | | | |
| OASI | 388,076 | (8) | 388,068 | 371,311 | (7) | 371,304 |
| DI | 68,917 | (7) | 68,910 | 60,956 | (6) | 60,950 |
| Other | 1,246 | (5) | 1,241 | 1,146 | (13) | 1,133 |
| Subtotal | 458,239 | (20) | 458,219 | 433,413 | (26) | 433,387 |
| Total | \$ 491,729 | \$ (303) | \$ 491,426 | \$ 463,896 | \$ (279) | \$ 463,617 |

| Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification | | | | | | |
|---|-----------------|------------------------|-----------------|------------------|------------------------|-----------------|
| <i>(In Millions)</i> | | | | | | |
| | 2002 | | | Restated 2001 | | |
| | Gross Cost | Less Earned Revenue | Net Cost | Gross Cost | Less Earned Revenue | Net Cost |
| General Retirement and Disability Insurance | \$ 3 | \$ 0 | \$ 3 | \$ 3 | \$ 0 | \$ 3 |
| Other Income Security | 669 | (7) | 662 | 698 | (6) | 692 |
| Social Security | | | | | | |
| OASI | 736 | (5) | 731 | 722 | (5) | 717 |
| DI | 497 | (5) | 492 | 492 | (4) | 488 |
| Other | 308 | (3) | 305 | 293 | (3) | 290 |
| Subtotal | 1,541 | (13) | 1,528 | 1,507 | (12) | 1,495 |
| Total | \$ 2,213 | \$ (20) | \$ 2,193 | \$ 2,208 | \$ (18) | \$ 2,190 |

12. Tax Revenues

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security trust funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the trust funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security trust funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year or errors made and corrected with either the Internal Revenue Service or SSA but not both. Revenues to the trust funds are reduced for excess employment taxes, which are refunded by offset against income taxes.

Other tax revenues include certain military wage credits, Taxation of Social Security Benefits and FICA/SECA tax credits. The amounts for estimated employment taxes, adjustments for actual taxes payable and refunds, as well as other tax revenues, are contained in the following table.

| | <i>(In Millions)</i> | |
|--|----------------------|------------|
| | 2002 | 2001 |
| Estimated Employment Taxes Credited to SSA | \$ 529,538 | \$ 512,276 |
| Adjustments | (4,248) | 6,345 |
| Refunds | (1,091) | (3,201) |
| Employment Tax Revenues | 524,199 | 515,420 |
| Other Tax Revenues | 13,534 | 12,774 |
| Total Tax Revenues | \$ 537,733 | \$ 528,194 |

13. Intra-Governmental Financing Sources

SSA receives other financing sources that increase net results of operations during the reporting period. The most significant financing source received from another Federal entity is the drawdown of funds from the HI/SMI Trust Funds for the Medicare program. For FY 2002 and 2001, respectively, \$1,182 and \$1,046 million were drawn down to cover SSA's operating expenses to administer a portion of the Medicare program. These amounts represent the majority of the Trust Fund Draws and Other-In line item as presented on the Statement of Changes in Net Position.

Financing outflows may result from transfers of the reporting entity's assets to other Government entities. SSA financing outflows mainly consist of PTF transfers for taxation on benefits of \$14.0 and \$12.5 billion for FY 2002 and 2001. It also includes a RRB transfer for the annual interchange required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June. The accrued liability of \$3.7 and \$3.7 billion for both FY 2002 and 2001, on the Balance Sheet represents amounts due RRB for the period. Also, amounts for railroad workers, who have qualified for and are receiving OASI and DI benefit payments, are included in the benefit payment expenses on the Statement of Net Cost. However, the RRB makes the payments to the qualifying railroad workers on behalf of SSA. SSA compensated RRB in the amount of \$1.2 and \$1.2 billion for both FY 2002 and 2001.

In addition, a portion of the administrative fees charged to the States to administer the Supplemental SSI benefits program is returned to the U.S. Treasury and amounted to \$152 million for both FY 2002 and 2001. The Supplemental SSI benefits paid by SSA on behalf of the States, \$3,736 and \$3,160 million for FY 2002 and 2001, respectively. These transfers, which negate each other, are received from the States and issued to SSI recipients.

14. Imputed Financing

The Statement of Net Cost recognizes post-employment benefit expenses, as a portion of operating expenses, of \$662 and \$610 million for FY 2002 and 2001, respectively. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life and health insurance. The Statement of Changes in Net Position recognizes an imputed financing source of \$351 and \$315 million for FY 2002 and 2001, respectively. The imputed financing source represents annual service cost not paid by SSA.

15. Status of Budgetary Resources

Apportionment Categories of Obligations Incurred

OMB usually distributes budgetary resources in an account or fund by specific time periods, activities, projects, objects or a combination of these categories. Apportionments by fiscal quarters are classified as category A. All other apportionments are classified as category B. For FY 2002, SSA has not received any category A apportionments. The amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B and Exempt from Apportionment are displayed in the following chart.

| | <i>(In Millions)</i> | | | | | |
|------------|----------------------|--------------|------------|------------------|--------------|------------|
| | 2002 | | | Restated 2001 | | |
| | Direct | Reimbursable | Total | Direct | Reimbursable | Total |
| Category B | \$ 504,876 | \$ 3,758 | \$ 508,634 | \$ 489,023 | \$ 3,186 | \$ 492,209 |
| Exempt | 12,408 | 0 | 12,408 | 4,964 | 0 | 4,964 |
| Total | \$ 517,284 | \$ 3,758 | \$ 521,042 | \$ 493,987 | \$ 3,186 | \$ 497,173 |

Legal Arrangements Affecting Use of Unobligated Balances

All trust fund receipts collected in the FY are reported as new budget authority in the Statement of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the Social Security Act, benefit payments and other outlays are obligated in the trust funds. The portion of trust fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY, is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the Statement of Budgetary Resources; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the trust funds and currently become available for obligation as needed. The entire trust fund balances of \$1,273,228 and 1,119,173 million as of September 30, 2002 and 2001, respectively, are included in Investments on the Balance Sheet. The following table presents trust fund activities and balances for FYs 2002 and 2001:

| | <i>(In Millions)</i> | |
|-------------------------------------|----------------------|------------------|
| | 2002 | Restated 2001 |
| Trust Fund Balance, Beginning | \$ 1,119,173 | \$ 965,170 |
| Receipts | 619,208 | 600,768 |
| Less Obligations | 464,978 | 446,553 |
| Less LAE Unobligated Balances | 176 | 212 |
| Excess of Receipts Over Obligations | 154,054 | 154,003 |
| Trust Fund Balance, Ending | \$ 1,273,227 | \$ 1,119,173 |

Explanation of Material Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation of budgetary resources, obligations incurred and outlays, as presented in the Combined Statement of Budgetary Resources (SBR), to amounts included in the Budget of the United States Government for the year ended September 30, 2001 is shown below. Budgetary resources and obligations incurred reconcile to Program and Financing Schedules while outlays reconcile to the Analytical Perspectives of the Budget. A reconciliation is not presented for the period ended September 30, 2002 since SSA's FY 2002 Performance and Accountability Report is published in November 2002 and Treasury's MAX system will not have actual budget data until mid-December 2002.

| FY 2001 Restated | <i>(In Millions)</i> | | |
|---|------------------------|-------------------------|------------|
| | Budgetary Resources | Obligations Incurred | Outlays |
| Combined Statement of Budgetary Resources | \$ 500,184 | \$ 497,173 | \$ 462,499 |
| Allocation of LAE (Includes Transfers-In) | (7,735) | (7,488) | 23 |
| Adjustments to unobligated balances (Includes RRI Accrual and Payables to LAE) | (1,588) | (1,886) | 0 |
| Offsetting receipts reported as outlays in the budget | 0 | 0 | 14,310 |
| Other | 166 | 304 | 232 |
| Budget of the United States Government | \$ 491,027 | \$ 488,103 | \$ 477,064 |

The allocation of LAE includes the trust fund amounts payable to LAE for administrative obligations. Due to the restatement discussed in Note 1, Summary of Significant Accounting Policies, the SBR contains these transfers; however, the budget does not. Adjustments to unobligated balances include changes to beginning balances for the payables the trust funds owe LAE that are not in the budget. Offsetting receipts reported in the budget as outlays mainly consist of Payments to the Trust Fund activity captured as trust fund receipts on the SBR, but removed from Budgetary Resources as part of unobligated balances. (See discussion above in Legal Arrangements Affecting Use of Unobligated Balances.) Offsetting Receipts is the total amount of distributed offsetting receipts that affect outlays. Other differences mainly consist of proposed legislation for full funding for Federal Retiree costs contained in the budget, but not in the SBR.

16. Statement of Financing Disclosures

Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Liabilities Not Covered by Budgetary Resources of \$8,833 and \$7,539 million for FY 2002 and 2001, respectively, represent SSI Receivables Owed to Treasury, FECA liability to DOL and employees, benefits due and payable for SSI unadjudicated cases and leave earned but not taken (See Note 8, Liabilities). Only a portion of these liabilities will require or generate resources in future periods. The amounts reported on the Statement of Financing as Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods of \$89 and \$50 million for FY 2002 and 2001, respectively, represent the change in SSA expenses for unfunded liabilities for FECA, SSI benefits due and payable and leave earned but not taken. For FY 2001, SSI Receivables Owed to Treasury is not represented on this line, but is reported on the Statement of Custodial Activity. Effective FY 2002, the Statement of Custodial Activity is no longer prepared. See Note 3, Non-Entity Assets, and Note 17, Incidental Custodial Collections, for a discussion of SSI.

17. Incidental Custodial Collections

SSA's custodial collections primarily consist of recoveries for SSI Federal benefit overpayments. The FY 1991 Appropriations Act, Public Law 101-157, requires that collections from repayment of SSI benefit overpayments be deposited in the General Fund of the Treasury. While these collections are considered custodial, they are not primary to the mission of SSA or material to the overall financial statements. In addition, other negligible custodial collections occur for interest, fines and penalties. For FY 2002 and 2001, SSA's total custodial revenue is \$1,883 million and \$1,454 million, respectively.

Balance Sheet by Major Program as of September 30, 2002

| Assets | Dollars in Millions | | | | | |
|---|---------------------|-------------------|-----------------|---------------|------------------------------|---------------------|
| | OASI | DI | SSI | Other | Intra-Agency Eliminations | Consolidated |
| Intragovernmental: | | | | | | |
| Fund Balance with Treasury | \$ (31) | \$ (148) | \$ 2,171 | \$ 106 | | \$ 2,098 |
| Investments | 1,173,759 | 155,286 | 0 | 0 | | 1,329,045 |
| Interest Receivable, Net | 17,942 | 2,320 | 0 | 0 | | 20,262 |
| Accounts Receivable, Net | 448 | 79 | 0 | 224 | | 751 |
| Other | 0 | 363 | 220 | 0 | \$ (583) | 0 |
| Total Intragovernmental | 1,192,118 | 157,900 | 2,391 | 330 | (583) | 1,352,156 |
| Accounts Receivable, Net | 1,240 | 1,900 | 7,195 | 36 | (4,679) | 5,692 |
| Property, Plant and Equip., Net | 364 | 326 | 0 | 0 | | 690 |
| Other | 2 | 2 | 0 | 0 | | 4 |
| Total Assets | 1,193,724 | 160,128 | 9,586 | 366 | (5,262) | 1,358,542 |
| Liabilities | | | | | | |
| Intragovernmental: | | | | | | |
| Accrued RRI | 3,514 | 199 | 0 | 0 | | 3,713 |
| Other | 618 | 35 | 7,047 | 31 | (583) | 7,148 |
| Total Intragovernmental | 4,132 | 234 | 7,047 | 31 | (583) | 10,861 |
| Benefits Due and Payable | 34,140 | 16,821 | 1,364 | 38 | (4,679) | 47,684 |
| Accounts Payable | 53 | 61 | 348 | 32 | | 494 |
| Other | 204 | 183 | 620 | 135 | | 1,142 |
| Total | 38,529 | 17,299 | 9,379 | 236 | (5,262) | 60,181 |
| Net Position | | | | | | |
| Unexpended Appropriations | 0 | 0 | 722 | 72 | | 794 |
| Cumulative Results of Operations | 1,155,195 | 142,829 | (515) | 58 | | 1,297,567 |
| Total Net Position | 1,155,195 | 142,829 | 207 | 130 | | 1,298,361 |
| Total Liabilities and Net Position | \$ 1,193,724 | \$ 160,128 | \$ 9,586 | \$ 366 | \$ (5,262) | \$ 1,358,542 |

Schedule of Changes in Net Position for the Year Ended September 30, 2002

| | (Dollars in Millions) | | | | | | | |
|---|----------------------------------|----------------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|---------------------------|
| | OASI | DI | SSI | | Other | | Consolidated | |
| | Cumulative Results of Operations | Cumulative Results of Operations | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| Net Position, Beginning Balance | \$ 1,016,248 | \$ 125,806 | \$ (1,209) | \$ 3,455 | \$ 121 | \$ 73 | \$ 1,140,966 | \$ 3,528 |
| Prior Period Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Beginning Balances, As Adjusted | 1,016,248 | 125,806 | (1,209) | 3,455 | 121 | 73 | 1,140,966 | 3,528 |
| Budgetary Financing Sources (other than Exchange Revenues) | | | | | | | | |
| Appropriations Received | | | | 31,947 | | 14,453 | | 46,400 |
| Other Adjustments | 0 | 0 | 0 | 0 | (8) | (12) | (8) | (12) |
| Appropriations Used | 0 | 0 | 34,680 | (34,680) | 14,442 | (14,442) | 49,122 | (49,122) |
| Tax Revenues | 460,730 | 77,003 | 0 | | 0 | | 537,733 | |
| Interest Revenues | 69,659 | 8,955 | 0 | | 0 | | 78,614 | |
| Transfers-In/Out | | | | | | | | |
| Trust Fund Draws and Other - In | 26 | 4 | 0 | | 1,108 | | 1,138 | |
| Trust Fund Draws and Other - Out | 0 | 0 | (1,357) | | (13,966) | | (15,323) | |
| Railroad Retirement Interchange | (3,510) | (176) | 0 | | 0 | | (3,686) | |
| Net Transfers-In/Out | (3,484) | (172) | (1,357) | | (12,858) | | (17,871) | |
| Other Budgetary Financing Sources | 16 | 65 | 0 | | 0 | | 81 | |
| Other Financing Sources | | | | | | | | |
| Other Revenue | 0 | 0 | 0 | | 5 | | 5 | |
| Imputed Financing Sources | 94 | 82 | 120 | | 55 | | 351 | |
| Total Financing Sources | 527,015 | 85,933 | 33,443 | (2,733) | 1,636 | (1) | 648,027 | (2,734) |
| Net Cost of Operations | 388,068 | 68,910 | 32,749 | | 1,699 | | 491,426 | |
| Ending Balances | \$ 1,155,195 | \$ 142,829 | \$ (515) | \$ 722 | \$ 58 | \$ 72 | \$ 1,297,567 | \$ 794 |

Schedule of Financing for the Year Ended September 30, 2002

| | (Dollars in Millions) | | | | |
|--|-----------------------|------------------|------------------|-----------------|-------------------|
| | OASI | DI | SSI | Other | Consolidated |
| Resources Used to Finance Activities: | | | | | |
| Budgetary Resources Obligated | | | | | |
| Obligations Incurred | \$ 393,360 | \$ 71,618 | \$ 40,385 | \$ 15,679 | \$ 521,042 |
| Less: Offsetting Collections | (2,001) | (1,840) | (6,759) | (1,216) | (11,816) |
| Obligations Net of Offsetting Collections | 391,359 | 69,778 | 33,626 | 14,463 | 509,226 |
| Less: Offsetting Receipts | (12,627) | (1,007) | (246) | (1,881) | (15,761) |
| Net Obligations | 378,732 | 68,771 | 33,380 | 12,582 | 493,465 |
| Other Resources | | | | | |
| Imputed Financing | 94 | 82 | 120 | 55 | 351 |
| Other | 0 | 0 | (267) | 0 | (267) |
| Net Other Resources used to finance activities | 94 | 82 | (147) | 55 | 84 |
| Total Resources Used to Finance Activities | \$ 378,826 | \$ 68,853 | \$ 33,233 | \$ 12,637 | \$ 493,549 |
| Resources Not Part of the Net Cost of Operations: | | | | | |
| Change in Undelivered Orders | \$ 46 | \$ 21 | \$ 354 | \$ 24 | \$ 445 |
| Resources that Fund Capitalized Costs | (32) | (28) | (41) | (19) | (120) |
| Resources that Fund Expenses Recognized in Prior Periods | 93 | (538) | (1,204) | 0 | (1,649) |
| Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations | 12,627 | 1,007 | 246 | 1,881 | 15,761 |
| Other Resources or Adjustments to Net Obligated Resources that do not affect net cost of operations | (3,347) | (293) | (44) | (12,760) | (16,444) |
| Total Resources Not Part of the Net Cost of Operations | \$ 9,387 | \$ 169 | \$ (689) | \$ (10,874) | \$ (2,007) |
| Total Resources Used to Finance the Net Cost of Operation | \$ 388,213 | \$ 69,022 | \$ 32,544 | \$ 1,763 | \$ 491,542 |
| 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 | 5 | 4 | 6 | 3 | 18 |
| Other | 1 | 1 | 69 | 0 | 71 |
| Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods | \$ 6 | \$ 5 | \$ 75 | \$ 3 | \$ 89 |
| Components Not Requiring or Generating Resources | | | | | |
| Depreciation and Amortization | 37 | 33 | 49 | 22 | 141 |
| Other | (188) | (150) | 81 | (89) | (346) |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources | \$ (151) | \$ (117) | \$ 130 | \$ (67) | \$ (205) |
| Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period | \$ (145) | \$ (112) | \$ 205 | \$ (64) | \$ (116) |
| Net Cost of Operations | \$ 388,068 | \$ 68,910 | \$ 32,749 | \$ 1,699 | \$ 491,426 |

Required Supplementary Information: Schedule of Budgetary Resources
as of September 30, 2002

| | (Dollars in Millions) | | | | |
|---|-----------------------|------------------|------------------|------------------|-------------------|
| | OASI | DI | SSI | Other | Combined |
| Budgetary Resources Made Available | | | | | |
| Budget Authority | | | | | |
| Appropriations Received | \$ 529,287 | \$ 85,795 | \$ 31,949 | \$ 14,439 | \$ 661,470 |
| Unobligated Balances | | | | | |
| Beginning of Period | 153 | 135 | 2,410 | 144 | 2,842 |
| Spending Authority from Offsetting Collections | | | | | |
| Earned | | | | | |
| Collected | 33 | 30 | 3,778 | 25 | 3,866 |
| Change in Receivable | 0 | 0 | 1 | 0 | 1 |
| Transfers from Trust Funds | | | | | |
| Collected | 1,993 | 1,785 | 2,607 | 1,196 | 7,581 |
| Anticipated | (69) | (41) | 282 | (33) | 139 |
| Subtotal | 1,957 | 1,774 | 6,668 | 1,188 | 11,587 |
| Recoveries of Prior Year Obligations | 44 | 66 | 91 | 28 | 229 |
| Temporarily Not Available Pursuant to Public Law | (137,986) | (16,068) | 0 | 0 | (154,054) |
| Permanently Not Available | (2) | (1) | (2) | (6) | (11) |
| Total Budgetary Resources | 393,453 | 71,701 | 41,116 | 15,793 | 522,063 |
| Status of Budgetary Resources: | | | | | |
| Obligations Incurred: | | | | | |
| Direct | 393,354 | 71,613 | 36,642 | 15,675 | 517,284 |
| Reimbursable | 6 | 5 | 3,743 | 4 | 3,758 |
| Subtotal | 393,360 | 71,618 | 40,385 | 15,679 | 521,042 |
| Unobligated Balances | | | | | |
| Apportioned | 62 | 56 | 658 | 70 | 846 |
| Unobligated Balances - Not Available | 31 | 27 | 73 | 44 | 175 |
| Total Status of Budgetary Resources | 393,453 | 71,701 | 41,116 | 15,793 | 522,063 |
| Relationship of Obligations to Outlays: | | | | | |
| Obligated Balances - Beginning of the Period | 36,278 | 14,038 | 1,166 | (40) | 51,442 |
| Obligated Balance - End of the Period | | | | | |
| Accounts Receivable | (452) | (405) | (578) | (272) | (1,707) |
| Undelivered Orders | 256 | 236 | 385 | 154 | 1,031 |
| Accounts Payable | 38,233 | 17,534 | 1,112 | 96 | 56,975 |
| Outlays: | | | | | |
| Disbursements | 391,627 | 68,265 | 40,258 | 15,665 | 515,815 |
| Collections | (2,026) | (1,814) | (6,385) | (1,221) | (11,446) |
| Subtotal | 389,601 | 66,451 | 33,873 | 14,444 | 504,369 |
| Less: Offsetting Receipts | 12,627 | 1,007 | 246 | 1,881 | 15,761 |
| Net Outlays | \$ 376,974 | \$ 65,444 | \$ 33,627 | \$ 12,563 | \$ 488,608 |

Required Supplementary Information: Intragovernmental Amounts
as of September 30, 2002

| (Dollars in Millions) | | | | |
|--|-------------------------------|---|-----------------------------|-----------------------------|
| | Fund Balance with Treasury | Investments | Interest Receivable, Net | Accounts Receivable, Net |
| Intragovernmental Assets | | | | |
| Department of the Air Force | | | | \$136 |
| Department of the Army | | | | 178 |
| Department of Health and Human Services | | | | 229 |
| Department of the Navy | | | | 203 |
| Department of the Treasury | \$2,098 | \$1,329,045 | \$20,262 | |
| Other | | | | 5 |
| Total Intragovernmental Assets | \$2,098 | \$1,329,045 | \$20,262 | \$751 |
| Intragovernmental Liabilities | | | | |
| | | Accrued Railroad Retirement Interchange | Other | Liabilities |
| Department of the Treasury, General Fund | | | | \$7,026 |
| Railroad Retirement Board | \$3,713 | | | |
| Other | | | | 122 |
| Total Intragovernmental Liabilities | \$3,713 | | | \$7,148 |
| Intragovernmental Revenues: | | | | |
| | | Non-Exchange Revenue | | |
| | | Transfers-In | Transfers-Out | |
| Department of the Treasury | | \$30 | | |
| Department of the Treasury, General Fund | | | \$15,323 | |
| Railroad Retirement Board | | | 3,686 | |
| Department of Health and Human Services | | 1,108 | | |
| Total Intragovernmental Revenues: | | \$1,138 | \$19,009 | |