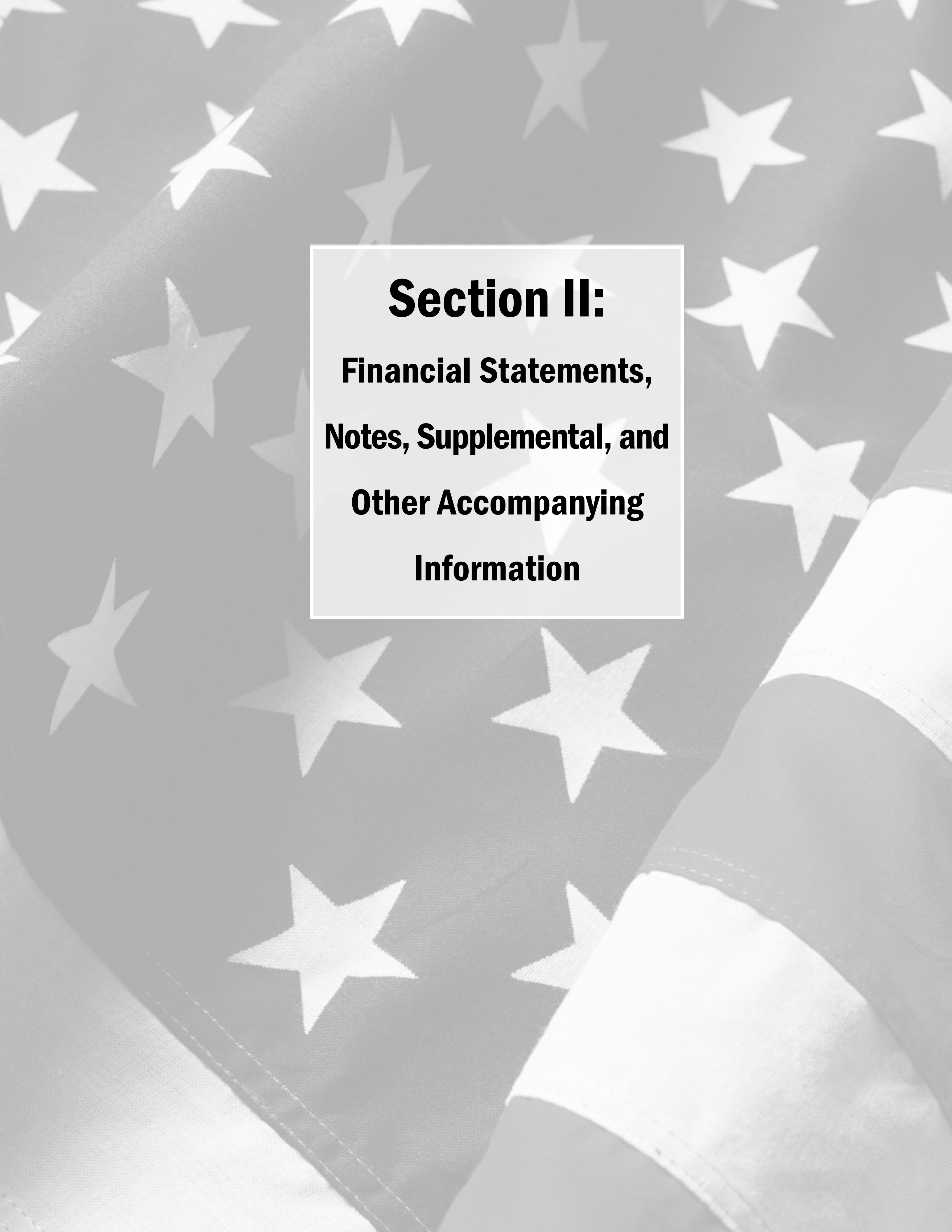


Section II:

Financial Statements, Notes, Supplemental, and Other Accompanying Information

U.S. Department of Health and Human Services

As of September 30, 2001 and 2000

(in millions)

	2001	Restated 2000
Assets		
Intragovernmental		
Fund Balance with Treasury (Note2)	$ 80,949	$ 78,093
Investments, Net (Note 3)	244,931	219,173
Accounts Receivable, Net (Note 4)	907	2,193
Anticipated Congressional Appropriation — CMS (Note 10)	11,166	6,561
Other (Note 10)	94	41
Total Intragovernmental	$ 338,047	$ 306,061
Accounts Receivable, Net (Note 4)	4,165	3,961
Loans Receivable and Foreclosed Property, Net (Note 5)	427	427
Cash and Other Monetary Assets (Note 7)	137	61
Inventory and Related Property, Net (Note 8)	67	63
General Property, Plant and Equipment, Net (Note 9)	2,331	2,046
Other (Note 10)	7	18
Total Assets	$ 345,181	$ 312,637
Liabilities		
Intragovernmental		
Accounts Payable (Note 11)	$ 30	$ 58
Environmental and Disposal Costs (Note 13)	3	3
Accrued Payroll and Benefits (Note 16)	67	55
Other (Note 17)	1,026	594
Total Intragovernmental	$ 1,126	$ 710
Accounts Payable (Note 11)	643	491
Entitlement Benefits Due and Payable (Note 12)	40,441	36,522
Environmental and Disposal Costs (Note 13)	13	12
Accrued Grant Liability (Note 6)	3,075	1,843
Loan Guarantees (Note 14)	351	338
Federal Employee and Veterans Benefits (Note 15)	7,501	5,746
Accrued Payroll and Benefits (Note 16)	713	676
Other (Note 17)	775	619
Total Liabilities	$ 54,638	$ 46,957
Net Position (Note 18)		
Unexpended Appropriations	70,051	68,935
Cumulative Results of Operations	220,492	196,745
Total Net Position	$ 290,543	$ 265,680
Total Liabilities and Net Position	$ 345,181	$ 312,637

The accompanying “Notes to Principal Financial Statements” are an integral part of these statements. In addition, detailed information can be found in the following supplemental schedules: “Consolidating Balance Sheet by Operating Division” and “Consolidating Balance Sheet by Budget Function.”

U.S. Department of Health and Human Services

For the Fiscal Years Ended September 30, 2001 and 2000

(in millions)

Operating Division	2001				2000
	OPDIV Consolidated Totals	Inter-OPDIV Eliminations: Costs(-)	Inter-OPDIV Eliminations: Earned/Exchange Revenues (+)[1]	HHS Consolidated Totals	HHS Consolidated Totals
ACF	$ 43,686	$ (23)	$ 3	$ 43,666	$ 37,416
AHRQ	49	(7)	179	221	161
AoA	961	(2)	-	959	902
CDC	4,026	(95)	128	4,059	2,787
CMS	352,381	(52)	1	352,330	316,973
FDA	1,156	(63)	19	1,112	1,038
HRSA	5,309	(80)	30	5,259	4,425
IHS	2,686	(29)	20	2,677	2,446
NIH	17,304	(345)	54	17,013	15,571
OS	777	(36)	101	842	772
PSC	1,973	(13)	201	2,161	523
SAMHSA	2,673	(35)	10	2,648	2,467
Net Cost of Operations	$ 432,981	$ (780)	$ 746	$ 432,947	$ 385,481

[1] *Eliminations for non-exchange revenue are reported in the Statement of Changes in Net Position.*

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements. In addition, detailed information can be found in the following supplemental schedules: "Consolidating Statement of Net Cost by Budget Function" and "Gross Cost and Exchange Revenue."

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

	HHS Consolidated Totals
Net Cost of Operations	$ 432,947
Financing Sources (other than exchange revenues):	
Appropriations Used	291,100
Taxes & Other Budgetary Financing Sources	165,242
Donations & Forfeitures of Property	3
Imputed Financing from Costs Absorbed by Others	338
Other Non-Budgetary Financing Sources	5
Net Results of Operations	$ 23,741
Prior Period Adjustments (Note 21)	(484)
Unreconciled Transactions Affecting Change in Net Position	(3)
Net Change in Cumulative Results of Operations	$ 23,254
Increase (Decrease) in Unexpended Appropriations	1,609
Change in Net Position	$ 24,863
Net Position—Beginning of Period	265,680
Net Position—End of Period	$ 290,543

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements. In addition, detailed information can be found in the following supplemental schedule: "Consolidating Statement of Changes in Net Position by Budget Function."

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Budgetary Resources	OPDIV Combined Totals
Budget Authority	$ 562,672
Unobligated Balances — Beginning of Period	12,196
Spending Authority from Offsetting Collections	7,084
Adjustments	(26,044)
Total Budgetary Resources	$ 555,908
Status of Budgetary Resources	
Obligations Incurred	$ 548,093
Unobligated Balances — Available	1,879
Unobligated Balances — Not Available	5,936
Total Status of Budgetary Resources	$ 555,908
Outlays	
Obligations Incurred	$ 548,093
Less: Spending Authority from Offsetting Collections and Adjustments	14,325
Subtotal	$ 533,768
Obligated Balance, Net — Beginning of Period	65,939
Less: Obligated Balance, Net – End of Period	71,346
Total Outlays	$ 528,361

The accompanying "Notes to Principal Statements" are an integral part of these statements. In addition, detailed information can be found in the following supplemental schedule: "Combining Statement of Budgetary Resources."

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Resources Used To Finance Activities:			
Budgetary Resources Obligated			
Obligations Incurred	$ 548,093	$ -	$ 548,093
Less: Spending Authority from Offsetting Collections and Recoveries	14,325	-	14,325
Obligations Net of Offsetting Collections and Recoveries	533,768	-	533,768
Less: Offsetting Receipts	23,756	-	23,756
Net Obligations	510,012	-	510,012
Non-Budgetary Resources			
Donations and Forfeitures of Property	3	-	3
Imputed Financing from Costs Absorbed by Others	383	(45)	338
Other Non-Budgetary Financing Sources	5	-	5
Net Non-Budgetary Resources Used to Finance Activities	391	(45)	346
Total Resources Used to Finance Activities	**$ 510,403**	**$ (45)**	**$ 510,358**
Resources Used To Finance Items Not Part of the Net Cost of Operations:			
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered/Not yet Provided	$ 11,897	$ -	$ 11,897
Resources That Fund Expenses Recognized in Prior Periods	36,520	-	36,520
Budgetary Offsetting Collections and Receipts That Do Not Effect Net Cost of Operations:			
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(62)	-	(62)
Other	34	-	34
Resources That Finance the Acquisition of Assets of Liquidations of Liabilities	259	-	259
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	75,256	-	75,256
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	123,904	-	123,904
Total Resources Used to Finance the Net Cost of Operations	**$ 386,499**	**$ (45)**	**$ 386,454**
Components of 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	$ 24	$ -	$ 24
Increase in Environmental Disposal Liability	1	-	1
Increase in Exchange Revenue Receivable from the Public	(375)	-	(375)
Other	46,619	-	46,619
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 46,269	$ -	$ 46,269
Components Not Requiring or Generating Resources:			
Depreciation and Amortization	263	-	263
Losses or (Gains) from Reevaluation of Assets and Liabilities	1	-	1
Other	(51)	11	(40)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	213	11	224
Total Components of Net Cost of Operations That will Not Require or Generate Resources in Current Periods	**$ 46,482**	**$ 11**	**$ 46,493**
Net Cost of Operations	**$ 432,981**	**$ (34)**	**$ 432,947**

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements.

As of September 30, 2001 and 2000

Note 1. Significant Accounting Policies

Reporting Entity

The Department of Health and Human Services consists of thirteen operating divisions (OPDIVs), which have diverse missions and programs. There are twelve financial reporting entities:

1. Administration on Aging (AoA)

2. Administration for Children and Families (ACF)

3. Agency for Healthcare Research and Quality (AHRQ)

4. Centers for Disease Control and Prevention (CDC)/Agency for Toxic Substances and Disease Registry (ATSDR)

5. Centers for Medicare & Medicaid Services (CMS)

6. Food and Drug Administration (FDA)

7. Health Resources and Services Administration (HRSA)

8. Indian Health Service (IHS)

9. National Institutes of Health (NIH)

10. Office of the Secretary (OS)

11. Program Support Center (PSC)

12. Substance Abuse and Mental Health Services Administration (SAMHSA)

In FY 2001, the Health Care Financing Administration was renamed the Centers for Medicare & Medicaid Services (CMS). The Agency for Toxic Substances and Disease Registry is combined with the Centers for Disease Control and Prevention for financial reporting purposes; therefore, these footnotes will refer to them as one OPDIV. In FY 2001, ten of the twelve OPDIVs listed received full scope audits, while the remaining two, AHRQ and OS, were reviewed as part of the Departmental consolidated audit. Each OPDIV is considered a responsibility segment for purposes of preparing the HHS-wide Statement of Net Cost.

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of HHS as required by the Chief Financial Officers Act of 1990, and amended by the Government Management Reform Act of 1994. They have been prepared from Departmental records in accordance with the form and content guidance of OMB Bulletin No. 97-01 (as amended) as well as with certain provisions under OMB Bulletin No. 01-09, and generally accepted accounting principles for the federal government. These statements are therefore different from financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control HHS' use of budgetary resources.

The financial statements consolidate the balances of about one hundred and forty discrete appropriations and fund accounts, and a number of accounts used for suspense, collection of receipts and general governmental functions. Material intra-HHS balances have been eliminated in the consolidation of the

The financial statements consolidate the balances of about one hundred and forty discrete appropriations and fund accounts.

account balances from the financial statements of HHS' twelve OPDIVs, each of which is issued under separate cover. The effects of intra-entity transactions are eliminated in the presentation of the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position and the Consolidated Statement of Financing, except for the Statement of Budgetary Resources, which is presented on a combined basis. Supplemental information is accumulated from the OPDIV reports, regulatory reports and other sources within HHS. Information is generally presented herein on a summary level, hence greater detail on OPDIV programs and activities is found in the annual reports prepared by the OPDIVs.

The FY 2000 Consolidated Balance Sheet has been restated to separately report $6,561 million in prior year Anticipated Congressional Appropriation for CMS. This amount was previously reported under "Other Assets" and comprised 99.4 percent of Other Assets. If this line were to be combined with Other Assets for FY 2001, it would comprise 99.2 percent. Note 10, "Other Assets" describes this amount in detail.

Basis of Accounting

For most HHS programs, transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

The cash basis is used by CMS for Medicare benefit payments and Medicaid Program draws by states to cover current quarter expenses, and a number of other OPDIV programs. For these programs, an accrual method adjustment is made by recording year-end estimates of unpaid liabilities.

Entity and Non-Entity Assets

Entity assets are those assets which the reporting entity holds and has the authority to use in its operations. Non-entity assets are assets the entity holds but does not have the authority to use. An example of non-entity assets is Child Support Enforcement collections, which ACF collects for the U.S. Government but does not have authority to spend. The HHS financial statements do not report entity and non-entity assets separately on the face of the statements, but instead break out entity and non-entity in the footnotes. Note 2 "Fund Balance with Treasury," Note 4 "Accounts Receivable, Net," Note 7 "Cash and Other Monetary Assets," and Note 10 "Other Assets" report entity and non-entity assets, if any, for the Department.

Fund Balance with Treasury

The Department maintains all cash accounts with the Treasury Department. The account, "Fund Balance with Treasury," represents appropriated, revolving, trust, and other funds available to pay current liabilities. The U.S. Treasury processes cash receipts and disbursements for HHS.

Investments

Trust fund balances in excess of current needs are invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

Accounts Receivable

Accounts Receivable is amounts owed to the Department by other federal agencies and by the public. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts. The allowance for loss is based on past collection experience and/or an analysis of the outstanding balances. Accounts receivable also includes interest due to the Department other than interest on direct loans and loan guarantees.

Loans Receivable

Loans are accounted for as receivables after funds are disbursed. In accordance with credit reform legislation, for loans obligated prior to October 1, 1991, loan principal, interest, and other costs are reduced by an allowance for loss based on historical data and current market factors. For loans obligated on or after October 1, 1991, the amount of gross loans receivable is reduced by an allowance equal to the present value of the subsidy costs associated with these loans. Loans receivable also includes interest due to the Department for direct loans and/or defaulted loan guarantees.

Advances to Grantees/Accrued Grant Liability

Advances to Grantees are cash outlays made by the Department to its grantees. An accrued grant liability occurs when the year-end grant accrual for the Department exceeds advances to grantees outstanding at year-end. Progress payments on work in process are not included in grants. HHS grant programs are classified into two categories: "Programs Not Subject to the Expense Accrual" and "Programs Subject to the Expense Accrual."

Programs Not Subject to the Expense Accrual: These programs are formula grants under which states provide a variety of services or payments to individuals and federal agencies that are precluded from requiring expense reporting. Under these formula grants, states receive a fixed sum pursuant to authorizing legislation and draw down based on cash needs. Accordingly, these programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

Programs Subject to the Expense Accrual: For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in HHS' accounting systems) as bills or salary payments come due. The grantee pays the bills or salary and reports the payments to HHS quarterly on the SF 272 (recorded as an expense and a reduction to the advance balance in the accounting systems). Some of the OPDIVs use actual grant payments when this data is available. Other OPDIVs use a process adopted by HHS to estimate a year-end grant accrual relying on historical spending patterns to predict unreported grantee expenditures. The method breaks the accrual down into two components.

The first component represents the amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30. It is calculated with a data regression model, which uses historical grantee advance and expenditure data. HHS auditors have verified the regression analysis model and have accepted the approach.

To estimate the second component, expenses Incurred But Not Reported (IBNR), HHS gathered information on spending patterns from four different groups of grantees to determine if they had unreported expenses at year-end and if so, in what amounts. As a result, HHS determined that grantees typically had year-end IBNR equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30th and the estimated IBNR represent the total amount reported for HHS for accrued grants. (Refer to Note 6 “Accrued Grant Liability”)

Advances other than grant advances are reported in Note 10 "Other Assets."

Inventory and Related Property

Inventory and Related Property includes: Inventories Held for Sale, Operating Materials and Supplies, and Stockpile Materials. Inventories Held for Sale (Inventories) consists of small equipment and supplies held by the various OPDIV Service and Supply Funds for sale to HHS components and other federal entities. Operating Materials and Supplies (OMS) consist of pharmaceuticals, biological products, vaccines, and other medical supplies, which are used in providing medical services and conducting medical research in the various OPDIVs. Stockpile materials represent supplies of biological materials and vaccines held for use in case of a national emergency. All inventory are recorded as assets when purchased, and expensed when they are consumed or sold. Inventories may be recorded at either: 1) historical cost (or a method which reasonably approximates historical cost), or 2) the lower of cost (using weighted-average cost method) or market. All inventories are recorded at historical cost.

General Property, Plant and Equipment

The basis for recording purchased General Property, Plant and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. All PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two (2) years or greater are capitalized. PP&E are depreciated using the straight-line method over the estimated useful life of the item. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since HHS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity. In accordance with Public Law and existing federal accounting standards, no liability is recognized for future payments to be made on behalf of current workers contributing to the Medicare Hospital Insurance (HI) Trust Fund, since future Medicare benefits are not tied to prior Medicare contributions.

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

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. HHS recognizes liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employees Compensation Act (FECA) disability payments. Also included in this category is the actuarial FECA liability determined by Labor but not yet billed. For HHS revolving funds, all liabilities are funded as they occur.

"Liabilities Covered by Budgetary Resources" and "Liabilities Not Covered by Budgetary Resources" are combined on the balance sheet. The breakout of these resources is presented in Note 11 "Accounts Payable," Note 12 Entitlement Benefits Due and Payable," Note 13 "Environmental and Disposal Costs," Note 16 "Accrued Payroll and Benefits," and Note 17 "Other Liabilities."

Accounts Payable

Accounts Payable consists of amounts due for goods and services received, progress in contract performance, interest due on accounts payable, and other miscellaneous payables.

Entitlement Benefits Due and Payable

Entitlement Benefits Payable represents benefits due and payable to the public from entitlement programs enacted by law. In HHS the largest entitlement programs, which comprise the bulk of HHS entitlement spending, are the CMS programs. The ACF administers a number of entitlement benefit programs. The larger programs are Temporary Assistance to Needy Families (TANF), Social Services Block Grant, and Child Support Enforcement.

Federal Employee and Veterans' Benefits

Federal Employee and Veterans' Benefits consist of the actuarial portions of future benefits earned by federal employees and veterans, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefits programs are normally administered by the Office of Personnel Management (OPM) and not by the Department of Health and Human Services, or any of the individual operating divisions of the Department. Therefore, HHS does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. HHS does, however, recognize the imputed cost and imputed financing related to these benefits in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, respectively.

The lone exception to this policy is the Public Health Service (PHS) Commissioned Corps Retirement System. The HHS-administered PHS Commissioned Corps Retirement System is discussed in Note 15, "Federal Employee and Veterans' Benefits."

<u>Pensions:</u> Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most HHS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, HHS makes matching contributions equal to 8.51 percent of basic pay. For FERS employees, HHS contributes the employer's matching share for Social Security and contributes an amount equal to one percent of employee pay to a savings plan and matches up to an additional four percent of pay. Most employees hired after December 31, 1983 are covered by FERS. The OPM reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to federal employees.

<u>Other Retirement Benefits (ORB):</u> Retirement benefits other than pensions include all forms of benefits to

retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary ORB expense.

Other Post-employment Benefits (OPEB): Post-employment benefits other than pensions include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

Accrued Payroll and Benefits

"Accrued Workers Compensation (including FECA)" is for an amount due to former or inactive employees and beneficiaries. This can include salary continuation, severance benefits, counseling, and funded unemployment liability for federal employees.

"Accrued Payroll and Leave" is the estimated liability for salaries, wages, funded annual leave and sick leave that has been earned but is unpaid.

"Payroll Withholding" is the amounts withheld from employees' salary for taxes, employee benefit contributions and the employers' portion of payroll taxes and benefit contribution, such as retirement, Thrift Saving Plan and health and life insurance.

"Liability for Pension Benefits for Administering Agency" is the amounts due from administering agencies to eligible federal civilian or military employees or their beneficiaries, to benefit carriers for providing health insurance and for life insurance due to eligible beneficiaries. HHS is an administering agency for the commissioned corps. This is not an actuarial liability.

"Other" covers the amounts of unfunded employment related liabilities not covered by the current year's budget authority and not otherwise classified above.

Obligations Related to Cancelled Appropriations

Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been cancelled. The total payments related to cancelled appropriations is estimated to be $1,197 million and $571 million as of September 30, 2001 and 2000, respectively.

Revenues and Other Financing Sources

Funding for the Department is classified as revenue or other financing sources. Revenue is an inflow of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a government entity provides goods and services to the public or to another government entity for a price. Another term for "exchange revenue" is "earned revenue." Nonexchange revenue arises primarily from exercise of the government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties), but also includes donations received. Other Financing Sources include appropriations used, transfers of assets from other government entities, and imputed financing.

Other Financing Sources: Congressional appropriations are the primary funding source for most of the Department's programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred.

Imputed financing consists of costs incurred by one federal entity, which are paid for by another federal entity. OMB has limited the imputed costs to be recognized by federal agencies to the following: (1) employee's pension benefits, (2) the health, life insurance, and other benefits for retired employees, (3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the FECA, and (4) losses in litigation proceedings (FASAB Interpretation No.2, Accounting for Treasury Judgement Fund transactions).

Nonexchange Revenue: Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the government's power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable and the amount is measurable. Nonexchange revenue is reported in the Consolidated Statement of Changes in Net Position.

Medicare's Hospital Insurance program, also known as HI or Medicare Part A, is financed through the HI Trust Fund, whose revenues come primarily through the Medicare portion of payroll and self-employment taxes collected under the Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act (SECA). The Medicare payroll tax rate was 2.9 percent of annual wages. Employees and employers were each required to contribute 1.45 percent of employees' wages, with no limitation, to the HI Trust Fund. Self-employed individuals paid the full 2.9 percent themselves.

Medicare's Supplemental Medical Insurance program, also known as SMI or Medicare Part B, is financed primarily by general fund appropriations (Payments to the Health Care Trust Funds) provided by Congress and by monthly premiums paid by beneficiaries. Premium payments from Medicare beneficiaries are matched approximately 3 to 1 by Congressional appropriations. Interest revenue on investments is recognized as it is earned.

Exchange Revenue: Revolving funds recognize exchange revenue at the time goods or services are provided to the public or to another government entity. Reimbursable service agreements between HHS and other federal agencies generally recognize these revenues when the related expenses are incurred. Various user fees are collected to offset the cost of providing services. Exchange revenue is reported in the Consolidated Statement of Net Cost.

Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to the Department. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles 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 date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Intragovernmental Relationships and Transactions

In the course of its operations, HHS has relationships and financial transactions with numerous federal agencies. The more prominent of these are with the Social Security Administration (SSA) and the Department of the Treasury. The SSA determines eligibility for Medicare programs, and also allocates a portion of Social Security benefit payments to the Medicare Part B Trust Fund for Social Security beneficiaries who elect to enroll in the Medicare Part B program. The Treasury receives the cumulative excess of Medicare receipts and other financing over outlays, and issues interest-bearing securities in exchange for the use of those monies. At the government-wide level, the assets related to the trust funds on HHS' financial statements and the corresponding liabilities on the Treasury's financial statements should be eliminated.

For FY 2001 and FY 2000, HHS calculated intra-departmental eliminations by employing the same methodology used by Treasury's Financial Management Service (FMS) in reporting intra-entity eliminations. Under the Treasury FMS method, all intra-entity asset, liability, revenue, and expense amounts reported in HHS statements will be eliminated, and any offsetting balance will be reported as an elimination to Net Position under the heading "Unreconciled Transactions Affecting Net Position" on the Consolidated Statement of Changes in Net Position.

Unless otherwise stated, footnotes are presented in millions of dollars.

Note 2. Fund Balance With Treasury

HHS' undisbursed account balances at September 30, 2001 and 2000, are listed below by fund type. Other Funds include balances in deposit, suspense, clearing and related non-spending accounts.

	2001			2000		
	Entity Assets	Non-entity Assets	Total	Entity Assets	Non-entity Assets	Total
Trust Funds	$ 508	$ -	$ 508	$ 3,424	$ -	$ 3,424
Revolving Funds	752	-	752	667	-	667
Appropriated Funds	79,358	-	79,358	73,695	-	73,695
Other Funds	286	45	331	290	17	307
Total	**$ 80,904**	**$ 45**	**$ 80,949**	**$ 78,076**	**$ 17**	**$ 78,093**

Note 3. Investments, Net

HHS invests trust fund cash that is in excess of current needs in U.S. Treasury securities. The U.S. Treasury Department is HHS' agent and advisor for investing. The majority of HHS' investments in securities are held to maturity and no provision is made for unrealized gains or losses. Investments at September 30, 2001 and 2000 are summarized below. All investments are classified as Intragovernmental Securities.

At September 30, 2001: *Intragovernmental Securities:*	**Cost**	**Unamortized Premium (Discount)**	**Investments, Net**	**Other Adjustments**	**Market Value Disclosure**
Marketable	$ 22	$ -	$ 22	$ -	$ 22
Non-Marketable: Par Value	239,115	-	239,115	(1)	239,114
Non-Marketable: Market-Based	1,762	56	1,818	-	1,818
Subtotal	**240,899**	**56**	**240,955**	**(1)**	**240,954**
Accrued Interest	3,977	-	3,977	-	3,977
Total, Intragovernmental	**$ 244,876**	**$ 56**	**$ 244,932**	**$ (1)**	**$ 244,931**
At September 30, 2000: *Intragovernmental Securities:*					
Marketable	$ 1,598	$ 9	$ 1,607	$ -	$ 1,607
Non-Marketable: Par Value	213,934	-	213,934	-	213,934
Non-Marketable: Market-Based	-	-	-	-	-
Subtotal	**215,532**	**9**	**215,541**	**-**	**215,541**
Accrued Interest	3,632	-	3,632	-	3,632
Total, Intragovernmental	**$ 219,164**	**$ 9**	**$ 219,173**	**$ -**	**$ 219,173**

CMS invests in U.S. Treasury Special Issues that are special public obligations for exclusive purchase by the Medicare trust funds. Special issues are always purchased and redeemed at face value. Certificates are short term and pay 5 1/8 to 5 5/8 percent. The bond interest rates range from 5 5/8 to 9 1/4 percent. The accrued interest receivable as of September 30, 2001 was $3,977 million.

HRSA's Vaccine Injury Compensation Trust Fund (VICP) funds are invested in market-based (MK) special securities and One-Day Certificates. These non-marketable MK securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. Currently, securities held by the VICP will mature in fiscal years 2002, 2004, 2006, and 2008.

NIH invests trust fund cash that is in excess of current needs in U.S. Treasury securities.

Note 4. Accounts Receivable, Net

HHS' accounts receivable at September 30, 2001 and 2000, are summarized below.

At September 30, 2001: *Intragovernmental*	Accounts Receivable, Principal	Interest Receivable	Accounts Receivable, Gross	Allowance	Net OPDIV Receivables, Combined	Intra-OPDIV Eliminations	Net OPDIV Receivables, Consolidated	Inter-OPDIV Eliminations	Net HHS Receivables Consolidated
Entity	$ 5,123	$ 10	$ 5,133	$ -	$ 5,133	($4,270)	$ 863	($78)	$ 785
Non-Entity	122	-	122	-	122	-	122	-	122
Total, Intragovernmental	**$ 5,245**	**$ 10**	**$ 5,255**	**$ -**	**$ 5,255**	**($4,270)**	**$ 985**	**($78)**	**$ 907**
With the Public									
Entity									
Medicare	$ 7,522	$ -	$ 7,522	($4,428)	$ 3,094	$ -	$ 3,094	$ -	$ 3,094
Other	1,267	-	1,267	(230)	1,037	-	1,037	-	1,037
Non-Entity	6	568	574	(540)	34	-	34	-	34
Total, With the Public	**$ 8,795**	**$ 568**	**$ 9,363**	**($5,198)**	**$ 4,165**	**$ -**	**$ 4,165**	**$ -**	**$ 4,165**
At September 30, 2000: *Intragovernmental*									
Entity	$ 2,328	$ 6	$ 2,334	($1)	$ 2,333	($21)	$ 2,312	($119)	$ 2,193
Non-Entity	-	-	-	-	-	-	-	-	-
Total, Intragovernmental	**$ 2,328**	**$ 6**	**$ 2,334**	**($1)**	**$ 2,333**	**($21)**	**$ 2,312**	**($119)**	**$ 2,193**
With the Public									
Entity									
Medicare	$ 7,993	$ -	$ 7,993	($4,280)	$ 3,713	$ -	$ 3,713	$ -	$ 3,713
Other	200	-	200	(39)	161	-	161	-	161
Non-Entity	14	490	504	(417)	87	-	87	-	87
Total, With the Public	**$ 8,207**	**$ 490**	**$ 8,697**	**($4,736)**	**$ 3,961**	**$ -**	**$ 3,961**	**$ -**	**$ 3,961**

CMS' Medicare receivables are primarily due to overpayments to providers, beneficiaries, physicians and suppliers, and to claims where Medicare should be the secondary payer.

HHS non-entity receivable balances represent amounts that cannot be used by HHS once collected. Such receipts are transferred to the General Fund of the Department of the Treasury.

The allowance for loss on accounts receivable is based upon analytical procedures on both individual and group bases. Individual analysis considers the debtor's ability and willingness to pay, payment record, and probable recovery of amounts from secondary sources (i.e., liens, and garnishments). To estimate allowance for loss by groups, HHS stratifies receivables into groups exhibiting similar characteristics. Estimated losses are projected based upon statistical sampling or historical loss experience. The allowance is periodically reviewed and adjusted.

Note 5. Loans Receivable, Net

Loans receivable are included for HRSA's Health Education Assistance Loan (HEAL) guaranteed loan program. The gross receivable amount represents defaulted loans, which have been paid to lenders under the guarantee, and include principal and interest. HRSA's Health Center program is similar to the HEAL program, but it guarantees the principal and interest on loans made by non-federal lenders to health centers funded for the costs of developing and operating managed care networks or plans.

HHS' loans receivable at September 30, 2001 and 2000, are summarized below.

September 30, 2001: *Loan Program* *HEAL Loans (HRSA)*	**Loans Receivable, Principal**	**Interest Receivable**	**Loans Receivable, Gross**	**Allowance**	**Loans Receivable, Net**
Pre-1992 Loans	$496	$13	$509	($134)	$375
Post-1991 Loans	65	2	67	(15)	52
Subtotal	**$561**	**$15**	**$576**	**($149)**	**$427**
Other					
Pre-1992 Loans	-	-	-	-	-
Post-1991 Loans	4	-	4	(4)	-
Total	**$565**	**$15**	**$580**	**($153)**	**$427**
September 30, 2000:					
HEAL Loans (HRSA)					
Pre-1992 Loans	$497	$15	$512	($134)	$378
Post-1991 Loans	56	1	57	(12)	45
Subtotal	**553**	**16**	**569**	**(146)**	**423**
Other					
Pre-1992 Loans	-	-	-	-	-
Post-1991 Loans	4	-	4	-	4
Total	**$557**	**$16**	**$573**	**($146)**	**$427**

In the FY 2000 HHS Accountability Report, the “Other” category of loans receivable valued at $4 million was erroneously reported as “Pre-1992 loans,” instead of “Post-1991 loans.” It is correctly classified in this year's report.

Note 6. Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed Department-wide procedures used by its OPDIVs to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through September 30, 2001. Some OPDIVs use actual data when available.

At fiscal year-end when OPDIVs record the estimated accrual for amounts due to grantees for their expenses, if the amount of outstanding advances exceeds the amount of the accrual, the OPDIV reports an asset entitled "Advances to Grantees." Otherwise, the OPDIV reports a liability called “Accrued Grant Liability” equal to the amount that the accrual exceeds the outstanding advances.

HHS' net grant advances at September 30, 2001 and 2000 are summarized below.

	2001	2000
Grant Advances Outstanding (before year-end grant accrual)	$ 12,609	$ 13,612
Less: Estimated Accrual for Amounts Due to Grantees	(15,684)	(15,455)
Accrued Grant Liability	$ (3,075)	$ (1,843)

All advances other than grant advances are reported in the “Other Asset” category. The detail of these advances is shown in Note 10.

Note 7. Cash and Other Monetary Assets

Cash and Other Monetary Assets are the total amount of time account balances at the Medicare contractors' commercial banks. The Checks Paid Letter-of-Credit method is used for reimbursing Medicare contractors for the payment of covered Medicare services. Medicare contractors issue checks against a Medicare Benefits account maintained at commercial banks. In order to compensate commercial banks for handling the Medicare Benefits accounts, Medicare funds are deposited into non-interest-bearing time accounts. The earnings allowances on the time accounts are used to reimburse the commercial banks. The account balance in FY 2001 was $137 million and in FY 2000 the balance was $61 million.

Note 8. Inventory and Related Property, Net

HHS' inventory and related property, net at September 30, 2001 and 2000 are summarized below.

	2001	2000
Inventory Held for Sale:		
Inventory Held for Current Sale	$ 27	$ 24
Total, Inventory Held for Sale	**$ 27**	**$ 24**
Operating Materials and Supplies (OMS):		
OMS Held for Use	$ 10	$ 8
OMS Reserved for Future Use	8	13
Excess, Obsolete or Unserviceable OMS	-	(5)
Total, Operating Materials and Supplies	**$ 18**	**$ 16**
Stockpile Materials (SM):		
SM Held for Emergency or Contingency	$ 22	$ 23
Total, Stockpile Materials	**$ 22**	**$ 23**
Inventory and Related Property, Gross	$ 67	$ 63
Less: Allowance for Loss/Obsolescence/Spoilage	-	-
Inventory and Related Property, Net	**$ 67**	**$ 63**

HHS inventories are comprised of inventory held for sale, operating materials and supplies used in general operations, and stockpile materials. Inventories are valued at historical cost. Inventory items are classified into appropriate categories, when received, based upon U.S. Standard General Ledger definitions derived from Statement of Federal Financial Accounting Standard (SFFAS) No.3, Accounting for Inventory and Related Property.

CDC is mandated by law to maintain vaccine stockpiles to meet unanticipated needs for the vaccines, and for use in national emergencies. Vaccine stockpiles are maintained by the vaccine manufacturers and consist of several types of vaccines. CDC may only sell these vaccines to state, local, or territorial health departments.

NIH has an inventory of materials to support their day-to-day activities. The PSC, through its Perry Point Supply Service Center, maintains an inventory of pharmaceutical items for sale to HHS components and other federal agencies.

Note 9. General Property Plant and Equipment, Net

Major categories of HHS Property, Plant and Equipment at September 30, 2001 and 2000 are listed below.

	2001					2000
	Depreciation Method	Estimated Useful Lives	Acquisition Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land and Land Rights	N/A	N/A	$ 48	$ -	$ 48	$ 48
Improvements to Land	Straight Line	5-20 Yrs	-	-	-	-
Construction in Progress	N/A	N/A	649	-	649	480
Buildings, Facilities and Other Structures	Straight Line	15-40 Yrs	2,249	(1,043)	1,206	1,142
Equipment	Straight Line	3-20 Yrs	791	(399)	392	350
Internal Use Software	Straight Line	Various	21	(10)	11	-
Assets Under Capital Lease	Straight Line	Life of Lease	32	(7)	25	26
Leasehold Improvements	Straight Line	Life of Lease*	-	-	-	-
Totals			**$3,790**	**$(1,459)**	**$2,331**	**$2,046**

*7 to 15 years or life of lease.

See the disclosure *Deferred Maintenance* in the Required Supplementary Information section for information on deferred maintenance for General PP&E.

Accounting for Internal Use Software was instituted in fiscal year 2001 in compliance with the FASAB Accounting Standard No. 10, *Accounting for Internal Use Software*.

Note 10. Other Assets

Other Assets at September 30, 2001 and 2000 are comprised of the following, all of which are considered entity assets.

	2001	2000
Intragovernmental		
Advances to Other Federal Entities	$ 272	$ 116
Prepayments and Deferred Charges	-	1
Anticipated Congressional Appropriations–CMS	11,166	6,561
Other	13	13
OPDIV Combined, Intragovernmental	$11,451	$ 6,691
Less: Intra-OPDIV Eliminations	(187)	(89)
OPDIV Consolidated, Intragovernmental	11,264	6,602
Less: Inter-OPDIV Eliminations	(4)	-
HHS Consolidated, Intragovernmental	**$11,260**	**$ 6,602**
With the Public		
Prepayments and Deferred Charges	$ 5	$ 4
Travel Advances and Emergency Employee Salary Advances	2	2
Other	-	12
HHS Consolidated, With the Public	**$ 7**	**$ 18**

Medicaid	$ 6,944
Payments to the Health Care Trust Funds	
SMI	1,592
HI	2,630
Total	**$ 11,166**

Anticipated Congressional Appropriation • CMS has recorded an $11,166 million Anticipated Congressional Appropriation to cover liabilities incurred as of September 30, 2001 by the Medicaid program and the Payments to Health Care Trust Funds appropriation as discussed at right and below.

Medicaid • Beginning in FY 1996, CMS has accrued an expense and liability for Medicaid claims Incurred But Not Reported (IBNR) as of September 30th. In FY 2001, the IBNR expense exceeded the available unexpended Medicaid appropriations in the amount of $6,944 million.

A review of the appropriation language by CMS' Office of General Counsel has resulted in a determination that the Medicaid appropriation's indefinite authority provision allows for the entire IBNR amount to be reported as a funded liability. Consequently, CMS has recorded a $6,944 million anticipated appropriation in FY 2001 for IBNR claims that exceeded the available appropriation.

Payments to the Health Care Trust Funds • The Supplementary Medical Insurance (SMI) program is financed primarily by the general fund appropriation, Payments to the Health Care Trust Funds, and by monthly premiums paid by beneficiaries. Section 1844 of the Social Security Act authorizes funds to be appropriated from the general fund to match premiums payable and deposited in the Trust Fund. Section 1844 also outlines the ratio for the match and the method to make the trust funds whole if insufficient funds are available in the appropriation to match all SMI premiums received in the fiscal year. The appropriated amount is an estimate calculated annually by CMS' Office of the Actuary (OACT) and can be insufficient in any particular fiscal year. In FY 2001, the estimate was insufficient and the matching ceased prior to the close of the fiscal year. Subsequently, OACT has valued the unmatched amount as $1,592 million. When this occurs, Section 1844 allows for a reimbursement to be made to the SMI Trust Fund from the Payments to the Health Care Trust Funds appropriation enacted for the following year. Consequently, CMS has recorded a $1,592 million anticipated appropriation in FY 2001 for the amount of the unmatched SMI premiums. Although the actual transfer of funds will occur in FY 2002, CMS has reported the $1,592 million as revenues earned in FY 2001.

In addition, CMS has recorded in the Payments to the Health Care Trust Funds appropriation a liability of $1,592 million to SMI for the unmatched SMI premiums. For reporting purposes, this liability appears under the CMS SMI Other Liabilities on the Consolidating Balance Sheet in the Supplementary Section.

In April 2001, the transfer of the quarterly tax adjustment from the Old Age Survivors and Disability Insurance (OASDI) to the Hospital Insurance (HI) program was understated by $2,630 million as a result of a Treasury clerical error in the warrant process. Public Law 103-66, Section 13215 Social Security and Tier I Railroad Retirement Benefits authorizes funds to be appropriated from the general fund equal to the increase in tax liabilities on OASDI beneficiaries and to be transferred to HI. CMS has recorded in the Payments to the Health Care Trust Funds appropriation a receivable for $2,630 million and an offsetting liability of$2,630 million to HI as a result of Treasury's error. Although the actual transfer of funds will occur in FY 2002, CMS has reported the $2,630 as Transfers-in and-out on the Statement of Changes in Net Position. Treasury is processing an appropriate remedy for the lost HI interest earnings.

Note 11. Accounts Payable

Major categories of HHS' accounts payable at September 30, 2001 and 2000 are summarized below.

	2001			2000		
	Intra-governmental	With the Public	Total	Intra-governmental	With the Public	Total
Covered by Budgetary Resources	$ 97	$643	$740	$122	$491	$613
Not Covered by Budgetary Resources	-	-	-	-	-	
Total OPDIV Accounts Payable, Combined	$ 97	$643	$740	$122	$491	$613
Less: Intra-OPDIV Eliminations	(48)	-	(48)	(21)	-	(21)
Total OPDIV Accounts Payable Consolidated	**$ 49**	**$643**	**$692**	**$101**	**$491**	**$592**
Less: Inter-OPDIV Eliminations	(19)	-	(19)	(43)	-	(43)
Total HHS Accounts Payable Consolidated	**$ 30**	**$643**	**$673**	**$ 58**	**$491**	**$549**

Note 12. Entitlement Benefits Due and Payable

Entitlement Benefits Due and Payable represents benefits due and payable to the public from entitlement programs enacted by law. In HHS the largest entitlement programs, which comprise the bulk of HHS entitlement spending, are Medicare and Medicaid, which are managed by CMS.

Following is a summary of Entitlement Benefits Due and Payable at September 30, 2001 and 2000.

	2001			2000		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Medicare	$ 27,081	$ -	$ 27,081	$ 24,185	$ -	$ 24,185
Medicaid	5,581	7,779	13,360	12,331	-	12,331
Other	-	-	-	6	-	6
Totals	**$ 32,662**	**$ 7,779**	**$ 40,441**	**$ 36,522**	**$ -**	**$ 36,522**

Note 13. Environmental and Disposal Costs

Environmental and Disposal Costs are the costs of removing, containing, and or disposing of, 1) hazardous waste from property, or 2) material and or property that consists of hazardous waste at a permanent or temporary closure or shut-down of associated PP & E.

Following is a summary of HHS' Environmental and Disposal Costs at September 30, 2001 and 2000.

	Intragovernmental			With The Public		
At September 30, 2001:	**Liabilities Covered by Budgetary Resources**	**Liabilities Not Covered by Budgetary Resources**	**Total**	**Liabilities Covered by Budgetary Resources**	**Liabilities Not Covered by Budgetary Resources**	**Total**
FDA	$ 1	$ 2	$ 3	$ -	$ 2	$ 2
NIH	-	-	-	-	11	11
Combined OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
At September 30, 2000:						
FDA	$ 1	$ 2	$ 3	$ 1	$ 2	$ 3
NIH	-	-	-	-	9	9
Combined OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**

Note 14. Loan Guarantees

HHS' loan guarantees are with HRSA's Health Education Assistance Loans (HEAL) program. The liability for loan guarantees is equal to the amount of defaulted guaranteed loans.

	2001			2000		
Loan Programs	**Defaulted Loans Guaranteed**	**Interest Payable**	**Liability for Loan Guarantees**	**Defaulted Loans Guaranteed**	**Interest Payable**	**Liability for Loan Guarantees**
HEAL Loans (HRSA)						
Pre-1992 Guarantees	$ 30	$ -	$ 30	$ 28	$ -	$ 28
Post-1991 Guarantees	321	-	321	306	-	306
Subtotal	**$351**	**$ -**	**$351**	**$334**	**$ -**	**$334**
Other						
Pre-1992 Guarantees	-	-	-	-	-	-
Post-1991 Guarantees	-	-	-	4	-	4
Total	**$351**	**$ -**	**$351**	**$338**	**$ -**	**$338**

In the FY 2000 HHS Accountability Report, the "Other" category of loan guarantees valued at $4 million was erroneously reported as "Pre-1992 guarantees," instead of "Post-1991 guarantees." It is correctly classified in this year's report.

Note 15. Federal Employee and Veterans' Benefits

HHS' Federal Employee and Veterans' Benefits at September 30, 2001 and 2000 are summarized below.

With the Public	2001	2000
Liabilities Not Covered by Budgetary Resources		
PHS Commissioned Corp Pension Liability	$ 5,664	$ 4,942
PHS Commissioned Corp Post-retirement Health Benefits	1,545	540
Workers' Compensation Benefits (Actuarial FECA Liability)	292	264
Total, Federal Employee and Veterans' Benefits	**$ 7,501**	**$ 5,746**

PHS Commissioned Corps Pension: HHS administers the Public Health Service (PHS) Commissioned Corps Retirement System for approximately 5,589 active duty officers and 4,501 retiree annuitants or survivors. Authorized by Public Law 78-410, it is a defined benefit plan and is noncontributory. The plan does not have accumulated assets, funding is provided entirely on a pay as you go basis by Congressional appropriations. Administrative costs are borne by the plan. The plan provides pension payments to those eligible and a post-retirement medical benefits program. At September 30, 2001, the actuarial present value of accumulated plan pension benefits was $7.2 billion of which $501 million was nonvested.

The liability of the PHS medical benefits program was initially presented on the FY 2000 financial statements. At that time, a $529 million adjustment was booked by the PSC as a prior period adjustment to report the beginning actuarial liability for medical benefits reported for PHS Commissioned Corp Officers. As of September 30, 2001, the liability was actuarially determined to be $1,545 million, and as of September 30, 2000 it was $540 million.

Significant assumptions used by the actuary in its reports on the pension and medical programs as of September 30, 2001, were as follows: interest on federal securities of 6.25 percent, annual basic pay scale increase of 3.5 percent, and annual inflation of 3 percent. Withdrawal and retirement rates are based on the historical trends of officers in the PHS retirement system. The Aggregate Entry Age Normal actuarial cost method is used for both programs in the determination of their liabilities.

Workers' Compensation Benefits: The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting in FY 2001 and FY 2000 appear at right:

FY 2001	FY 2000
5.21% in Year 1	6.15% in Year 1
5.21% in Year 2 and Thereafter	6.28% in Year 2
	6.30% in Year 3 and Thereafter

FY	COLA	CPIM
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The compensation COLAs and CPIMs used in projections are displayed at left as shown at left as follows:

Both the PHS Commissioned Corps Pension Workers' Compensation Benefits are liabilities not covered by budgetary resources.

Note 16. Accrued Payroll and Benefits

HHS' Accrued Payroll and Benefits at September 30, 2001 and 2000 are summarized below.

	Intragovernmental			With The Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
At September 30, 2001:						
Accrued Payroll and Leave	$ -	$ -	$ -	$335	$334	$669
Payroll Withholding	47	-	47	43	-	43
Accrued Workers Compensation (including FECA)	3	16	19	-	-	-
Liability for Pension and Insurance Benefits for Administering Agencies (PHS)	-	-	-	-	-	-
Other	-	1	1	-	1	1
Combined OPDIV Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
At September 30, 2000:						
Accrued Payroll and Leave	$ -	$ -	$ -	$301	$311	$612
Payroll Withholding	42	-	42	36	-	36
Accrued Workers Compensation (including FECA)	-	15	15	17	-	17
Liability for Pension and Insurance Benefits for Administering Agencies (PHS)	-	-	-	11	-	11
Other	-	(2)	(2)	-	-	-
Combined OPDIV Totals	**$42**	**$13**	**$55**	**$365**	**$311**	**$676**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	$42	$13	$55	$365	$311	$676
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$42**	**$13**	**$55**	**$365**	**$311**	**$676**

Note 17. Other Liabilities

HHS' other liabilities at September 30, 2001 and 2000 are summarized below.

	Intragovernmental			With The Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
At September 30, 2001:						
Advances from Others	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Revenue	205	187	392	226	29	255
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	15	-	15	38	-	38
Contingent Liabilities	-	-	-	6	-	6
Capital Lease Liability	-	22	22	6	1	7
Custodial Liabilities	-	345	345	-	50	50
Vaccine Injury Compensation Program	-	-	-	-	327	327
Other	4,714	-	4,714	92	-	92
Combined OPDIV Totals	**$4,934**	**$ 554**	**$5,488**	**$ 368**	**$ 407**	**$ 775**
Less: Intra-OPDIV Eliminations	(4,222)	(187)	(4,409)	-	-	-
Consolidated OPDIV Totals	**$ 712**	**$ 367**	**$1,079**	**$ 368**	**$ 407**	**$ 775**
Less: Inter-OPDIV Eliminations	(53)	-	(53)	-	-	-
Consolidated HHS Totals	**$ 659**	**$ 367**	**$1,026**	**$ 368**	**$ 407**	**$ 775**
At September 30, 2000:						
Advances from Others	$ 112	$ -	$ 112	$ 5	$ -	$ 5
Deferred Revenue	183	89	272	180	21	201
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	-	-	-	34	-	34
Contingent Liabilities	-	-	-	28	1	29
Capital Lease Liability	-	22	22	6	1	7
Custodial Liabilities	-	264	264	-	1	1
Vaccine Injury Compensation Program	-	-	-	268	-	268
Other	174	-	174	74	-	74
Combined OPDIV Totals	**$ 469**	**$ 375**	**$ 844**	**$ 595**	**$ 24**	**$ 619**
Less: Intra-OPDIV Eliminations	-	(89)	(89)	-	-	-
Consolidated OPDIV Totals	**$ 469**	**$ 286**	**$ 755**	**$ 595**	**$ 24**	**$ 619**
Less: Inter-OPDIV Eliminations	(161)	-	(161)	-	-	-
Consolidated HHS Totals	**$ 308**	**$ 286**	**$ 594**	**$ 595**	**$ 24**	**$ 619**

Deferred Revenue of $392 million is for the provision of goods and services. The Vaccine Injury Compensation Program (VICP), administered by HRSA, provides compensation for vaccine-related injury or death. The VICP liability of $327 million represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 2001. Other liability categories are described in Note 1, Significant Accounting Policies.

Of the $4,714 million in "Other" reported in FY 2001, $4,707 million was reported by CMS shown at right as follows at right:

OASDI Liability (HI)[1]	$ 2,630
SMI Unmatched Premiums	1,592
FICA Tax (HI)	200
SECA Tax (HI)	253
Other	32
Total	$ 4,707

[1]For explanation of OASDI liability and SMI unmatched premiums, see discussion in Note 10, "Other Assets."

Note 18. Net Position

Net position is the difference between assets and liabilities. The section contains two line items: Unexpended Appropriations, including unobligated appropriations and undelivered orders, and Cumulative Results of Operations. Unobligated appropriations are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law. Undelivered orders represents appropriations obligated (i.e., legally reserved) for the amount of goods or services ordered but not yet received. Cumulative results of operations represents the net difference between 1) expenses and losses and 2) financing sources, including appropriated capital used, and revenues and gains since the inception of the activity.

Following is a summary of Net Position as of September 30, 2001 and 2000.

	2001					2000
	Trust Funds	Revolving Funds	Appropriated & Other Funds	Inter-OPDIV Eliminations	Totals	Totals
Unexpended Appropriations:						
Unobligated						
Available	$ -	$ -	$ 1,336	$ -	$ 1,336	$ 1,631
Unavailable	-	-	8,282	-	8,282	10,970
Undelivered Orders	-	-	60,433	-	60,433	56,334
Subtotals	**$ -**	**$ -**	**$ 70,051**	**$ -**	**$ 70,051**	**$ 68,935**
Cumulative Results/Operations	225,490	810	(5,798)	(10)	220,492	196,745
Net Position	**$225,490**	**$ 810**	**$ 64,253**	**($10)**	**$290,543**	**$265,680**

Amounts not considered Revolving Funds or Trust Funds are reported in the Appropriated & Other Funds column.

Note 19. Leases

Capital Leases: HHS and it's OPDIVS have entered into various capital leases with Indian tribes and the General Services Administration (GSA) for office and warehouse space. Lease terms vary from one to twenty years. Capitalized assets acquired under capital lease agreements and their related liability are reported at the present value of the minimum lease payments.

Operating Leases: HHS and it's components also have commitments under various operating leases with private entities and GSA for office, laboratory spaces, and land. Leases with private entities have initial or remaining noncancelable lease terms from one to twenty years. GSA leases in general are cancelable within 120 days notice.

Following is a Summary of Net Assets under Capital Lease and future minimum lease payments at September 30, 2001 and 2000.

Table 1. Summary of Assets Under Capital Lease	2001	2000
Land and Building	$31	$31
Machinery and Equipment	1	1
Subtotal	**$32**	**$32**
Less: Accumulated Amortization	(7)	(6)
Assets Under Capital Lease	**$25**	**$26**

Table 2. Future Minimum Lease Payments	2001		2000	
	Capital Leases	Operating Leases	Capital Leases	Operating Leases
Year 1	$ 3	$ 186	$ 3	$ 185
Year 2	3	191	3	188
Year 3	3	196	3	192
Year 4	3	192	3	187
Year 5	3	194	3	190
Later Years	40	339	42	330
Total Minimum Lease Payments	**$55**	**$1,298**	**$57**	**$1,272**
Less Imputed Interest	(26)	-	(28)	-
Total Capital Lease Liability	**$29**	**$ -**	**$29**	**$ -**

Note 20. Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

HHS' consolidated gross cost and exchange revenue by budget functional classification for the fiscal years ended September 30, 2001 and 2000 are summarized below.

	2001							2000
	Education Training and Social Services	Health	Medicare	Income Security	Admin of Justice	Natural Resources and Environment	OPDIV Consolidated Totals	OPDIV Consolidated Totals
Intragovernmental								
Gross Cost	$ 80	$2,268	$306	$ 15	$ 1	$ 20	$2,690	$2,389
Less: Exchange Revenue	(7)	(1,175)	(1)	-	-	(11)	(1,194)	(989)
Net Cost Intragovernmental	$ 73	$1,093	$305	$ 15	$ 1	$ 9	$1,496	$1,400
With the Public								
Gross Cost	$ 16,725	$168,872	$242,801	$ 27,739	$ 94	$ 66	$456,297	$407,145
Less: Exchange Revenue	-	(1,063)	(23,749)	-	-	-	(24,812)	(23,059)
Net Cost-With the Public	$ 16,725	$167,809	$219,052	$ 27,739	$ 94	$ 66	$431,485	$384,086
Totals								
Gross Cost	$ 16,805	$171,140	$243,107	$ 27,754	$ 95	$ 86	$458,987	$409,534
Less: Exchange Revenue	(7)	(2,238)	(23,750)	-	-	(11)	(26,006)	(24,048)
Net Cost of Operations	$ 16,798	$168,902	$219,357	$ 27,754	$ 95	$ 75	$432,981	$385,486

Note 21. Prior Period Adjustments

Prior period adjustments are included in the calculation of the net change in cumulative results of operations to correct errors and accounting changes with retroactive effect.

Following is a summary of the prior period adjustments as of September 30, 2001 and 2000.

Increases (Decreases) to Equity	2001	2000
Correction of Errors	($32)	($546)
Change in Accounting Principles	6	15
Adjustments to Beginning Net Position	(458)	(183)
Total	**($484)**	**($714)**

Adjustments to Beginning Net Position represent FY 1999 and FY 2000 audit adjustments booked by OPDIVs after the HHS audit deadlines of March 1, 2000 and 2001, respectively, as well as an additional net position adjustment related to prior year intra-HHS eliminations. These adjustments are not included in the OPDIV statement figures used to compile the Department-wide figures. Therefore, the Department must enter an adjustment to Beginning Net Position to reflect the Department's true beginning net position.

The large decrease in the Correction of Errors component of prior period adjustments is the result of PSC reporting a one-time adjustment of $529 million to actuarial liability for PHS Commissioned Corp Post-retirement Health Benefits in FY 2000. See Note 15, Federal Employee & Veterans' Benefits for a more detailed explanation of the prior period adjustment made in FY 2000.

Note 22. Custodial Activity

ACF receives monies from the Internal Revenue Service for outlay to the states for Child Support. These monies represent delinquent child support payments withheld from Internal Revenue tax refunds. Receipts are transferred to appropriation 75X6234 to cover outlays. During FY 2001, receipts amounted to $1,598 million and outlays amounted to $1,562 million.

Note 23. Medicare Benefit Payments

Medicare Claims Estimated Improper Payments

Federal government audits require the review of programs for compliance with federal laws and regulations. Accordingly, the OIG reviewed a statistically valid sample of CMS' Medicare claims to determine that claims were paid properly by Medicare contractors, and that services were actually performed and were medically necessary. Medicare, like other insurers, makes payments based on a standard claims form. The internal claims process involves reviewing claims as billed and paying the correct amount for the services rendered. Based on the OIG statistical sample, the point estimate of improper Medicare benefit payments made during FY 2001 was $12.1 billion or about 6.3 percent of the $191.8 billion in processed fee-for-service payments reported by CMS. The estimated range of the improper payments at 95 percent confidence level is $7.2 billion to $16.9 billion, or about 3.8 percent to 8.9 percent, respectively. The majority of the errors fell into four broad categories: lack of medical necessity, insufficient or no documentation, incorrect coding, and noncovered/unallowable services.

Cost Report Settlement Process

The cost report settlement process represents the value of final outlays to providers based on fiscal intermediary (FI) audits, reviews and final settlements of Medicare cost reports. Institutional providers are required to file Medicare cost reports. For providers paid under the Prospective Payment System (PPS), the cost report includes costs that are not covered under PPS, such as disproportionate share hospital payments, indirect medical education payments, and other indirect costs. For providers paid on a cost basis, the cost report represents the total costs incurred by the provider for medical services to patients and reflects the final distribution of these costs to the Medicare program.

In FY 2001, 34,118 cost reports totaling $92.7 billion were reviewed. Approximately $74.4 billion represented inpatient claims to PPS providers. These inpatient claims were included in prior year claims testing that resulted in the determination of the Medicare claims improper payment error rate. The cost report settlements, therefore, focused on the remaining non-PPS balance of about $18.3 billion.

Following is a summary of cost reports reviewed and the amount of costs claimed and disallowed at September 30, 2001 and 2000.

Cost Report Summary	2001			2000		
	Desk Reviews and Other	Audits	Total	Desk Reviews and Other	Audits	Total
Cost Reports Reviewed	30,393	3,725	34,118	28,923	5,653	34,576
Costs Claimed	$ 36,810	$ 55,891	$ 92,701	$ 40,713	$ 63,027	$103,740
Disallowed	$ 407	$ 350	$ 757	$ 857	$ 1,449	$ 2,306

The $757 million disallowed represents 4 percent of the $18.3 billion non-PPS balance. Based on the current disallowance rates, if the full-scope audits were expanded to include the entire universe, the total amount disallowed would range from $757 million to $1.3 billion. Therefore, by limiting the amount of full-scope audits that were conducted, CMS may have overpaid providers by as much as $493 million.

Potential Liability

The CMS routinely processes and settles cost reports and payment issues for institutional providers and healthcare insurers. As part of this process, some providers/insurers have filed suits challenging the amount of reimbursement to which they claim entitlement. The CMS cannot reasonably estimate the probability of the providers successfully winning their suits or the exact amount of the potential loss to the Medicare trust funds.

In the opinion of management, the resolution of these matters could potentially have a material impact on the results of operations and financial condition of CMS.

Note 24. Federal Matching Contribution

SMI benefits and administrative expenses are financed by monthly premiums paid by Medicare beneficiaries and are matched by the federal government through the general fund appropriation, Payments to the Health Care Trust Funds. Section 1844 of the Social Security Act authorizes appropriated funds to match SMI premiums collected, and outlines the ratio for the match as well as the method to make the trust funds whole if insufficient funds are available in the appropriation to match all premiums received in the fiscal year. The monthly SMI premium per beneficiary was $45.50 from October 2000 through December 2000 and $50 from January 2001 through September 2001. Premiums collected from beneficiaries totaled $22.3 billion in FY 2001 and were matched by a $71.4 billion contribution from the Federal government.

Note 25. Contingencies

The Department and its components are parties to various administrative proceedings, legal actions, and claims brought by or against it. These contingencies arise in the normal course of operations and their ultimate disposition is unknown.Management, in consultation with legal counsel, has determined that it is reasonably possible that certain claims may result in an adverse outcome to the Department. However, an estimate of the range of possible liability cannot be determined. Based on information currently available, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements of the Department.

Contingencies related to Medicare cost reports and benefit payments are discussed in Note 23, Medicare Benefit Payments.

Stewardship Property, Plant, and Equipment

For the Fiscal Year Ended September 30, 2001

HHS has two types of property, plant, and equipment (PP&E) for stewardship reporting: Heritage Assets and Indian Trust Lands. The Indian Health Service (IHS) reports both types.

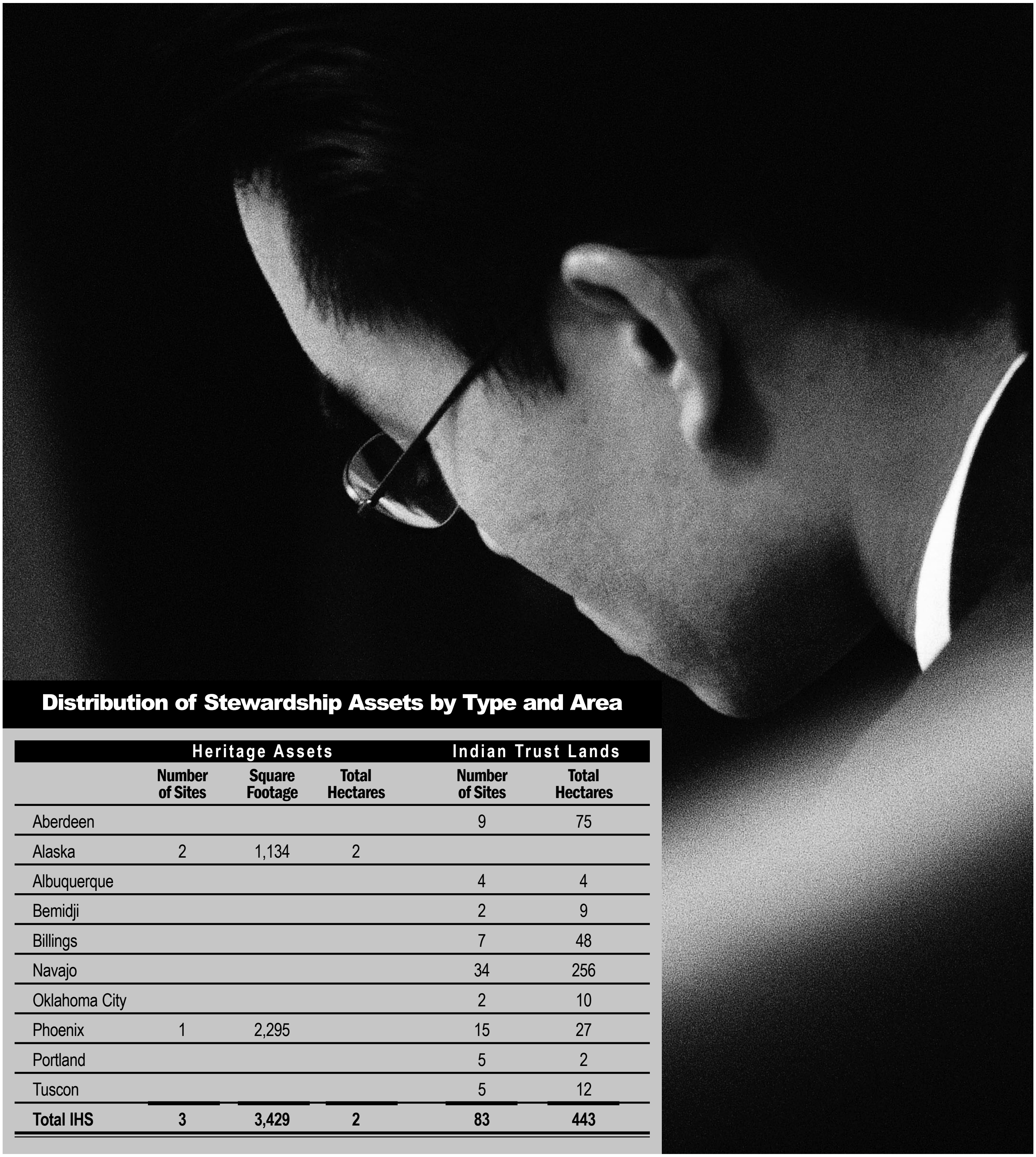
Heritage Assets are PP&E of historical, natural, cultural, educational, or artistic significance. Heritage Assets are generally expected to be preserved indefinitely. This category includes buildings on the National Historic Register, cemetery sites, etc.

Stewardship Land includes land and land rights other than that acquired for or in connection with general PP&E. "Land" is defined as the solid part of the surface of the earth, excluding natrual resources related to land. Examples of Stewardship Land include land used as forests and parks, and land used for wildlife and grazing.

Indian Trust lands are those lands that do not meet the definition of Stewardship Land, but are held by IHS as separate and distinct, because of the Federal government's long-term trust responsibility. All Indian Trust lands, when no longer needed by IHS in connection with its General PP&E, must be returned to the Department of the Interior's Bureau of Indian Affairs for continuing trust responsibility and oversight. IHS separately reports Indian Trust land parcels by site and installation numbers, and Indian Trust lands from General PP&E situated thereon.

IHS Stewardship Classes

Asset Description	Number of Sites	Total Square Footage	Federal Hectares	Total Hectares
Heritage Assets	3	3,429	2 (5 Acres)	2 (5 Acres)
Indian Trust Lands	83		442.8 (1,107 Acres)	442.8 (1,107 Acres)



Distribution of Stewardship Assets by Type and Area

	Heritage Assets			Indian Trust Lands	
	Number of Sites	Square Footage	Total Hectares	Number of Sites	Total Hectares
Aberdeen				9	75
Alaska	2	1,134	2		
Albuquerque				4	4
Bemidji				2	9
Billings				7	48
Navajo				34	256
Oklahoma City				2	10
Phoenix	1	2,295		15	27
Portland				5	2
Tuscon				5	12
Total IHS	**3**	**3,429**	**2**	**83**	**443**

Investment in Nonfederal Physical Property

For the Fiscal Year Ended September 30, 2001

Investment in Nonfederal Physical Property refers to expenses incurred by the Federal Government for the purchase, construction, or major renovation of physical property owned by state, local, or tribal governments: including major additions, alterations and replacements; the purchase of major equipment and the purchase or improvement of other physical assets. Cash grants related to nonfederal physical property programs are included in this decision, but grants for maintenance and operations are not considered investments. In HHS, the only investment in nonfederal physical property relates to former federal properties donated by the Indian Health Service (IHS).

Former federal properties are sites, built with federal funds, over which ownership has been transferred to state, local or Indian tribes through the Indian Self-determination and Education Assistance Act, Public Law 93-638, Section 105(f)(2), as amended. This act allows IHS to donate to an Indian tribe or tribal organization title to any personal or real property. Under this authority, the final regulations governing these transfers were developed and published on June 24, 1996, as 25 CFR Part 900.

During FY 1999, IHS transferred two properties in Oklahoma City, Oklahoma to tribal governments. HHS has made no new investments in nonfederal physical property since FY 1999.

Investment in Human Capital

For the Fiscal Year Ended September 30, 2001

"Investments in Human Capital" are expenses incurred by federal education and training programs for the public, which are intended to maintain or increase national productive capacity. Two operating divisions of the Department conduct education and training programs under this category: Administration for Children and Families, and the National Institutes of Health.

Administration for Children and Families (ACF)

ACF is able to estimate investment in human capital for the Administration for Developmental Disabilities (ADD) using existing data collection activities. Under ADD, 22 grants were awarded for Projects of National Significance (PNS). PNS grants are awarded to public or private, non-profit institutions to enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities. Monies also support the development of national and state policy to serve this community. For FY 2001, grants awarded totaled $6 million.

ACF is unable to provide baseline data for two of its programs for FY 2001 and FY 2000. Under both the Temporary Assistance to Needy Families (TANF) program and the Office of Refugee Resettlement (ORR), states have flexibility in how they spend their money.

National Institutes of Health (NIH)

The NIH Research Training and Career Development Program addresses the need for trained personnel to conduct medical research. The primary goal of the support that NIH provides for graduate training and career development is to produce new, highly trained investigators who are likely to perform research that will benefit the Nation's health. Our ability to maintain the momentum of recent scientific progress and our international leadership in medical research depends upon the continued development of new, highly trained investigators.

OPDIV/Program	2001	2000	1999	1998	1997
ACF - Administration on Developmental Disabilities	$6	$8	$6	$1	N/A
NIH - Research Training and Career Development	1,118	872	820	660	N/A
Totals	**$1,124**	**$880**	**$826**	**$661**	**N/A**

Investment in Research and Development

For the Fiscal Year Ended September 30, 2001

The many research and development programs in HHS include the following:

FDA has two programs that meet the requirements of research and development investments: Orphan Products Development (OPD) Program and FDA Research Grants Program. While FDA's center components conduct scientific studies, FDA does not consider this type of research as "research and development" because it is used to support FDA's regulatory policy and decision-making processes.

The OPD Program was established by the Orphan Drug Act (PL 97-414, as amended) with the purpose of identifying orphan products and facilitating their development. An orphan product is a drug, biological product, medical device, or medical food that is intended to treat a rare disease or condition (i.e., one with a prevalence of fewer than 200,000 people in the United States.)

The FDA Research Grants Program is a grants program which is listed as No. 93-103 under the Catalog of Federal Domestic Assistance, whose purpose is to assist public and non-public institutions and for-profit organizations to establish, expand, and improve research, demonstration, education, and information dissemination activities concerned with a wide variety of FDA areas.

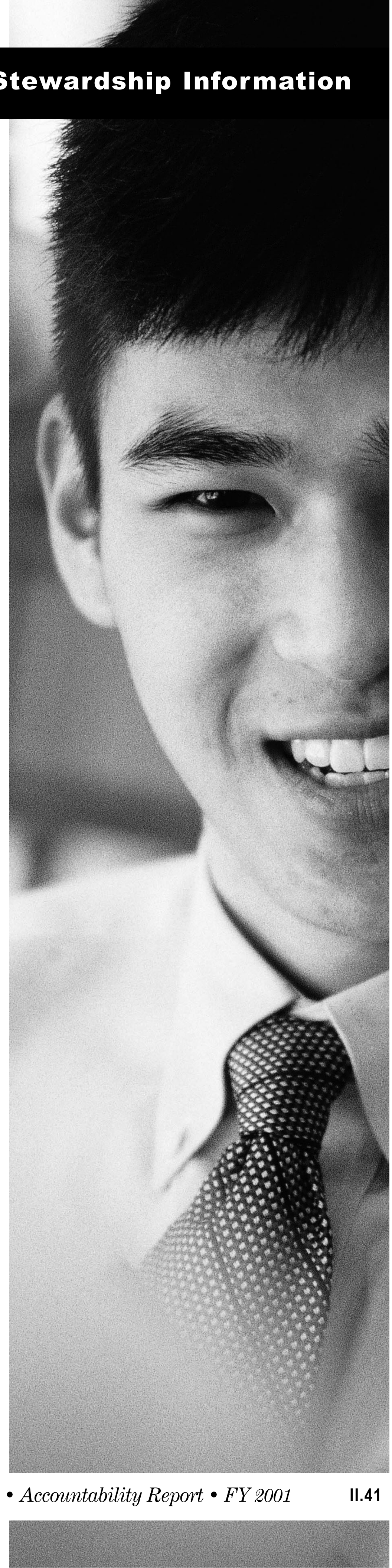
HIV/AIDS prevention, Infectious Diseases, and Environmental and Occupational Health were the primary areas where CDC's research and development was invested.

The NIH Research Program includes all aspects of the medical research continuum, including basic and disease-oriented research, observational and population-based research, behavioral research, and clinical research, including research to understand both health and disease states, to move laboratory findings into medical applications, to assess new treatments or compare different treatment approaches; and health services research. Furthermore, NIH regards the expeditious transfer of the results of its medical research for further development and commercialization of products of immediate benefit to improved health as an important mandate.

HRSA and AHRQ oversee research and development programs intended to increase or maintain national economic productivity capacity.

Investment in Research and Development

OPDIV	Basic	Applied	Develop-mental	2001	2000	1999	1998	1997	Total
ACF		$31		$31	$30	$19	$13	N/A	$93
AHRQ		127		127	—	97	139	N/A	363
CDC		557		557	505	433	398	$323	2,216
FDA		23	$3	26	26	18	53	N/A	123
HRSA	$16			16	15	18	44	N/A	93
NIH	9,593	6,395		15,988	14,690	13,580	11,038	N/A	55,296
Totals	**$9,609**	**$7,133**	**$3**	**$16,745**	**$15,266**	**$14,165**	**$11,685**	**$323**	**$58,184**



Social Insurance

For the Fiscal Year Ended September 30, 2001

Medicare, the largest health insurance program in the country, has helped fund medical care for the nation's aged and disabled for more than three decades. A brief description of the provisions of Medicare's Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) programs is included on page II.42.

The required supplementary stewardship information (RSSI) contained in the following sections is presented in accordance with the requirements of the Federal Accounting Standards Advisory Board (FASAB). Included are a description of the long-term sustainability and financial condition of the program and a discussion of trends revealed in the data.

RSSI material is generally drawn from the *2001 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* and the *2001 Annual Report of the Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund*, which represent the official government evaluation of the financial and actuarial status of the Medicare trust funds. Unless otherwise noted, all data are for calendar years, and all projections are based on the Trustees' intermediate set of assumptions.

Printed copies of the Trustees Reports may be obtained from CMS' Office of the Actuary (410-786-6386). The reports are also available online at www.hcfa.gov/pubforms/tr/hi2001/toc.htm and www.hcfa.gov/pubforms/tr/smi2001/toc.htm.

Actuarial Projections

Cashflow in Nominal Dollars

Using nominal dollars[1] for short-term projections paints a reasonably clear picture of expected performance with particular attention on cashflow and trust fund balances. Over longer periods, however, the changing value of the dollar can complicate efforts to compare dollar amounts in different periods and can create severe barriers to interpretation, since projections must be linked to something that the mind can comprehend in today's experience.

[1] Dollar amounts that are not adjusted for inflation or other factors are referred to as "nominal."

The projected year of depletion of the trust fund is very sensitive to assumed future economic and other trends. Under less favorable conditions the cash flow could turn negative much earlier and thereby accelerate asset exhaustion.

For this reason, long-range (75-year) Medicare projections in nominal dollars are seldom used and are not presented here. Instead, nominal-dollar estimates for the HI trust fund are displayed only through the projected date of depletion, currently the year 2029. Estimates for the SMI program are presented only for the next 10 years, primarily due to the fact that under present law, the SMI trust fund is in automatic financial balance every year.

HI

Chart 1 shows the actuarial estimates of HI income, disbursements, and assets for each of the next 30 years, in nominal dollars. Income includes payroll taxes, income from the taxation of Social Security benefits, interest earned on the U.S. Treasury securities held by the trust fund, and other miscellaneous revenue. Disbursements include benefit payments and administrative expenses. The estimates are for the "open group" population—all persons who will participate in the program during the period as either taxpayers or beneficiaries, or both—and consist of payments from, and on behalf of, employees now in the workforce, as well as those who will enter the workforce over the next 30 years. The estimates also include expenditures attributable to these current and future workers, in addition to current beneficiaries.

As Chart 1 shows, under the intermediate assumptions HI expenditures would begin to exceed income including interest in 2021 and income excluding interest in 2016. This situation is in part due to the retirement, starting in 2010, of those born during the 1946-1965 baby boom. It also arises as a result of health cost increases that are expected to continue to grow faster than workers' earnings. Beginning in 2021, the trust fund would start redeeming trust fund assets; in 2029, the assets would be depleted.

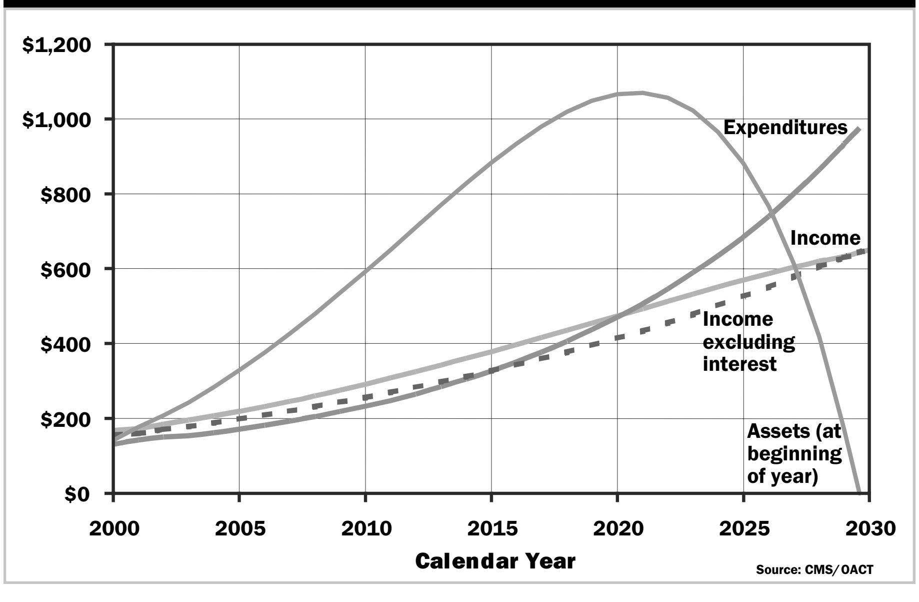
The projected year of depletion of the trust fund is very sensitive to assumed future economic and other trends. Under less favorable conditions the cash flow could turn negative much earlier and thereby accelerate asset exhaustion.

SMI

Chart 2 shows the actuarial estimates of SMI income, disbursements, and assets for each of the next 10 years, in nominal dollars. Whereas HI estimates are displayed through the year 2030, SMI estimates cover

Please note that the 2001 Trustees Reports for HI and SMI (issued March 19, 2001) were used as source documents for this FY 2001 report. As this report goes to print, we anticipate that the Government-wide financial statement report for FY 2001 (expected to be issued March 31, 2002) will contain updated information from the 2002 Trustees Reports (which are expected to be issued on or near March 15, 2002). Thus, some data related to the Medicare trust funds contained in this FY 2001 report may differ from that contained in the FY 2001 Financial Report of the United States Government.

Chart 1 - HI Income, Expenditures, and Assets 2000 - 2030 (in billions)



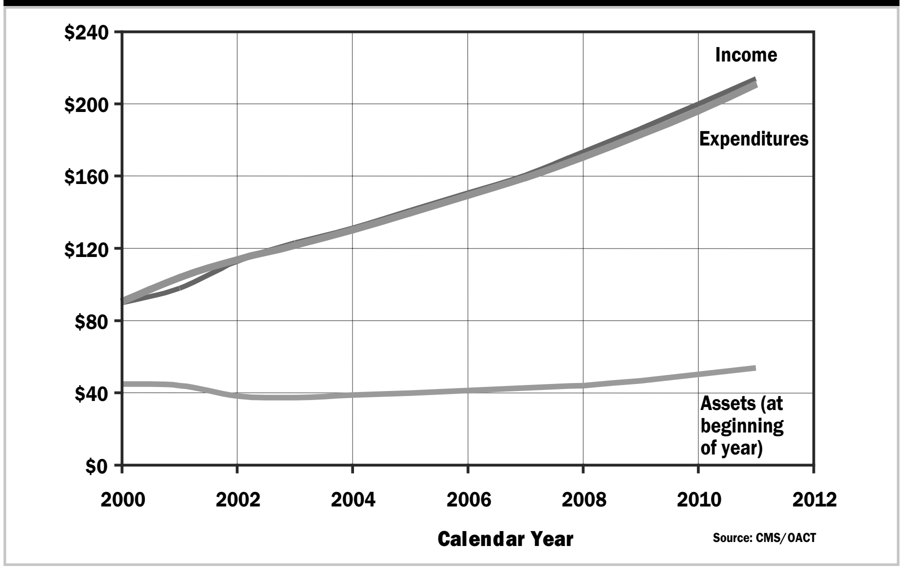
The existence of large trust fund balances, therefore, represents an important obligation for the Government to pay future Medicare benefits but does not necessarily make it easier for the Government to pay those benefits.

only the next 10 years, as the SMI program differs fundamentally from the HI program in regard to the way it is financed. In particular, SMI financing is not at all based on payroll taxes but instead on monthly premiums and income from the general fund of the U.S. Treasury—both of which are established annually to cover the following year's expenditures. Estimates of SMI income and expenditures, therefore, are virtually the same, as illustrated in Chart 2, and so are not shown separately beyond 10 years.

Income includes monthly premiums paid by, or on behalf of, beneficiaries, transfers from the general fund of the U.S. Treasury, and interest earned on the U.S. Treasury securities held by the trust fund.[2] Chart 2 displays only total income; it does not represent income excluding interest. The difference between the two is not visible graphically since interest is not a significant source of income.[3] Disbursements include benefit payments as well as administrative expenses.

As Chart 2 indicates, SMI income is very close to expenditures. As noted earlier, this is due to the financing mechanism of the SMI program. Consequently, under present law, the SMI program is automatically in financial balance every year, regardless of future economic and other conditions.

Chart 2 - SMI Income, Expenditures and Assets 2000 - 2011 (in billions)



By law, Medicare trust fund assets are invested in special U.S. Treasury Securities, which earn interest while Treasury uses those cash resources for other Federal purposes. During times of Federal "on-budget" surpluses, such as fiscal year 2000, this process reduces the Federal debt held by the public. In times of Federal budget deficits, Medicare surpluses reduce the amount that must be borrowed from the public to finance those deficits. The trust fund assets are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing other Federal expenditures. (When financed by borrowing, the effect is to defer today's costs to later generations who will ultimately repay the funds being borrowed for today's Medicare beneficiaries.) The existence of large trust fund balances, therefore, represents an important obligation for the Government to pay future Medicare benefits but does not necessarily make it easier for the Government to pay those benefits.

[2] In this financial statement for the Centers for Medicare & Medicaid Services, Medicare income and expenditures are shown from a "trust fund perspective." All sources of income to the trust funds are reflected, and the actuarial projections can be used to assess the financial status of each trust fund. Corresponding estimates for Medicare and other Federal social insurance programs are also shown in the annual *Financial Report of the United States Government*, also known as the consolidated financial statement. On a consolidated basis, the estimates are shown from a "Federal budget" perspective. In particular, certain categories of trust fund income—primarily interest payments and SMI general revenues—are excluded because they represent intragovernmental transfers, rather than revenues received from the public. Thus, the consolidated financial statement focuses on the overall balance between revenues and outlays for the Federal budget, rather than on the financial status of individual trust funds. Each perspective is appropriate and useful for its intended purpose.

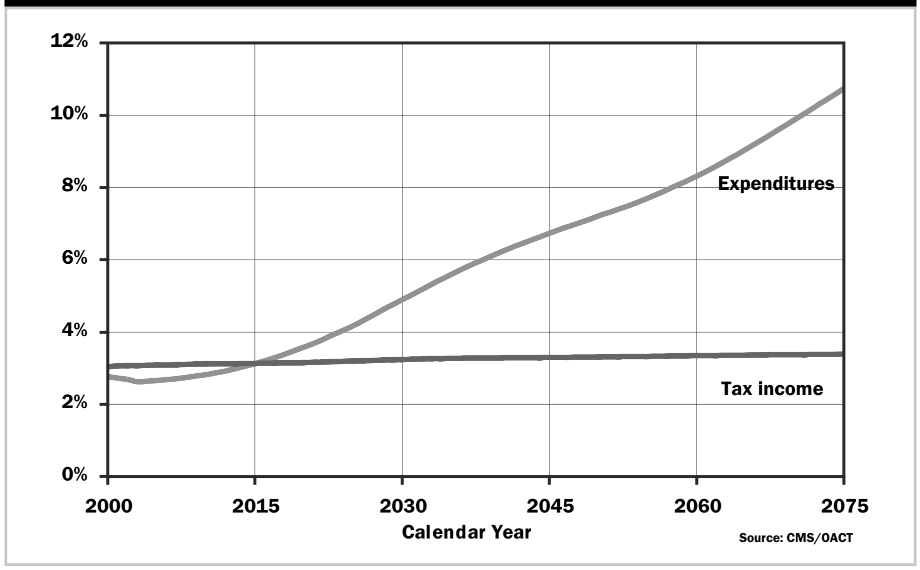
[3] Interest income is generally about 4 percent of total SMI income.

HI Cashflow as a Percent of Taxable Payroll

Each year, estimates of the financial and actuarial status of the HI program are prepared for the next 75 years. Because of the difficulty in comparing dollar values for different periods without some type of relative scale, income and expenditure amounts are shown relative to the earnings in covered employment that are taxable under the HI program (referred to as "taxable payroll").

Chart 3 illustrates income excluding interest and expenditures as a percent of taxable payroll over the next 75 years. In the 2001 Trustees Reports, the long-range cost growth assumptions underlying these financial projections have been revised upward. This change was based on the recommendation of the 2000 Medicare Technical Review Panel, an independent, expert group of actuaries and economists convened by the Trustees to review the Medicare projections. In prior Trustees Reports, per beneficiary HI expenditures were assumed to increase at the same rate as average hourly earnings in the economy. Beginning with the projections shown in the 2001 report, the long-range growth assumption is increased to the level of per capita GDP growth plus 1 percentage point—which is approximately 1 percentage point per year faster than the prior assumption. As a result, after 2030 the HI expenditures as a percent of taxable payroll are projected to be substantially greater than those shown in the 2000 report.

Chart 3 - HI Income Excluding Interest and Expenditures as a Percentage of Taxable Payroll 2000 - 2075



Since HI payroll tax rates are not scheduled to change in the future under present law, payroll tax income as a percentage of taxable payroll will remain constant at 2.90 percent. Income from taxation of benefits will increase only gradually as a greater proportion of Social Security beneficiaries become subject to such taxation over time. Thus, as Chart 3 shows, the income rate is not expected to increase significantly over current levels. On the other hand, expenditures as a percent of taxable payroll sharply escalate—in part due to healthcare cost increases that exceed wage growth, but also due to the retirement of those born during the 1946-1965 baby boom.

HI and SMI Cashflow as a Percent of GDP

Expressing Medicare incurred disbursements as a percentage of the gross domestic product (GDP) gives a relative measure of the size of the Medicare program compared to the general economy. The GDP represents the total value of goods and services produced in the United States. This measure provides an idea of the relative financial resources that will be necessary to pay for Medicare services.

HI

Chart 4 shows income excluding interest and expenditures for the HI program over the next 75 years expressed as a percentage of GDP. In 2000, the expenditures were $131.1 billion, which was 1.32 percent of GDP. This percentage is projected to increase steadily throughout the entire 75-year period.

SMI

As noted earlier, because of the SMI financing mechanism in which income mirrors expen-

Chart 4 - HI Income Excluding Interest and Expenditures as a Percent of GDP 2000 - 2075

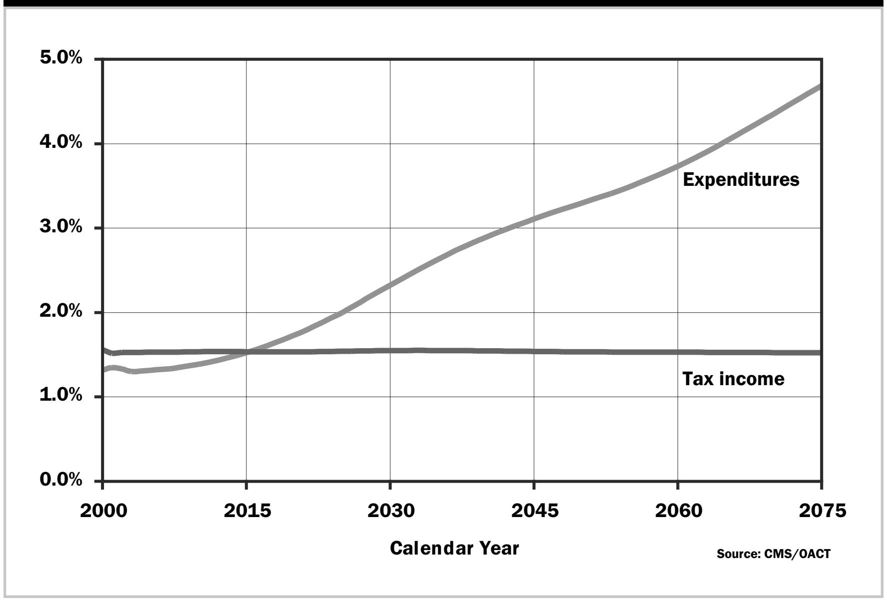
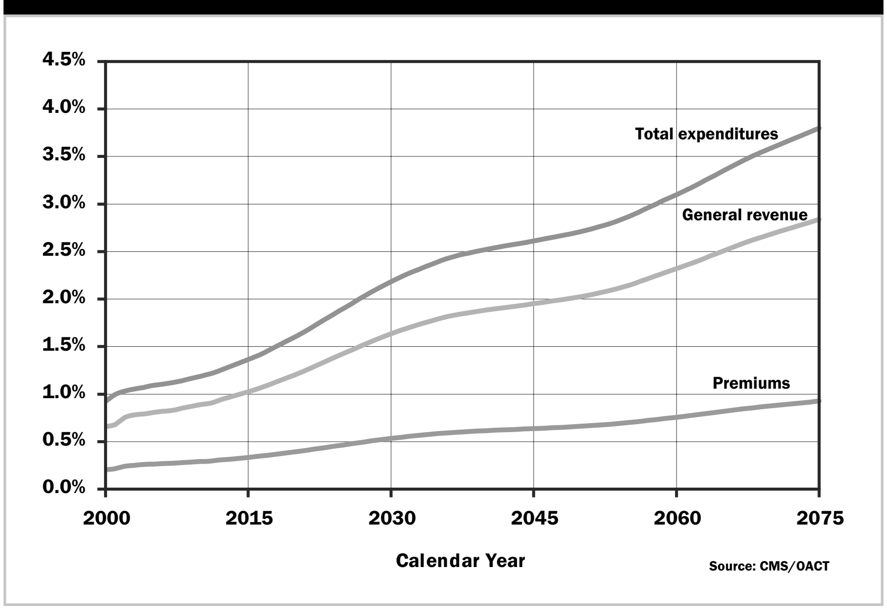


Chart 5 - SMI Expenditures as a Percent of GDP 2000 - 2075



ditures, it is not necessary to test for imbalances between income and expenditures. Rather, it is more important to examine the projected rise in expenditures and the implications for beneficiary premiums and Federal general revenue payments.

Chart 5 shows expenditures for the SMI program over the next 75 years expressed as a percentage of GDP. In 2000, SMI expenditures were $90.7 billion, which was 0.92 percent of GDP. This percentage is projected to increase steadily, reflecting growth in the volume and intensity of services provided per beneficiary throughout the projection period, together with the effects of the baby boom retirement.

The SMI expenditure projections, like those for HI, reflect the 2000 Medicare Technical Review Panel's recommended change to the assumed long-range growth rates. In past Trustees Reports, growth in SMI per beneficiary expenditures was assumed to gradually slow and to reach the level of per capita GDP growth after about 25 years. In this report, the long-range growth rate assumption is set equal to per capita GDP growth plus 1 percentage point. Expenditure growth for years 13 to 25 is assumed to decline gradually and to grade smoothly into the long-range assumptions.

Also shown in Chart 5 are the proportions of total costs that will be met through beneficiary premiums and general revenues under present law.[4] As indicated, premiums will cover roughly 25 percent of total expendi-

[4] See footnote 2 regarding the treatment of SMI general revenue income on page II.43.

tures. Both sources of revenue would increase more rapidly than the GDP over time, to match the faster growth rates for SMI expenditures.

Worker-to-Beneficiary Ratio

HI

Another way to evaluate the long-range outlook of the HI program is to examine the projected number of workers per HI beneficiary. Chart 6 illustrates this ratio over the next 75 years. For the most part, current benefits are paid for by current workers. The retirement of the baby boom generation will therefore be financed by the relatively smaller number of persons born after the baby boom. In 2000, every beneficiary had 4.0 workers to pay for his or her benefit. In 2030, however, after the last baby boomer turns 65, there will be only about 2.3 workers per beneficiary. The projected ratio continues to decline until there are just 2.0 workers per beneficiary in 2075.

Actuarial Present Values

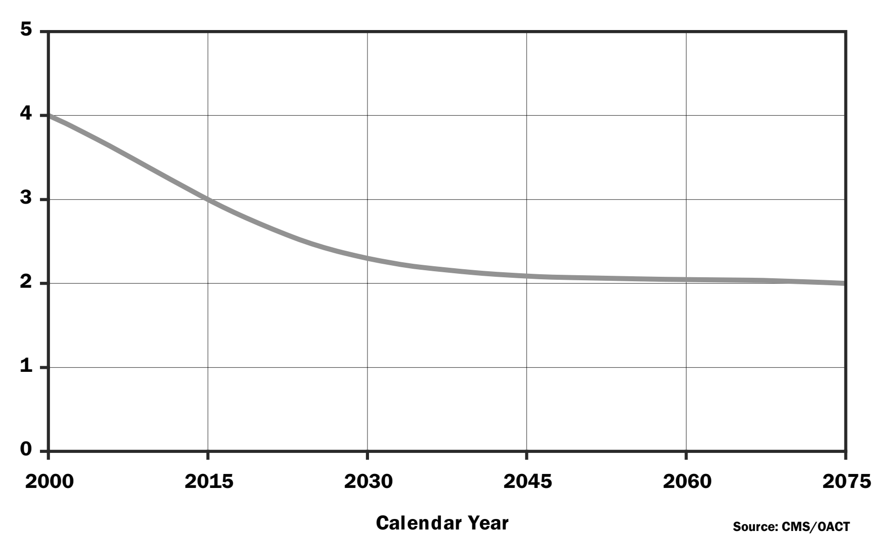
Projected future expenditures can be summarized by computing an "actuarial present value." This value represents the lump-sum amount that, if invested today in trust fund securities, would be just sufficient to pay each year's expenditures over the next 75 years, with the fund being drawn down to zero at the end of the period. Similarly, future revenues (excluding interest) can be summarized as a single, equivalent amount as of the current year. Actuarial present values are calculated by discounting the future annual amounts of non-interest income and expenditures at the assumed rates of interest credited to the HI and SMI trust funds.

Present values are computed as of the beginning of the 75-year projection period for three different groups of participants: current workers and other individuals who have not yet attained retirement age; current beneficiaries who have attained retirement age; and new entrants, or those who are expected to become participants in the future.

Table 1 sets forth, for each of these three groups, the actuarial present values of all future HI and SMI expenditures and all future non-interest income for the next 75 years. Also shown is the net present value of cash-flow, which is calculated by subtracting the actuarial present value of future expenditures from the actuarial present value of future income.

The long-range cost projections for 2001 are much higher than projected in the 2000 financial report because of the revision to the long-range Medicare expenditure growth rate assumptions. As mentioned previously, this change was recommended by the 2000 Medicare Technical Review Panel. Reflecting an expectation that the impact of advances in medical technology on healthcare costs will continue—both in Medicare and in the health sector as a whole—per beneficiary HI and SMI expenditures are now assumed to increase in the long range at the rate of per capita GDP growth plus 1 percentage point.

Chart 6 - Number of Covered Workers per HI Beneficiary 2000 - 2075



The existence of a large actuarial deficit for the HI trust fund indicates that, under reasonable assumptions as to economic, demographic, and health cost trends for the future, HI income is expected to fall substantially short of expenditures in the long range.

As shown in Table 1, the HI program has an actuarial deficit of more than $4.5 trillion over the 75-year projection period, as compared to more than $2.5 trillion in the 2000 financial report. As noted previously, this higher long-range cost projection is the result of a revision to the long-range Medicare expenditure growth rate assumptions. SMI, on the other hand, does not have similar problems because it is in automatic financial balance every year due to its financing mechanism.

The existence of a large actuarial deficit for the HI trust fund indicates that, under reasonable assumptions as to economic, demographic, and health cost trends for the future, HI income is expected to fall substantially short of expenditures in the long range. Although the deficits are not anticipated in the immediate future, as indicated by the preceding cashflow projections, they nonetheless pose a serious financial problem for the HI program.

Table 1 - Actuarial Present Values of Hospital Insurance and Supplementary Medical Insurance Revenues and Expenditures: 75-year Projection as of January 1, 2001 (in billions)

	HI		SMI[2]	
	2001	2000	2001	2000
Actuarial present value[1] of estimated future income (excluding interest) received from or on behalf of:				
Current participants[3] who, at the start of projection period:				
Have not yet attained eligibility age (ages 15-64)	$4,136	$3,757	$7,378	$6,109
Have attained eligibility age (age 65 and over)	113	97	1,032	934
Those expected to become participants (under age 15)	3,507	3,179	2,370	1,616
All current and future participants	$7,757	$7,033	$10,780	$8,659
Actuarial present value[1] of estimated future expenditures[4] paid to or on behalf of:				
Current participants[3] who, at the start of projection period:				
Have not yet attained eligibility age (ages 15-64)	$8,568	$6,702	$7,415	$6,094
Have attained eligibility age (age 65 and over)	1,693	1,681	1,159	1,051
Those expected to become participants (under age 15)	2,225	1,349	2,206	1,514
All current and future participants	$12,487	$9,732	$10,780	$8,659
Actuarial present value[1] of estimated future income (excluding interest) less expenditures	**($4,730)**	**($2,700)**	**$0**	**$0**
Trust fund assets at start of period	177	141	44	45
Assets at start of period plus actuarial present value[1] of estimated future income (excluding interest) less expenditures	**($4,553)**	**($2,558)**	**$44**	**$45**

[1] Present values are computed on the basis of the intermediate set of economic and demographic assumptions specified in the Report of the Board of Trustees for the year shown and over the 75-year projection period beginning January 1 of that year.

[2] SMI income includes premiums paid by beneficiaries and general revenue contributions made on behalf of the beneficiaries. See footnote 2 on page II.43 concerning treatment of SMI general revenues in the consolidated financial statement of the U.S. government.

[3] Current participants are the “closed group” of individuals age 15 and over at the start of the period. The projection period for these current participants would theoretically cover all of their working and retirement years, a period that could be greater than 75 years in some instances. As a practical matter, the present values of future income and expenditures from/for current participants beyond 75 years are not material. The projection period for new entrants covers the next 75 years.

[4] Expenditures include benefit payments and administrative expenses.

Note: Totals do not necessarily equal the sums of rounded components.

It is important to note that no liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the existing unpaid Medicare claim amounts as of September 30, 2001. This is because Medicare is accounted for as a social insurance program rather than a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and, unlike employer-sponsored pension benefits for employees, are not considered deferred compensation. Accrual accounting for a pension program, by contrast, recognizes retirement benefit expenses as they are earned so that the full actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

Table 2 - Medicare Assumptions

	Fertility rate[1]	Net immigration	Real wage differential[2]	Annual percentage change in: Wages	CPI	Real GDP	Per beneficiary cost[3] HI	SMI	Real interest rate[4]
2001	2.05	900,000	1.9	4.9	3.0	3.1	6.7	12.7	2.6
2005	2.04	900,000	1.2	4.4	3.2	2.3	4.4	6.2	2.9
2010	2.02	900,000	1.0	4.3	3.3	2.0	4.5	5.4	3.0
2020	1.97	900,000	1.0	4.3	3.3	1.7	4.6	5.3	3.0
2030	1.95	900,000	1.0	4.3	3.3	1.7	6.1	5.7	3.0
2040	1.95	900,000	1.0	4.3	3.3	1.7	6.4	5.5	3.0
2050	1.95	900,000	1.0	4.3	3.3	1.6	5.4	5.1	3.0
2060	1.95	900,000	1.0	4.3	3.3	1.6	5.5	5.6	3.0
2070	1.95	900,000	1.0	4.3	3.3	1.6	5.8	5.4	3.0
2075	1.95	900,000	1.0	4.3	3.3	1.6	5.7	5.3	3.0

[1]Average number of children per woman.
[2]Difference between percentage increases in wages and the CPI.
[3]See text for nature of this assumption.
[4]Average rate of interest earned on new trust fund securities, above and beyond rate of inflation.

Actuarial Assumptions and Sensitivity Analysis

In order to make projections regarding the future financial status of the HI and SMI programs, various assumptions have to be made. First and foremost, the estimates presented here are based on the assumption that the programs will continue under present law. In addition, the estimates depend on many economic and demographic assumptions, including changes in wages and the consumer price index (CPI), fertility rates, immigration rates, and interest rates. In most cases, these assumptions vary from year to year during the first 5 to 30 years before reaching their ultimate values for the remainder of the 75-year projection period.

Table 2 shows some of the underlying assumptions used in the projections of Medicare spending displayed in this report. Further details on these assumptions are available in the OASDI, HI, and SMI Trustees Reports for 2001. In practice, a number of specific assumptions are made for each of the different types of service provided by the Medicare program (for example, hospital care, physician services, etc.). These assumptions include changes in the utilization, volume, and intensity of each of these types of service. The per beneficiary cost increases displayed in Table 2 reflect the overall impact of these more detailed assumptions.

Estimates made in prior years have sometimes changed substantially because of revisions to the assumptions, which are due either to changed conditions or to more recent experience. Furthermore, it is important to recognize that actual conditions are very likely to differ from the projections presented here, since the future cannot be anticipated with certainty. In order to illustrate the magnitude of the sensitivity of the long-range projections, six of the key assumptions were varied indi-

It is important to recognize that actual conditions are very likely to differ from the projections presented here, since the future cannot be anticipated with certainty.

vidually to determine the impact on the HI actuarial present values and net cashflows.[5] The assumptions varied are the fertility rate, net immigration, real-wage differential, CPI, real-interest rate, and health-care cost factors.[6]

For this analysis, the intermediate economic and demographic assumptions in the *2001 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* are used as the reference point. Each selected assumption is varied individually to produce three scenarios. All present values are calculated as of January 1, 2001 and are based on estimates of income and expenditures during the 75-year projection period.

Charts 7 through 12 show the net annual HI cashflow in nominal dollars and the present value of this net cashflow for each assumption varied. In most instances, the charts depicting the estimated net cashflow indicate that, after increasing in the early years, net cashflow decreases steadily through 2030 under all three scenarios displayed. On the present value charts, the same pattern is evident, though the magnitudes are lower because of the discounting process used for computing present values.

Fertility Rate

Table 3 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate fertility rate assumptions: 1.7, 1.95, and 2.2 children per woman.

Table 3 demonstrates that if the assumed ultimate fertility rate is decreased from 1.95 to 1.7, the projected deficit of income over expenditures increases from \$4,730 to \$4,878 billion. On the other hand, if the ultimate fertility rate is increased from 1.95 to 2.2 children per woman, the deficit decreases to \$4,569 billion.

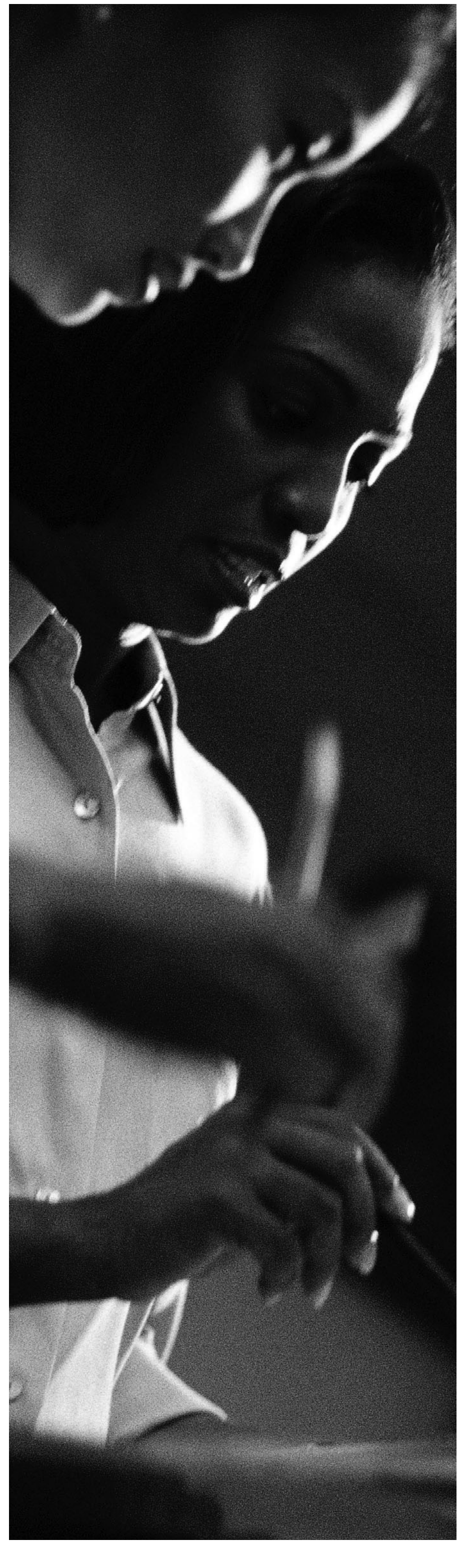


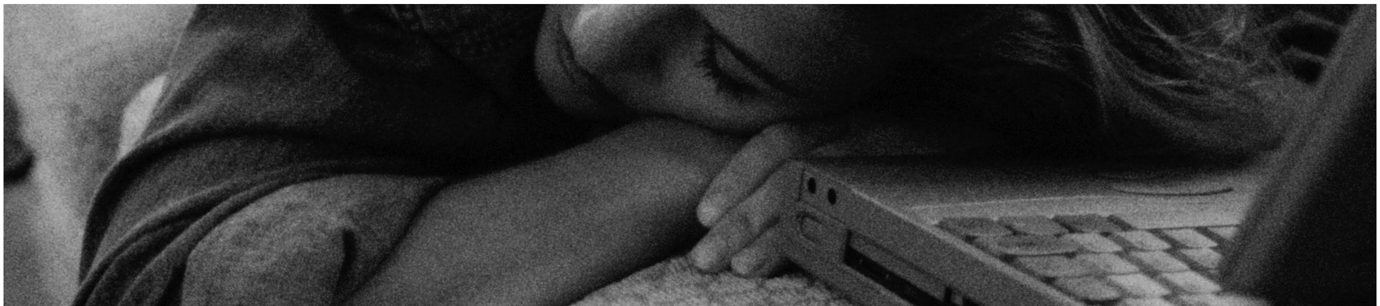
Table 3 - Present Value of Estimated HI Income Less Expenditures under Various Fertility Rate Assumptions

Ultimate fertility rate[1]	1.7	1.95	2.2
Income minus expenditures (in billions)	(\$4,878)	(\$4,730)	(\$4,569)

[1]The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year and if she were to survive the entire childbearing period.

[5] Sensitivity analysis is not done for the SMI program due to its financing mechanism. Any change in assumptions would have no impact on the net cashflow, since the change would affect income and expenditures equally.

[6] The sensitivity of the projected HI net cash flow to variations in future mortality rates is also of interest. At this time, however, relatively little is known about the relationship between improvements in life expectancy and the associated changes in health status and per beneficiary health expenditures. As a result, it is not possible at present to prepare meaningful estimates of the HI mortality sensitivity. The Centers for Medicare & Medicaid Services is sponsoring a current research effort by the Rand Corporation that is expected to provide the information necessary to produce such estimates.



Charts 7 and 7A show projections of the net cashflow under the three alternative fertility rate assumptions presented in Table 3.

As Charts 7 and 7A indicate, the fertility rate assumption has only a negligible impact on projected HI cashflows over the next 30 years. This is because higher fertility in the first year does not affect the labor force until roughly 20 years have passed (increasing HI payroll taxes slightly) and has virtually no impact on the number of beneficiaries within this period. Over the full 75-year period, the changes are somewhat greater, as illustrated by the present values in Table 3.

Chart 7 - HI Net Cashflow with Various Ultimate Fertility Rate Assumptions 2000 - 2030 (in billions)

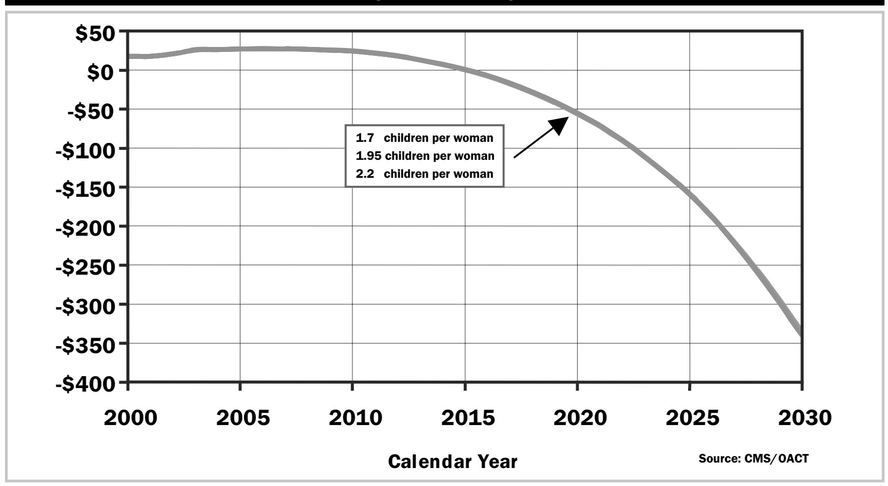


Chart 7A - Present Value of HI Net Cashflow with Various Ultimate Fertility Rate Assumptions 2000 - 2030 (in billions)

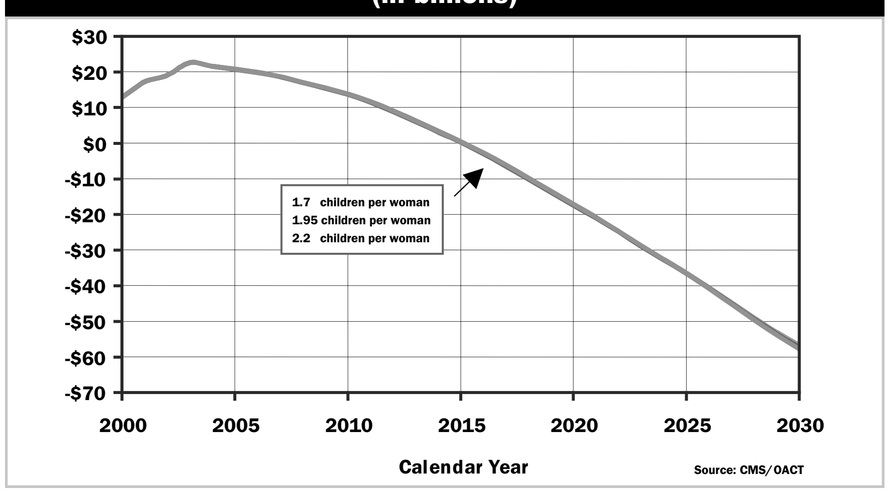


Table 4 - Present Value of Estimated HI Income Less Expenditures under Various Net Immigration Assumptions

Ultimate net immigration	655,000	900,000	1,210,000
Income minus expenditures (in billions)	($4,679)	($4,730)	($4,775)

Chart 8 - HI Net Cashflow with Various Net Immigration Assumptions 2000 - 2030 (in billions)

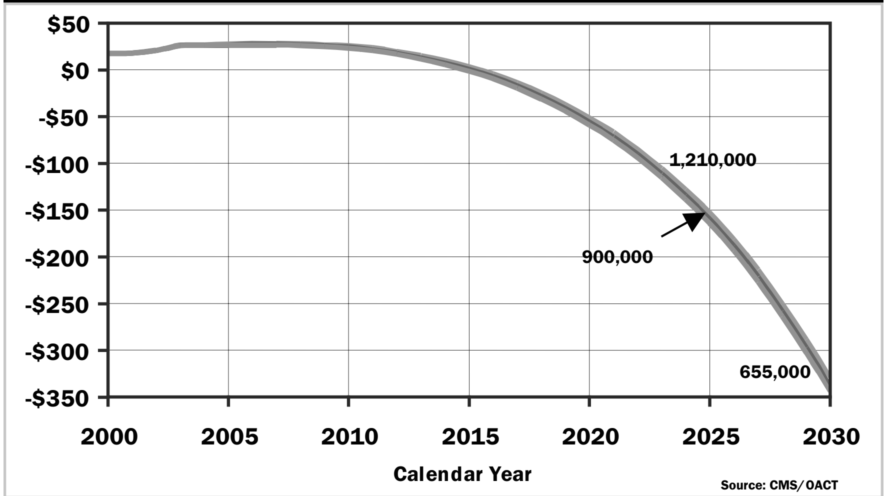
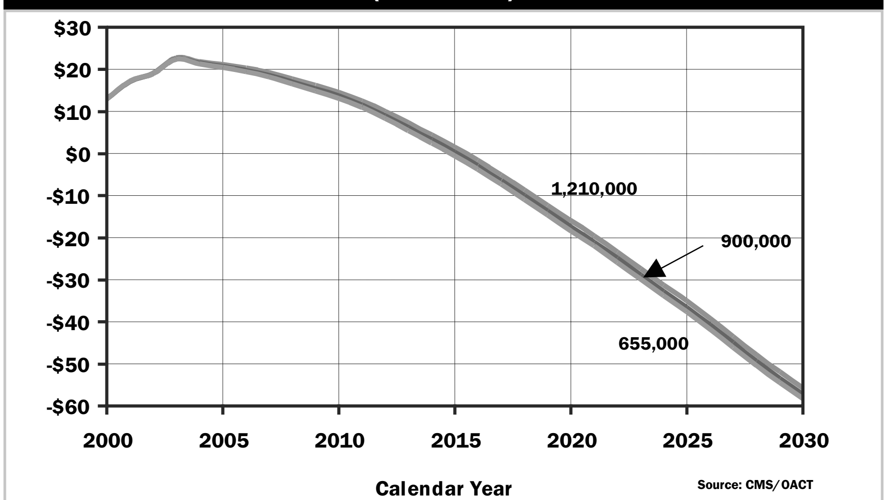


Chart 8A - Present Value of HI Net Cashflow with Various Net Immigration Assumptions 2000 - 2030 (in billions)



Net Immigration

Table 4 shows the net present value of cashflow during the 75-year projection period under three alternative net immigration assumptions: 655,000 persons, 900,000 persons, and 1,210,000 persons per year.

Table 4 demonstrates that if the ultimate net immigration assumption is decreased from 900,000 to 655,000 persons, the deficit of income over expenditures decreases from $4,730 to $4,679 billion. On the other hand, if the ultimate net immigration assumption is increased from 900,000 to 1,210,000 persons, the deficit increases to $4,775 billion.

Charts 8 and 8A show projections of the net cashflow under the three alternative net immigration assumptions presented in Table 4.

As Charts 8 and 8A indicate, this assumption has an impact on projected HI cashflow starting almost immediately. Because immigration tends to occur among younger individuals, the number of covered workers is affected immediately, while the number of beneficiaries is affected much less quickly. Nonetheless, variations in net immigration result in fairly small differences in cashflow.

Because immigration tends to occur among younger individuals, the number of covered workers is affected immediately, while the number of beneficiaries is affected much less quickly. Nonetheless, variations in net immigration result in fairly small differences in cashflow.

Real-Wage Differential

Table 5 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-wage differential assumptions: 0.5, 1.0, and 1.5 percentage points. In each case, the CPI is assumed to be 3.3 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.8, 4.3, and 4.8 percent, respectively.

Table 5 demonstrates that if the ultimate real-wage differential assumption is decreased from 1.0 percentage point to 0.5 percentage point, the deficit of income over expenditures increases from $4,730 to $4,988 billion. On the other hand, if the ultimate real-wage differential assumption is increased from 1.0 percentage point to 1.5 percentage points, the deficit decreases to $4,539 billion.

Charts 9 and 9A show projections of the net cashflow under the three alternative real-wage differential assumptions presented in Table 5.

As Charts 9 and 9A indicate, this assumption has a fairly large impact on projected HI cashflow very early in the projection period. Higher real-wage differential assumptions immediately increase both HI expenditures for healthcare and wages for all workers. Though there is a full effect on wages and payroll taxes, the effect on benefits is only partial, since not all healthcare costs are wage-related.

Table 5 - Present Value of Estimated HI Income Less Expenditures under Various Real-Wage Assumptions

Ultimate percentage increase in wages - CPI	3.8 - 3.3%	4.3 - 3.3%	4.8 - 3.3%
Ultimate percentage increase in real-wage differential	0.5	1.0	1.5
Income minus expenditures (in billions)	($4,988)	($4,730)	($4,539)

Chart 9 - HI Net Cashflow with Various Real-Wage Assumptions 2000 - 2030 (in billions)

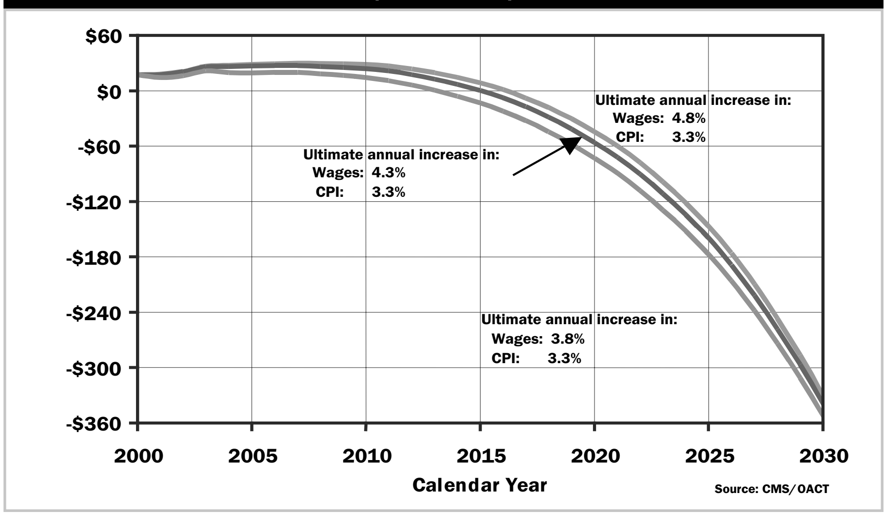
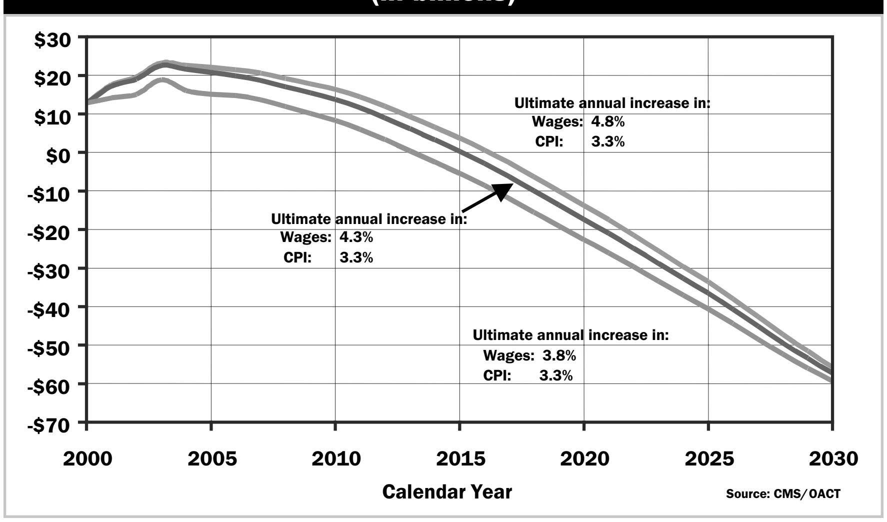


Chart 9A - Present Value of HI Net Cashflow with Various Real-Wage Assumptions 2000 - 2030 (in billions)



Though there is a full effect on wages and payroll taxes, the effect on benefits is only partial, since not all health-care costs are wage-related.

Table 6 - Present Value of Estimated HI Income Less Expenditures under Various CPI-Increase Assumptions

Ultimate percentage increase in wages - CPI	3.3 - 2.3%	4.3 - 3.3%	5.3 - 4.3%
Income minus expenditures (in billions)	($4,748)	($4,730)	($4,731)

Chart 10 - HI Net Cashflow with Various CPI-Increase Assumptions 2000 - 2030 (in billions)

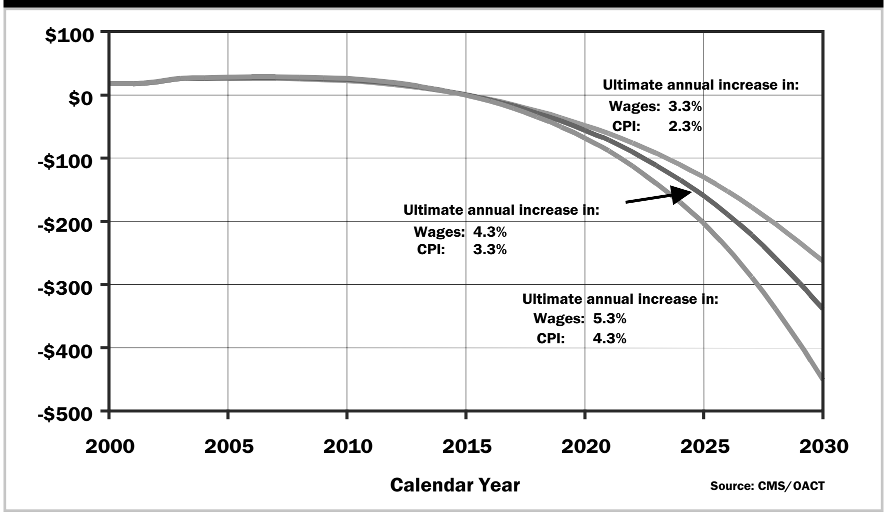
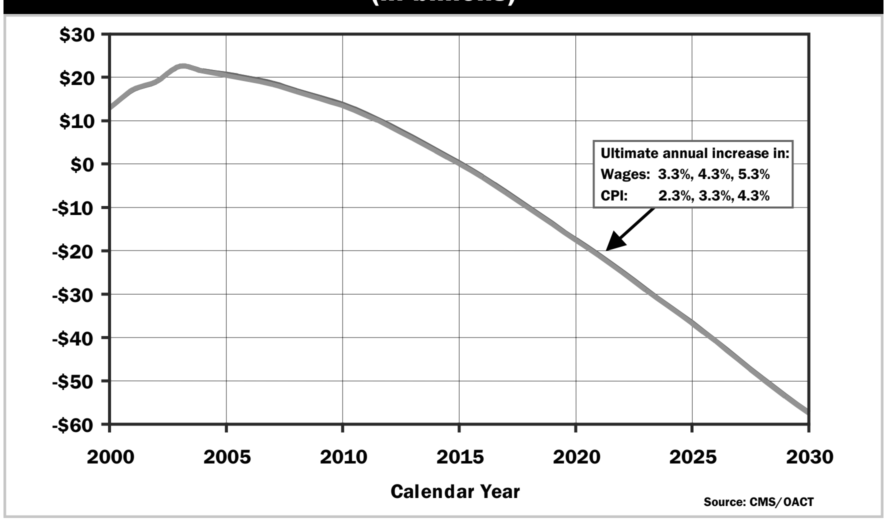


Chart 10A - Present Value of HI Net Cashflow with Various CPI-Increase Assumptions 2000 - 2030 (in billions)



Consumer Price Index

Table 6 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate CPI rate-of-increase assumptions: 2.3, 3.3, and 4.3 percent. In each case, the ultimate real-wage differential is assumed to be 1.0 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.3, 4.3, and 5.3 percent, respectively.

Table 6 demonstrates that if the ultimate CPI increase assumption is decreased from 3.3 percent to 2.3 percent, the deficit of income over expenditures increases from $4,730 billion to $4,748 billion. Furthermore, if the ultimate CPI increase assumption is increased from 3.3 percent to 4.3 percent, the deficit increases to $4,731 billion.

Charts 10 and 10A show projections of the net cashflow under the three alternative CPI rate-of-increase assumptions presented in Table 6.

As Charts 10 and 10A indicate, this assumption has a large impact on projected HI cashflow in nominal dollars but only a negligible impact when the cashflow is expressed as present values. The relative insensitivity of the projected present values of HI cashflow to different levels of general inflation occurs because inflation tends to affect both income and costs equally. In nominal dollars, however, a given deficit "looks bigger" under high-inflation conditions but is not significantly different when it is expressed as a present value or relative to taxable payroll.

This sensitivity test serves as a useful example of the limitations of nominal-dollar projections over long periods.

In nominal dollars, however, a given deficit "looks bigger" under high-inflation conditions but is not significantly different when it is expressed as a present value or relative to taxable payroll.

Real-Interest Rate

Table 7 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-interest assumptions: 2.2, 3.0, and 3.7 percent. In each case, the ultimate annual increase in the CPI is assumed to be 3.3 percent, resulting in ultimate annual yields of 5.5, 6.3, and 7.0 percent, respectively.

Table 7 demonstrates that if the ultimate real-interest rate percentage is decreased from 3.0 percent to 2.2 percent, the deficit of income over expenditures increases from $4,730 billion to $7,003 billion. On the other hand, if the ultimate real-interest rate assumption is increased from 3.0 percent to 3.7 percent, the deficit decreases to $3,372 billion.

Charts 11 and 11A show projections of the net cashflow under the three alternative real-interest assumptions presented in Table 7.

As shown in Charts 11 and 11A, the present values of the net cashflow are more sensitive to the interest assumption than is the nominal net cashflow. This is not an indication of the actual role that interest plays in the financing of the HI program. In actuality, interest finances very little of the cost of the HI program because, under the intermediate assumptions, the fund is projected to be relatively low and exhausted by 2029. These results illustrate the substantial sensitivity of present value measures to different interest rate assumptions. With higher assumed interest, the very large deficits in the more distant future are discounted more heavily (that is, are given less weight), and the overall net present value is smaller.

Table 7 - Present Value of Estimated HI Income Less Expenditures under Various Real-Interest Assumptions

Ultimate real-interest rate	2.2%	3.0%	3.7%
Income minus expenditures (in billions)	($7,003)	($4,730)	($3,372)

Chart 11 - HI Net Cashflow with Various Real-Interest Rate Assumptions 2000 - 2030 (in billions)

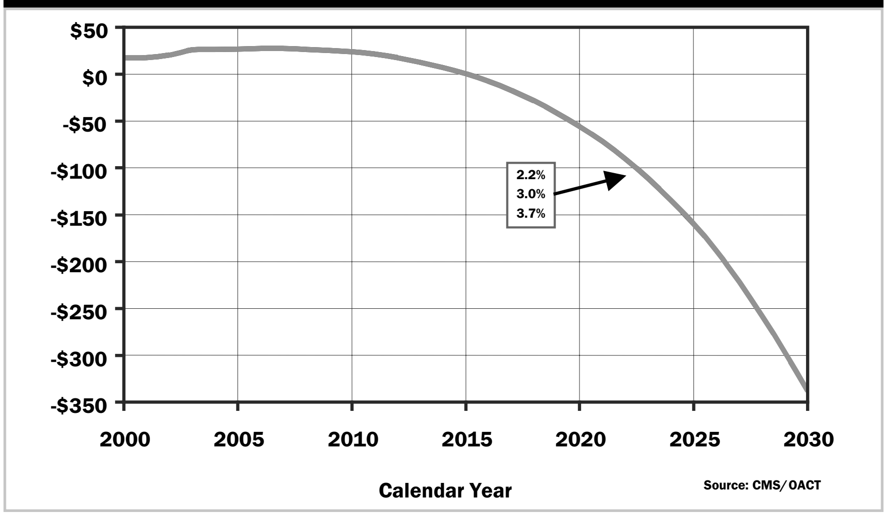
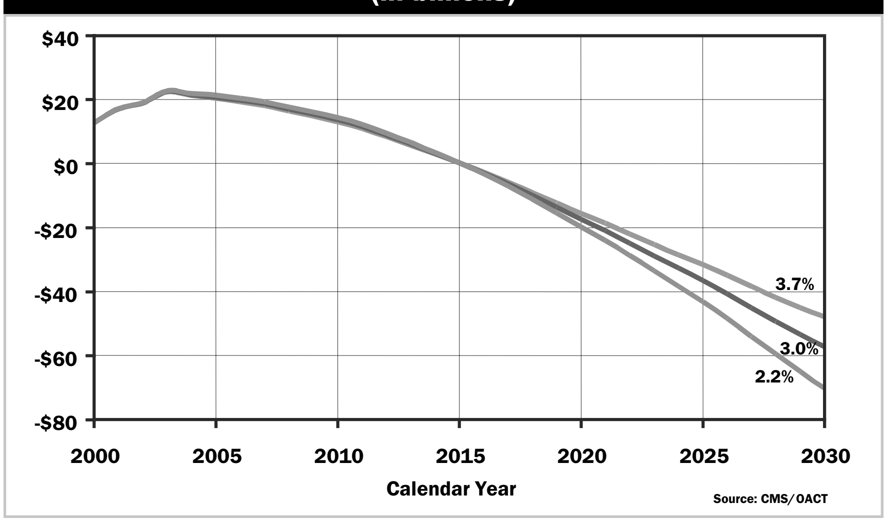


Chart 11A - Present Value of HI Net Cashflow with Various Real-Interest Rate Assumptions 2000 - 2030 (in billions)



In actuality, interest finances very little of the cost of the HI program because, under the intermediate assumptions, the fund is projected to be relatively low and exhausted by 2029.

Table 8 - Present Value of Estimated HI Income Less Expenditures under Various Healthcare Cost Growth Rate Assumptions

Annual cost/payroll relative growth rate	-1 percentage point	Intermediate assumptions	+1 percentage point
Income minus expenditures (in billions)	($811)	($4,730)	($11,155)

Chart 12 - HI Net Cashflow with Various Healthcare Cost Factor Assumptions 2000 - 2030 (in billions)

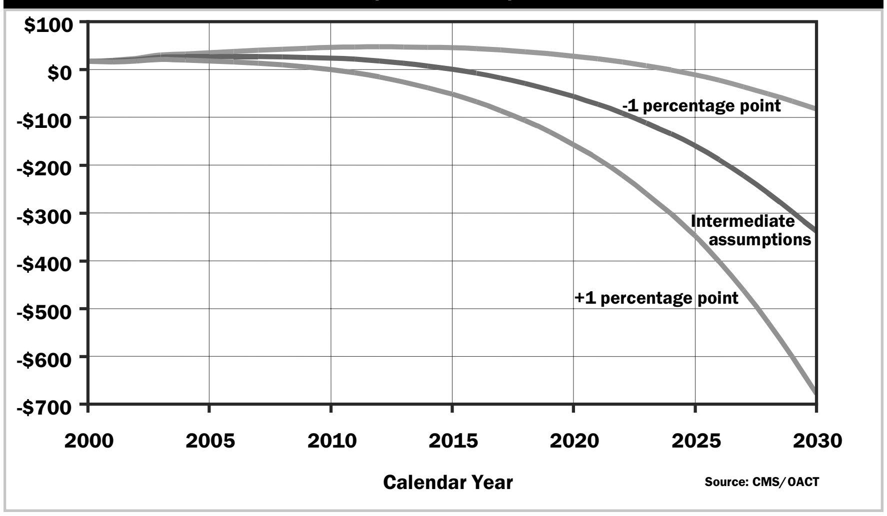
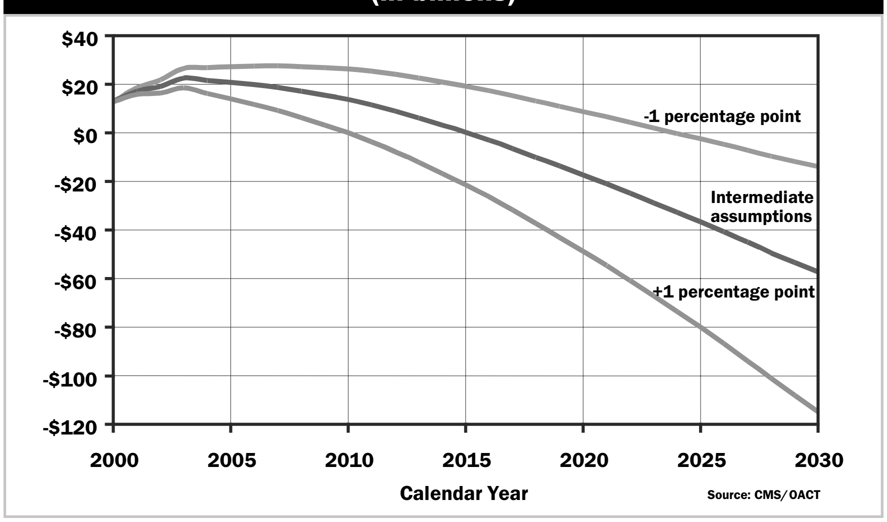


Chart 12A - Present Value of HI Net Cashflow with Various Healthcare Cost Factors 2000 - 2030 (in billions)



Healthcare Cost Factors

Table 8 shows the net present value of cashflow during the 75-year projection period under three alternative assumptions of the annual growth rate in the aggregate cost of providing covered healthcare services to beneficiaries. These assumptions are that the ultimate annual growth rate in such costs, relative to taxable payroll, will be 1 percent slower than the intermediate assumptions, the same as the intermediate assumptions, and 1 percent faster than the intermediate assumptions. In each case, the taxable payroll will be the same as that which was assumed for the intermediate assumptions.

Table 8 demonstrates that if the ultimate growth rate assumption is 1 percentage point lower than the intermediate assumptions, the deficit of income over expenditures decreases from $4,730 billion to $811 billion. On the other hand, if the ultimate growth rate assumption is 1 percentage point higher than the intermediate assumptions, the deficit increases substantially to $11,155 billion.

Charts 12 and 12A show projections of the net cashflow under the three alternative annual growth rate assumptions presented in Table 8.

This assumption has a dramatic impact on projected HI cashflow. The assumptions analyzed thus far have affected HI income and costs simultaneously. However, several factors, such as the utilization of services by beneficiaries or the relative complexity of services provided, can affect

Several factors, such as the utilization of services by beneficiaries or the relative complexity of services provided, can affect costs without affecting tax income.

costs without affecting tax income. As Charts 12 and 12A indicate, the financial status of the HI program is extremely sensitive to the relative growth rates for healthcare service costs versus taxable payroll.

Program Finances and Sustainability

HI

The HI program is substantially out of financial balance in the long range. Under the Medicare Trustees' intermediate assumptions, income is projected to continue to moderately exceed expenditures for the next 20 years but to fall short by steadily increasing amounts in 2021 and later. These shortfalls can be met by redeeming trust fund assets, but only until 2029.

To bring the HI program into actuarial balance over the next 75 years under the intermediate assumptions, either outlays would have to be reduced by 37 percent or income increased by 60 percent (or some combination of the two) throughout the 75-year period. These substantial changes in income and/or outlays are needed, in part as a result of the impending retirement of the baby boom generation.

The projections shown in this section indicate that without additional legislation, the fund would be exhausted in the future—initially producing payment delays, but very quickly leading to a curtailment of healthcare services to beneficiaries. In their 2001 annual report to Congress, the Medicare Board of Trustees urges the nation's policy makers to address the remaining financial imbalance facing the HI trust fund by taking "effective and decisive action…to build upon the strong steps taken in recent reforms." They also state that "Consideration of further reforms should occur in the relatively near future."

SMI

The financing established for the SMI program for calendar year 2001 is estimated to be sufficient to cover program expenditures for that year and to preserve an adequate contingency reserve in the SMI trust fund. Moreover, for all future years, trust fund income is projected to equal expenditures—but only because beneficiary premiums and government general revenue contributions are set to meet expected costs each year.

The SMI program's automatic financing provisions prevent crises such as those faced in recent years by the HI trust fund, where assets were projected to be exhausted in the near future. As a result, there has been substantially less attention directed toward the financial status of the SMI program than to the HI program—even though SMI expenditures have increased faster than HI expenditures in most years and are expected to continue to do so for a number of years in the future.

SMI program costs have generally grown faster than the GDP, and this trend is expected to continue under present law. The projected increases are initially attributable in part to assumed continuing growth in the volume and intensity of services provided per beneficiary. Starting in 2010, the retirement of the post-World War II baby boom generation will also have a major influence on the growth in program costs. This growth in SMI expenditures relative to GDP is a matter of great concern. In their 2001 annual report to Congress, the Medicare Board of Trustees emphasizes the seriousness of these concerns and urges the nation's policy makers "to consider effective means of controlling SMI costs in the near term."

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

	CMS				
	Medicare HI	**Medicare SMI**	**Medicaid**	**Other OPDIV Budgetary Accounts**[1]	**OPDIV Combined Totals**
Budgetary Resources					
Budget Authority	$ 171,436	$ 95,679	$ 129,880	$ 165,677	$ 562,672
Unobligated Balances — Beginning of Period	-	-	110	12,086	12,196
Spending Authority from Offsetting Collections	1	-	1,298	5,785	7,084
Adjustments	(29,688)	3,750	1,949	(2,055)	(26,044)
Total Budgetary Resources	**$141,749**	**$99,429**	**$133,237**	**$181,493**	**$555,908**
Status of Budgetary Resources					
Obligations Incurred	$ 141,749	$ 99,429	$ 133,127	$173,788	$ 548,093
Unobligated Balances — Available	-	-	110	1,769	1,879
Unobligated Balances — Not Available	-	-	-	5,936	5,936
Total Status of Budgetary Resources	**$141,749**	**$99,429**	**$133,237**	**$181,493**	**$555,908**
Outlays					
Obligations Incurred	$ 141,749	$99,429	$133,127	$ 173,788	$ 548,093
Less: Spending Authority from Offsetting Collections and Adjustments	1	-	4,565	9,759	14,325
Subtotal	**141,748**	**99,429**	**128,562**	**164,029**	**533,768**
Obligated Balance, Net – Beginning of Period	635	167	5,581	59,556	65,939
Less: Obligated Balance, Net – End of Period	408	144	5,332	65,462	71,346
Total Outlays	**$141,975**	**$99,452**	**$128,811**	**$158,123**	**$528,361**

[1] "Other OPDIV Budgetary Accounts" includes the budgetary accounts of the eleven HHS OPDIVs other than CMS, as well as the remaining budgetary accounts not reported by CMS under Medicare and Medicaid.

Detailed information on individual operating divsions (OPDIVs) can be found in each OPDIVs' audited financial statement. OPDIV financial statements can be found on the Internet at **www.hhs.gov**

Summary of Other OPDIV Budgetary Accounts

	Budgetary Resources	**Status of Budgetary Resources**	**Outlays**
ACF	$ 48,756	$ 48,756	$ 43,090
AHRQ	295	295	31
AoA	1,110	1,110	952
CDC	5,070	5,070	3,866
CMS	86,759	86,759	79,934
FDA	1,466	1,466	1,075
HRSA	7,352	7,352	5,703
IHS	3,734	3,734	2,559
NIH	22,206	22,206	17,274
OS	1,143	1,143	660
PSC	554	554	232
SAMHSA	3,048	3,048	2,747
Total	**$ 181,493**	**$ 181,493**	**$ 158,123**

U.S. Department of Health and Human Services

Franchise and Intragovernmental Support Revolving Funds

(in millions)

As of September 30, 2001

	HHS Service and Supply Fund	NIH Service and Supply Fund	Combined Totals
Assets			
Fund Balance with Treasury	$54	$127	$181
Accounts Receivable, Net	82	12	94
Property, Plant and Equipment, Net	4	33	37
Other Assets	15	16	31
Total Assets	**$155**	**$188**	**$343**
Liabilities			
Accounts Payable	42	37	79
Other Liabilities	17	103	120
Total Liabilities	**$59**	**$140**	**$199**
Net Position			
Cumulative Results of Operations	96	48	144
Total Liabilities and Net Position	**$155**	**$188**	**$343**

U.S. Department of Health and Human Services

Franchise and Intragovernmental Support Revolving Funds

(in millions)

For the Fiscal Year Ended September 30, 2001

Program/Business Line	Gross Costs	Less: Earned Revenue	Net Costs
HHS Service and Supply Fund			
Administrative Operations Services	$164	$152	$12
Financial Management Service	49	51	(2)
Human Resources Service	56	55	1
Federal Occupational Health (July 2 to September 30)	27	34	(7)
Total	$296	$292	$4
NIH Service and Supply Fund			
Administrative Services	$281	$298	($17)
Information Technology	126	129	(3)
Instrumentation Services	10	10	0
Animal Services	40	41	(1)
Total	$457	$478	($21)
HRSA FOH (October 1 to July 1)	$ 70	$ 65	$ 5

The HHS Service and Supply Fund is managed by the Program Support Center (PSC), an operating division within HHS. The PSC provides support services to federal agencies on a competitive, "Fee-for-Service" basis. Services and products are available in the areas of Acquisitions, Computer and Information Technology, Finance, Medical Supply Operation, Personnel, Payroll, and Support Services. Major customers are other HHS operating divisions and components of many federal agencies including Departments of Defense, Education, Housing and Urban Development, Interior, Energy, Labor, State, Transportation, Treasury and other independent federal organizations. On July 2, 2001, Federal Occupational Health (FOH) Fund was reorganized and transferred to the PSC. Since this transfer occurred during the fiscal year, the PSC reported all open account ending balances and cost activity from July 2, 2001 to September 30, 2001.

NIH provides administrative services, which include supply stores, printing and reproduction, medical arts and photography and a wide range of other services. Information Technology (IT) includes the regional data processing center which sells computing services and programming services and the enterprise IT software planning and development activities. Instrumentation Services include biomedical fabrication and instrumentation activities, which entails creating highly technical bioengineering structures. The Animal Services entails purchasing, housing and feeding animals used in research. NIH's major customers are the NIH Research Institutes and Centers and computer services are provided to the Department of Defense.

The NIH has established separate enterprise IT software development accounts within its Service and Supply Fund to aggregate the budgeting and accounting for major enterprise IT systems for which the NIH is engaged. These systems include the NIH Business System, which is replacing the legacy administrative database and central accounting system, the Electronic Research Administration system, which is replacing the legacy grants management systems and supporting the federal government-wide Federal Commons, the Clinical Research Information System, which is replacing the legacy Clinical Center's Medical Information System, and the NIH-specific costs associated with the DHHS' Enterprise Human Resources Project, which is replacing the DHHS' legacy human resources and payroll systems.

To fund these initiatives, the NIH Institutes provide advances to the Service and Supply Fund and the Service and Supply Fund treats these advances as unearned revenue until planning, data conversion, operations and maintenance, and amortization of software development are incurred by the SSF and charged to the institutes. When the Service and Supply Fund recognized an expense for IT system planning, for example, it recognized an expense and recorded the expense on the Institute's books against the existing Institute advance, at this point recording the expense on the Institute's books against the existing Institute advance, at this point recording the expense on the Institute's books offsets the revenue on the service and supply funds books. The NIH will amortize as an expense the software development costs over three years. Once the Service and Supply Fund recognizes the amortization expense for a particular IT software development effort, the NIH will recognize revenue in the Service and Supply Fund and record the expense on the Institute's books, thus liquidating the Institute's advance. The balance reflected in the unearned revenue account, $88.6 million, is the advance received from the Institutes that the Service and Supply Fund has not expensed. Of the $106 million in advances transferred by the Institutes in fiscal year 2001, approximately $28 million has been collected for contingencies to be used over the life of the projects. The balance in the unearned revenue account and the advances on the Institute's books are eliminated as part of the consolidated financial statements.

The FOH Fund provides health services to federal employees and consultations to federal agency managers. The Public Health Services Act authorized heads of federal agencies to provide occupational health services to employees, which 128 departments and independent agencies do through one of several Economy Act interagency agreements with FOH. On July 2, 2001, FOH was reorganized and transferred to the PSC. Since this transfer occurred during the fiscal year, net cost activities during October 1, 2000 to July 1, 2001 remain with HRSA and are presented on HRSA's net cost statement.

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Deferred maintenance is maintenance that was not performed when it sould have been, was scheduled and not performed, or was delayed for a future period. Maintenance is the act of keeping fixed assets in acceptable condition, including preventitive maintenance, normal repairs, replacement of parts and structural components and other activities needed to preserve the asset so that it continues to provide acceptable services and achieves its expected life. Maintenance doe not include activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended. Maintenance expense is recognized as incurred. The Centers for Disease Control and Prevention, the National Instituites of Health, and the Food and Drug Administration all use the condition assessment survey for all classes of property.

Category of Asset	Asset Condition	Cost to Return to Acceptable Condition	
		2001	2000
General PP&E			
Buildings	3–4	$205.0	$218.7
Equipment	4	7.1	–
Other Structures	4	13.4	20.5
Total		**$225.5**	**$239.2**

Asset Condition is assessed on a scale of 1-5 as follows: Excellent–1; Good–2; Fair–3; Poor–4; Very Poor–5. A "fair" or 3 rating is considered acceptable operating condition. Although PP&E categories may be rated as acceptable, individual assets within a category may require maintenance work to return them to acceptable operating condition. Therefore, asset categories with an overall rating "fair" or above may still report necessary costs to return them to acceptable condition.

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Agency	TFM * Department Code	Fund Balance With Treasury	Investments	Accounts Receivable	Other
Department of Agriculture	12	$ -	$ -	$ 4	$ -
Department of Commerce	13	-	-	1	1
Department of Defense	17,21,57,97	-	-	173	-
Department of Education	91	-	-	-	-
Department of Energy	89	-	-	7	-
Department of Housing and Urban Development	86	-	-	7	-
Department of Health and Human Services	75	-	-	-	-
Department of the Interior	14	-	-	1	-
Department of Justice	15	-	-	127	-
Department of Labor	16	-	-	1	-
Department of State	19	-	-	3	-
Department of Transportation	69	-	-	1	-
Department of Treasury	20	80,949	244,931	15	11,166
Department of Veterans Affairs	36	-	-	2	53
Agency for International Development	72	-	-	-	-
Environmental Protection Agency	68	-	-	11	-
Federal Emergency Management Agency	58	-	-	-	-
General Services Administration	47	-	-	3	15
National Aeronautics and Space Administration	80	-	-	-	-
National Science Foundation	49	-	-	-	-
Nuclear Regulatory Commission	31	-	-	-	-
Office of Personnel Management	24	-	-	-	-
Small Business Administration	73	-	-	-	-
Social Security Administration	28	-	-	2	-
All Other Federal Agencies[1]	-	-		549	25
Total		**$ 80,949**	**$ 244,931**	**$ 907**	**$ 11,260**

[1] Of the $549 million reported as Accounts Receivable from other Federal agencies, $431 million is due to the Centers for Medicare & Medicaid Services (CMS) from the Railroad Retirement Board (RRB). Legislation enacted in 1993 subjected a larger amount of social security benefits and social security equivalent railroad retirement benefits to federal income tax for taxpayers in higher income brackets. This provision was effective beginning with the taxable year 1994, and the additional revenue raised is transferred to the CMS' Hospital Insurance Trust Fund. The $431 million represents the estimated amount of these additional revenues held by the RRB and due to CMS at year end.

* TFM; Treasury Financial Manual

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Agency	TFM* Department Code	Accounts Payable	Environmental and Disposal Costs	Debt	Accrued Payroll and Benefits	Other
Department of Agriculture	12	$ -	$ -	$ -	$ -	$ -
Department of Commerce	13	-	-	-	-	-
Department of Defense	17,21,57,97	5	3	-	-	24
Department of Education	91	-	-	-	-	-
Department of Energy	89	-	-	-	-	7
Department of Housing and Urban Development	86	-	-	-	-	43
Department of Health and Human Services	75	-	-	-	-	-
Department of the Interior	14	-	-	-	-	-
Department of Justice	15	-	-	-	-	20
Department of Labor	16	-	-	-	19	-
Department of State	19	-	-	-	-	-
Department of Transportation	69	-	-	-	-	-
Department of Treasury	20	-	-	-	27	799
Department of Veterans Affairs	36	-	-	-	-	1
Agency for International Development	72	-	-	-	-	-
Environmental Protection Agency	68	-	-	-	-	44
Federal Emergency Management Agency	58	-	-	-	-	14
General Services Administration	47	20	-	-	-	41
National Aeronautics and Space Administration	80	-	-	-	-	-
National Science Foundation	49	-	-	-	-	-
Nuclear Regulatory Commission	31	-	-	-	-	-
Office of Personnel Management	24	-	-	-	21	-
Small Business Administration	73	-	-	-	-	-
Social Security Administration	28	-	-	-	-	-
All Other Federal Agencies	-	5	-	-	-	33
Total		**$ 30**	**$ 3**	**$ -**	**$ 67**	**$ 1,026**

* TFM; Treasury Financial Manual

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Agency	TFM* Department Code	Earned Revenue	Gross Cost	Non Exchange Revenue Transfers-in	Non Exchange Revenue Transfers-out
Department of Agriculture	12	$ 8	$ 7	$ -	$ -
Department of Commerce	13	10	52	-	-
Department of Defense	17,21,57,97	41	112	-	-
Department of Education	91	5	98	-	-
Department of Energy	89	39	42	-	-
Department of Housing and Urban Development	86	3	-	-	-
Department of Health and Human Services	75	-	-	-	-
Department of the Interior	14	5	37	-	-
Department of Justice	15	200	105	-	-
Department of Labor	16	4	29	-	-
Department of State	19	3	40	-	-
Department of Transportation	69	4	4	-	-
Department of Treasury	20	(101)	32	-	-
Department of Veterans Affairs	36	20	139	-	-
Agency for International Development	72	31	8	-	-
Environmental Protection Agency	68	90	3	-	-
Federal Emergency Management Agency	58	15	-	-	-
General Services Administration	47	12	516	-	-
National Aeronautics and Space Administration	80	3	1	-	-
National Science Foundation	49	1	10	-	-
Nuclear Regulatory Commission	31	2	-	-	-
Office of Personnel Management	24	-	594	-	-
Small Business Administration	73	-	-	-	-
Social Security Administration	28	14	3	-	-
All Other Federal Agencies	-	34	80	-	-
Total		**$ 443**	**$ 1,912**	**$ -**	**$ -**

* TFM; Treasury Financial Manual

Consolidating Balance Sheet by Budget Function

U.S. Department of Health and Human Services

As of September 30, 2001

(in millions)

	Education, Training & Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Assets									
Intragovernmental									
Fund Balance with Treasury (Note 2)	$9,161	$50,925	$224	$20,548	$30	$61	$80,949	$ -	$80,949
Investments, Net (Note 3)	-	1,839	243,092	-	-	-	244,931	-	244,931
Accounts Receivable, Net (Note 4)	1	473	4,776	-	-	5	5,255	(4,348)	907
Anticipated Congressional Appropriation–CMS (Note 10)	-	6,944	4,222	-	-	-	11,166	-	11,166
Other (Note 10)	-	285	-	-	-	-	285	(191)	94
Total Intragovernmental	**$9,162**	**$60,466**	**$252,314**	**$20,548**	**$30**	**$66**	**$342,586**	**$(4,539)**	**$338,047**
Accounts Receivable, Net (Note 4)	-	1,071	3,094	-	-	-	4,165	-	4,165
Loans Receivable and Foreclosed Property (Note 5)	-	427	-	-	-	-	427	-	427
Cash and Other Monetary Assets (Note 7)	-	-	137	-	-	-	137	-	137
Inventory and Related Property, Net (Note 8)	-	67	-	-	-	-	67	-	67
General Property, Plant and Equipment, Net (Note 9)	-	2,318	12	-	-	1	2,331	-	2,331
Other (Note 10)	-	7	-	-	-	-	7	-	7
Total Assets	**$9,162**	**$64,356**	**$255,557**	**$20,548**	**$30**	**$67**	**$349,720**	**$(4,539)**	**$345,181**
Liabilities									
Intragovernmental									
Accounts Payable (Note 11)	$2	$93	$ -	$1	$ -	$1	$97	$(67)	$30
Environmental and Disposal Costs (Note 13)	-	3	-	-	-	-	3	-	3
Accrued Payroll and Benefits (Note 16)	2	61	4	-	-	-	67	-	67
Other (Note 17)	-	629	4,859	-	-	-	5,488	(4,462)	1,026
Total Intragovernmental	**$4**	**$786**	**$4,863**	**$1**	**$ -**	**$1**	**$5,655**	**$(4,529)**	**$1,126**
Accounts Payable (Note 11)	16	618	-	7	-	2	643	-	643
Entitlement Benefits Due and Payable (Note 12)	-	13,360	27,081	-	-	-	40,441	-	40,441
Environmental and Disposal Costs (Note 13)	-	13	-	-	-	-	13	-	13
Accrued Grant Liability (Note 6)	748	1,488	-	800	36	3	3,075	-	3,075
Loan Guarantees (Note 14)	-	351	-	-	-	-	351	-	351
Federal Employee and Veterans Benefits (Note 15)	5	7,486	9	-	-	1	7,501	-	7,501
Accrued Payroll and Benefits (Note 16)	7	650	52	-	-	4	713	-	713
Other (Note 17)	8	530	196	39	1	1	775	-	775
Total Liabilities	**$788**	**$25,282**	**$32,201**	**$847**	**$37**	**$12**	**$59,167**	**$(4,529)**	**$54,638**
Net Position (Note 18)									
Unexpended Appropriations	8,386	41,912	3	19,700	(6)	56	70,051	-	70,051
Cumulative Results of Operations	(12)	(2,838)	223,353	1	(1)	(1)	220,502	(10)	220,492
Total Net Position	**$8,374**	**$39,074**	**$223,356**	**$19,701**	**$(7)**	**$55**	**$290,553**	**$(10)**	**$290,543**
Total Liabilities and Net Position	**$9,162**	**$64,356**	**$255,557**	**$20,548**	**$30**	**$67**	**$349,720**	**$(4,539)**	**$345,181**

In addition to this schedule, more detailed information on individual operating divisions (OPDIVs) can be found in the OPDIVs' audited financial statement. OPDIV financial statements can be accessed on the Internet at www.hhs.gov.

U.S. Department of Health and Human Services

As of September 30, 2001

(in millions)

	ACF	AHRQ	AoA	CDC	CMS	FDA	HRSA	IHS	NIH	OS	PSC	SAMHSA	OPDIV Consolidated Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Assets															
Intragovernmental															
Fund Balance with Treasury (Note 2)	$29,277	$287	$461	$3,653	$17,427	$466	$5,083	$1,352	$19,721	$919	$87	$2,216	$80,949	$ -	$80,949
Investments, Net (Note 3)	-	-	-	-	243,092	-	1,818	-	21	-	-	-	244,931	-	244,931
Accounts Receivable, Net (Note 4)	1	-	-	40	554	130	11	13	108	54	74	-	985	(78)	907
Anticipated Congressional Appropriation–CMS (Note 10)	-	-	-	-	11,166	-	-	-	-	-	-	-	11,166	-	11,166
Other (Note 10)	-	-	-	5	-	14	1	-	26	52	-	-	98	(4)	94
Total Intragovernmental	**$29,278**	**$287**	**$461**	**$3,698**	**$272,239**	**$610**	**$6,913**	**$1,365**	**$19,876**	**$1,025**	**$161**	**$2,216**	**$338,129**	**$(82)**	**338,047**
Accounts Receivable, Net (Note 4)	-	-	-	10	4,086	14	2	40	3	-	8	2	4,165	-	4,165
Loans Receivable and Foreclosed Property (Note 5)	-	-	-	-	-	-	427	-	-	-	-	-	427	-	427
Cash and Other Monetary Assets (Note 7)	-	-	-	-	137	-	-	-	-	-	-	-	137	-	137
Inventory and Related Property, Net (Note 8)	-	-	-	27	-	-	-	13	12	-	15	-	67	-	67
General Property, Plant and Equipment, Net (Note 9)	-	-	-	224	12	208	-	716	1,151	16	4	-	2,331	-	2,331
Other (Note 10)	-	-	-	2	-	-	-	3	2	-	-	-	7	-	7
Total Assets	**$29,278**	**$287**	**$461**	**$3,961**	**$276,474**	**$832**	**$7,342**	**$2,137**	**$21,044**	**$1,041**	**$188**	**$2,218**	**$345,263**	**$(82)**	**$345,181**
Liabilities															
Intragovernmental															
Accounts Payable (Note 11)	$3	$2	$-	$ -	$ -	$10	$6	$4	$12	$7	$1	$4	$49	$(19)	$30
Environmental and Disposal Costs (Note 13)	-	-	-	-	-	3	-	-	-	-	-	-	3	-	3
Accrued Payroll and Benefits (Note 16)	2	-	-	7	4	10	2	13	20	4	4	1	67	-	67
Other (Note 17)	-	-	-	60	698	126	71	86	10	-	-	28	1,079	(53)	1,026
Total Intragovernmental	**$5**	**$2**	**$-**	**$67**	**$702**	**$149**	**$79**	**$103**	**$42**	**$11**	**$5**	**$33**	**$1,198**	**$(72)**	**$1,126**
Accounts Payable (Note 11)	23	-	10	156	-	56	54	71	179	32	41	21	643	-	643
Entitlement Benefits Due and Payable (Note 12)	-	-	-	-	40,441	-	-	-	-	-	-	-	40,441	-	40,441
Environmental and Disposal Costs (Note 13)	-	-	-	-	-	2	-	-	11	-	-	-	13	-	13
Accrued Grant Liability (Note 6)	1,515	5	69	149	-	3	305	5	991	46	-	(13)	3,075	-	3,075
Loan Guarantee (Note 14)	-	-	-	-	-	-	351	-	-	-	-	-	351	-	351
Federal Employee and Veterans Benefits (Note 15)	5	-	-	19	10	23	36	82	64	23	7,213	26	7,501	-	7,501
Accrued Payroll and Benefits (Note 16)	6	3	1	81	55	96	29	122	249	37	25	9	713	-	713
Other (Note 17)	47	-	-	35	210	1	331	49	99	2	-	1	775	-	775
Total Liabilities	**$1,601**	**$20**	**$70**	**$507**	**$41,418**	**$330**	**$1,185**	**$432**	**$1,635**	**$151**	**$7,284**	**$77**	**$54,710**	**$(72)**	**$54,638**
Net Position (Note 18)															
Unexpended Appropriations	27,690	90	390	3,283	11,564	329	4,168	1,154	18,269	922	17	2,175	70,051	-	70,051
Cumulative Results of Operations	(13)	177	1	171	223,492	173	1,989	551	1,140	(32)	(7,113)	(34)	220,502	(10)	220,492
Total Net Position	**$27,677**	**$267**	**$391**	**$3,454**	**$235,056**	**$502**	**$6,157**	**$1,705**	**$19,409**	**$890**	**$(7,096)**	**$2,141**	**$290,553**	**$(10)**	**$290,543**
Total Liabilities and Net Position	**$29,278**	**$287**	**$461**	**$3,961**	**$276,474**	**$832**	**$7,342**	**$2,137**	**$21,044**	**$1,041**	**$188**	**$2,218**	**$345,263**	**$(82)**	**$345,181**

In addition to this schedule, more detailed information on individual operating divisions (OPDIVs) can be found in the OPDIVs' audited financial statement. OPDIV financial statements can be accessed on the Internet at **www.hhs.gov**

Consolidating Statement of Net Cost by Budget Function

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001

(in millions)

Operating Division	Education, Training & Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources & Environment	OPDIV Combined Totals	Intra-HHS Elimination		HHS Consolidated Totals
								Cost (-)	Revenue (+)	
ACF	$15,837	$ -	$ -	$27,754	$95	$ -	$43,686	$(23)	$3	$43,666
AHRQ	-	49	-	-	-	-	49	(7)	179	221
AoA	961	-	-	-	-	-	961	(2)	-	959
CDC	-	3,951	-	-	-	75	4,026	(95)	128	4,059
CMS	-	133,024	219,357	-	-	-	352,381	(52)	1	352,330
FDA	-	1,156	-	-	-	-	1,156	(63)	19	1,112
HRSA	-	5,309	-	-	-	-	5,309	(80)	30	5,259
IHS	-	2,686	-	-	-	-	2,686	(29)	20	2,677
NIH	-	17,304	-	-	-	-	17,304	(345)	54	17,013
OS	-	777	-	-	-	-	777	(36)	101	842
PSC	-	1,973	-	-	-	-	1,973	(13)	201	2,161
SAMHSA	-	2,673	-	-	-	-	2,673	(35)	10	2,648
Net Cost of Operations	**$16,798**	**$168,902**	**$219,357**	**$27,754**	**$95**	**$75**	**$432,981**	**$(780)**	**$746**	**$432,947**

U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001 *(in millions)*

Operating Division	Intragovernmental						With the Public		OPDIV Consolidated Net Cost of Operations
	Gross Cost			Less: Exchange Revenue					
	Combined	Eliminations	Consolidated	Combined	Eliminations	Consolidated	Gross Cost	Less: Exchange Revenue	
ACF	$90	$ -	$90	$7	$ -	$7	$43,603	$ -	$43,686
AHRQ	25	-	25	180	-	180	204	-	49
AoA	6	-	6	-	-	-	955	-	961
CDC	431	(7)	424	201	(7)	194	3,798	2	4,026
CMS	1,586	(1,239)	347	1,242	(1,239)	3	375,846	23,809	352,381
FDA	317	-	317	24	-	24	1,016	153	1,156
HRSA	159	-	159	149	-	149	5,412	113	5,309
IHS	58	-	58	22	-	22	3,329	679	2,686
NIH	2,037	(1,182)	855	1,349	(1,182)	167	16,668	52	17,304
OS	191	-	191	128	-	128	718	4	777
PSC	61	-	61	293	-	293	2,205	-	1,973
SAMHSA	157	-	157	27	-	27	2,543	-	2,673
Totals	**$5,118**	**$(2,428)**	**$2,690**	**$3,622**	**$(2,428)**	**$1,194**	**$456,297**	**$24,812**	**$432,981**

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U.S. Department of Health and Human Services

For the Fiscal Year Ended September 30, 2001 *(in millions)*

	Education, Training & Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources & Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Net Cost of Operations	$16,798	$168,902	$219,357	$27,754	$95	$75	$432,981	$(34)	$432,947
Financing Sources (Other Than Exchange Revenues):									
Appropriations Used	16,798	166,740	79,653	27,743	95	71	291,100	-	291,100
Taxes and Other Budgetary Financing Sources	-	631	164,608	-	(1)	-	165,238	4	165,242
Donations and Forfeitures of Property	-	3	-	-	-	-	3	-	3
Imputed Financing from Costs Absorbed by Others	11	344	24	-	-	4	383	(45)	338
Other Non-Budgetary Financing Sources	-	11	(6)	-	-	-	5	-	5
Net Results of Operations	$11	$(1,173)	$24,922	$(11)	$(1)	$ -	$23,748	$(7)	$23,741
Prior Period Adjustments (Note 21)	(13)	(353)	-	-	(25)	(8)	(399)	(85)	(484)
Unreconciled Transactions Affecting the Change in NetPosition	-	-	-	-	-	-	-	(3)	(3)
Net Change in Cumulative Results of Operations	$(2)	$(1,526)	$24,922	$(11)	$(26)	$(8)	$23,349	$(95)	$23,254
Increase (Decrease) in Unexpended Appropriations	(134)	5,752	(3,139)	(779)	(95)	4	1,609	-	1,609
Change in Net Position	$(136)	$4,226	$21,783	$(790)	$(121)	$(4)	$24,958	$(95)	$24,863
Net Position – Beginning of Period	8,510	34,848	201,573	20,491	114	59	265,595	85	265,680
Net Position – End of Period	**$8,374**	**$39,074**	**$223,356**	**$19,701**	**$(7)**	**$55**	**$290,553**	**$(10)**	**$290,543**

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