SECTION IV:

Financial Statements, Notes, Supplemental and Other Accompanying Information

Principal Financial Statements and Notes

This section includes the following principal statements and notes:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Combined Statement of Financing
- Notes to the Principal Financial Statements

Consolidated Balance Sheet (in millions)

U.S. Department of Health and Human Services • As of September 30, 2000

	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Assets			
Intra-governmental			
Fund Balance with Treasury *(Note 2)*	$ 78,093		$ 78,093
Investments, Net *(Note 3)*	219,173	$ —	219,173
Accounts Receivable, Net *(Note 4)*	2,312	(119)	2,193
Other *(Note 10)*	6,602	—	6,602
Total Intra-governmental	**$ 306,180**	**$ (119)**	**$ 306,061**
Accounts Receivable, Net *(Note 4)*	$ 3,961		$ 3,961
Loans Receivable and Foreclosed Property *(Note 5)*	427		427
Cash and Other Monetary Assets *(Note 7)*	61		61
Inventory and Related Property, Net *(Note 8)*	63		63
General Property, Plant, and Equipment, Net *(Note 9)*	2,046		2,046
Other *(Note 10)*	18		18
TOTAL ASSETS	**$ 312,756**	**$ (119)**	**$ 312,637**
Liabilities			
Intra-governmental			
Accounts Payable *(Note 11)*	$ 101	$ (43)	$ 58
Environmental and Disposal Costs *(Note 13)*	3	—	3
Accrued Payroll and Benefits *(Note 16)*	55	—	55
Other *(Note 17)*	755	(161)	594
Total Intra-governmental	**$ 914**	**$ (204)**	**$ 710**
Accounts Payable *(Note 11)*	$ 491		$ 491
Entitlement Benefits Due and Payable *(Note 12)*	36,522		36,522
Accrued Grant Liability *(Note 6)*	1,843		1,843
Environmental and Disposal Costs *(Note 13)*	12		12
Loan Guarantees *(Note 14)*	338		338
Federal Employee and Veterans Benefits *(Note 15)*	5,746		5,746
Accrued Payroll and Benefits *(Note 16)*	676		676
Other *(Note 17)*	619		619
TOTAL LIABILITIES	**$ 47,161**	**$ (204)**	**$ 46,957**
Net Position *(Note 18)*			
Unexpended Appropriations	$ 68,935		$ 68,935
Cumulative Results of Operations	196,660	$ 85	196,745
TOTAL NET POSITION	**$ 265,595**	**$ 85**	**$ 265,680**
TOTAL LIABILITIES AND NET POSITION	**$ 312,756**	**$ (119)**	**$ 312,637**

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements. In addition to this statement, 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**

Consolidated Statement of Net Cost (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Operating Division	OPDIV Consolidated Totals	Inter-OPDIV Eliminations: Costs (-)	Inter-OPDIV Eliminations: Earned/Exchange Revenues (+)[1]	HHS Consolidated Totals
ACF	$ 37,432	$ (19)	$ 3	$ 37,416
AoA	904	(2)	—	902
AHRQ	97	(5)	69	161
CDC	2,739	(50)	98	2,787
FDA	1,065	(49)	22	1,038
HCFA	317,006	(26)	(7)	316,973
HRSA	4,383	(59)	101	4,425
IHS	2,462	(28)	12	2,446
NIH	15,748	(234)	57	15,571
OS	805	(110)	77	772
PSC	365	(12)	170	523
SAMHSA	2,480	(23)	10	2,467
NET COST OF OPERATIONS	**$ 385,486**	**$ (617)**	**$ 612**	**$ 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 on individual operating divisions (OPDIVs) can be found in the following supplemental schedules: "Consolidating Statement of Net Cost by Budget Function" and "Public and Intra-governmental Net Costs."

A Note About Financial Statements

Cells shaded in grey within this section's financial statements denote that data would not be appropriate in those cells.

Dashes indicate that amounts reported by the HHS components, if any, in the aggregate amount to less than $0.5 million.

Consolidated Statement of Changes in Net Position (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Net Cost of Operations	$ 385,486	$ (5)	$ 385,481
Financing Sources (other than exchange revenues):			
Appropriations Used	$262,769		$ 262,769
Taxes (and other non-exchange revenue)	156,460	—	156,460
Donations (non-exchange revenue)	35		35
Imputed Financing	314	—	314
Transfers — in	947	—	947
Transfers — out	(1,017)	9	(1,008)
Other Financing Sources	41	—	41
NET RESULTS OF OPERATIONS	**$34,063**	**$ 14**	**$ 34,077**
Prior Period Adjustments *(Note 21)*	$ (714)	$ —	$ (714)
Unreconciled Transactions Affecting the Change in Net Position	—	71	71
NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS	**$ 33,349**	**$ 85**	**$ 33,434**
Increase (Decrease) in Unexpended Appropriations	$ 8,019		$ 8,019
CHANGE IN NET POSITION	**$ 41,368**	**$ 85**	**$ 41,453**
Net Position — Beginning of Period	$ 224,227		$ 224,227
NET POSITION — END OF PERIOD	**$ 265,595**	**$ 85**	**$ 265,680**

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

Combined Statement of Budgetary Resources (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

		OPDIV Combined Totals
Budgetary Resources		
Budget Authority	$	521,265
Unobligated Balances – Beginning of Period		12,815
Spending Authority from Offsetting Collections		5,361
Adjustments		(30,171)
TOTAL BUDGETARY RESOURCES	**$**	**509,270**
Status of Budgetary Resources		
Obligations Incurred	$	498,872
Unobligated Balances—Available		4,784
Unobligated Balances—Not Available		5,614
TOTAL STATUS OF BUDGETARY RESOURCES	**$**	**509,270**
Outlays		
Obligations Incurred	$	498,872
Less: Spending Authority from Offsetting Collections and Adjustments		8,664
Subtotal	**$**	**490,208**
Obligated Balance, Net – Beginning of Period	$	56,601
Obligated Balance Transferred, Net		–
Less: Obligated Balance, Net – End of Period		65,837
TOTAL OUTLAYS	**$**	**480,972**

Combined Statement of Financing (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

	OPDIV Combined Totals
Resources Used to Finance Activities	
Budgetary	
Budgetary resources obligated for orders and delivery of goods and services to be received or benefits to be provided to others	$ 498,872
Less: Offsetting collections, recoveries of prior-year authority, and changes in unfilled customer orders	8,757
Net budgetary resources used to finance activities	**$ 490,115**
Non-budgetary	
Property received from others without reimbursement	$ 1,982
Property given to others without reimbursement	(77,716)
Costs incurred by others for the entity without reimbursement	315
Other non-budgetary resources	5
Net non-budgetary resources used to finance activities	**$ (75,414)**
TOTAL RESOURCES USED TO FINANCE ACTIVITIES	**$ 414,701**
Relationship of Total Resources to the Net Cost of Operations	
Deduct resources used to fund items not part of the net cost of operations:	
(Increase) or decrease in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	$ (5,894)
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses:	
Increase/(decrease) in revenue collected in advance	32
Collections that decrease assets unrelated to exchange revenue	–
Credit program collections that increase liabilities for loans guarantees or allowances for subsidy	47
Other	(31)
Adjustments other than collections made to compute net budgetary resources that do not affect cost of operations:	
Recoveries of prior-year authority	3,041
Increase/(decrease) in unfilled customer orders	(33)
Other	(6)
Resources that fund expenses recognized in prior periods	(35,506)
Resources that finance the acquisition of assets or liquidations of liabilities	(319)
Other resources used to fund items not part of the net cost of operations	(202)
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	**$ (38,871)**
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	**$ 375,830**
Components of Net Cost of Operations That Do Not Require Or Generate Resources During the Reporting Period	
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:	
Expenses related to use of assets	$ 1,206
Losses/(gains) from reevaluation of assets and liabilities	1
Decrease/(increase) in exchange revenue receivable from the public	(643)
Interest revenue from amortization of credit program allowance for subsidy	–
Other	(21,972)
Subtotal	**$ (21,408)**
Expenses that will be financed with budgetary resources recognized in future periods:	
Annual leave expense from increase in annual leave liability	$ 30
Credit program subsidy expense from upward subsidy re-estimates	–
Other	31,044
Subtotal	**$ 31,074**
Other net cost components that do not require or generate resources during the reporting period	(10)
TOTAL COMPONENTS OF NET COST OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES DURING THE REPORTING PERIOD	**$ 9,656**
TOTAL NET COST OF OPERATIONS	**$ 385,486**

Notes to Principal Financial Statements

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 for Children and Families (ACF)
2. Centers for Disease Control (CDC)/Agency for Toxic Substances and Disease Registry (ATSDR)
3. Food and Drug Administration (FDA)
4. Health Care Financing Administration (HCFA)
5. Health Resources and Services Administration (HRSA)
6. Indian Health Service (IHS)
7. National Institutes of Health (NIH)
8. Program Support Center (PSC)
9. Substance Abuse and Mental Health Services Administration (SAMHSA)
10. Administration on Aging (AoA)
11. Agency for Healthcare Research and Quality (AHRQ)
12. Office of the Secretary (OS)

The Agency for Toxic Substances and Disease Registry is combined with the Centers for Disease Control for financial reporting purposes; therefore, these footnotes will refer to them as one OPDIV. In FY 2000, the first ten OPDIVs listed above received full scope audits, while the last two 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 97-01 (as amended), 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 account balances from the financial statements of HHS' twelve OPDIVs; each of which is issued under separate cover. Intra-entity eliminations are presented on the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and Consolidated Statement of Changes in Net Position. The effects of intra-entity transactions **are not** eliminated in the presentation of the other principal statements. These other statements are labeled as combined/combining statements rather than consolidated/consolidating statements. 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.

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 HCFA 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 combine the entity and non-entity assets. 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 U.S. Treasury. 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 consist of 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 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 outstanding advances to grantees. 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). The process adopted by HHS to estimate a year-end grant accrual relies 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 4th 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 2 weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the 4th quarter ending September 30 and the estimated IBNR represent the total amount reported for HHS for accrued grants. (Refer to Note 6 "Advances to Grantees/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. Both Inventories and OMS are recorded as assets when purchased, and expensed when they are consumed or sold. Generally, these inventories are recorded at (1) historical cost (or a method which reasonably approximates historical cost), or (2) the lower of cost (using weighted-average cost method) or market. Stockpile materials represent supplies of biological materials and vaccines held for use in case of a national emergency.

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 on a straight-line basis 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 recorded for any future payment to be made on behalf of current workers contributing to the Medicare Hospital Insurance (HI) Trust Fund.

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 such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employee's Compensation Act (disability) payments. 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 Medicare and Medicaid (HCFA). The Administration for Children and Families (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 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."

Pensions: 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 Office of Personnel Management reports on CSRS and FERS assets, accumulated plan benefits, unfunded liabilities, if any, applicable to federal employees.

Other Retirement Benefits (ORB): Retirement benefits other than pensions are 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 amounts 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 Canceled 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 canceled. The total potential payments related to canceled appropriations is estimated to be $571 million as of September 30, 2000.

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 revenues arise 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 are costs incurred by one federal entity which is paid for by another federal entity. These are also known as inter-entity costs. OMB is limiting the inter-entity 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 Federal Employees' Compensation Act (FECA), and (4) losses in litigation proceedings (FASAB Interpretation No. 2, Accounting for Treasury Judgement Fund transactions).[1]

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.

[1] Memorandum from G. Edward DeSeve, Controller, OMB, dated April 6, 1998, entitled *Technical Guidance for the Implementation of Managerial Cost Accounting Standards for the Federal Government.*

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 Medicare's 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 and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Intra-Governmental 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.

Comparative Data

OMB Bulletin 97-01, "Form and Content of Agency Financial Statements" provides that comparative financial statements are permitted but not required until reporting periods beginning after September 30, 1999 (FY 2000). OMB has determined that, due to the implementation of new FASAB accounting standards and new financial statement formats and disclosures for FY 1999, it is not feasible nor prudent to attempt to restate FY 1999 amounts in the current statements. Therefore, comparative data will not be presented in the financial statements for FY 2000.

Change in Accounting Methodology — Eliminations

In FY 1999, HHS calculated intra-departmental eliminations by comparing the asset/liability and revenue/expense amounts on an OPDIV by OPDIV basis, and choosing one of the two OPDIV reported amounts as the more accurate figure. Department eliminations were then calculated using the sum of these chosen amounts. In this manner, asset/liability eliminations and revenue/expense eliminations always balanced.

For FY 2000, HHS has adopted the same methodology used by Treasury's Financial Management Service (FMS) in reporting intra-entity eliminations. Under the Treasury FMS method, all intra-departmental 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."

Note 2: Fund Balance with Treasury

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

Unless otherwise stated, "Notes to Principal Financial Statements" are presented in millions.

	Entity Assets	Non-entity Assets	Total
Trust Funds	$ 3,424	$ –	$ 3,424
Revolving Funds	667	–	667
Appropriated Funds	73,695	–	73,695
Other Funds	290	17	307
TOTAL	**$ 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.

	Cost	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Market Value Disclosure
Intra-governmental 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, INTRA-GOVERNMENTAL	**$ 219,164**	**$ 9**	**$ 219,173**	**$ –**	**$ 219,173**

HCFA 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 6 to $6^1/_4$ percent. The bond interest rates run from $5^7/_8$ to $9^1/_4$ percent. The accrued interest receivable as of September 30, 2000 was approximately $3.6 billion.

During FY 2000, HCFA's Office of the Actuary determined that HI's excess interest earnings were actually $111.6 million while SMI's shortfall in interest earnings was actually $232.1 million. Pursuant to P.L.106-246 (Section 2703), the following actions were taken in August 2000: 1) $111.6 million was redeemed from the HI trust fund and correspondingly invested in the SMI trust fund; 2) the deficient amount of $120.5 million was appropriated from the Treasury General Fund and invested in the SMI trust fund; and 3) the interest rates and maturity structures of the HI and SMI investments were adjusted so that the trust fund assets would be restored as accurately as possible to the positions they would have been if the accounting errors had not occurred.

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 the VICP held securities would mature in fiscal years 2001, 2004 and 2008.

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

Note 4: Accounts Receivable, Net

	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
Intra-governmental									
Entity	$ 2,328	$ 6	$ 2,334	$ (1)	$ 2,333	$ (21)	$ 2,312	$ (119)	$ 2,193
Non-entity	–	–	–	–	–	–	–	–	–
TOTAL, INTRA-GOVERNMENTAL	**$ 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**

HCFA has recorded a $6.6 billion anticipated Congressional appropriation to cover liabilities incurred as of September 30 by the Medicaid program. Beginning in FY 1996, HCFA has accrued an expense and liability for Medicaid claims incurred but not reported (IBNR) as of September 30. In FY 2000, the IBNR expense exceeded the available unexpended Medicaid appropriations in the amount of $6.5 billion. A review of appropriation language by HCFA's Office of General Counsel has resulted in a determination that the indefinite authority provision in the Medicaid appropriation allows for the entire IBNR amount to be reported as a funded liability.

HCFA's Medicare accounts receivable are primarily composed of provider and beneficiary overpayments and Medicare Secondary Payer overpayments.

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 basis. Individual analysis is based upon the debtor's ability to pay, the debtor's payment record and willingness to pay and the probable recovery of amounts from secondary sources, including liens, garnishments, etc. To estimate allowance for loss by groups, HHS stratifies receivables into groups exhibiting similar characteristics. Estimated losses are then projected based upon statistical sampling or through historical loss experience. The allowance is periodically reviewed and adjustments are made as required.

Note 5: Loans Receivable and Foreclosed Property, Net

Loans receivable are included for HRSA's Health Education Assistance Loan (HEAL) guaranteed loan program. The gross receivables 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.

Loan Programs	Loans Receivable Principal	Interest Receivable	Loans Receivable, Gross	Allowance	Loans Receivable, Net
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	$ 4	$ –	$ 4	$ –	$ 4
Post-1991 loans	–	–	–	–	–
TOTAL	**$ 557**	**$ 16**	**$ 573**	**$ (146)**	**$ 427**

Note 6: Advances to Grantees/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, 2000.

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 for "Advances to Grantees." Otherwise, the OPDIV reports a liability called "Accrued Grant Liability" equal to the amount that the accrual exceeds the outstanding advances.

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

Grant Advances Outstanding (before year-end grant accrual)	$ 13,612
Less: Estimated Accrual for Amounts Due to Grantees	(15,455)
NET GRANT ADVANCES	**$ (1,843)**

Note 7: Cash and Other Monetary Assets

	Entity Assets	Non-entity Assets	Total
Cash	$ –	$ –	$ –
Foreign Currency	–	–	–
Other Monetary Assets			
Gold	–	–	–
Special Drawing Rights	–	–	–
U.S. Reserves in the International Monetary Fund	–	–	–
Other	61	–	61
TOTAL OTHER MONETARY ASSETS	**$ 61**	**$ –**	**$ 61**
TOTAL CASH, FOREIGN CURRENCY AND OTHER MONETARY ASSETS	**$ 61**	**$ –**	**$ 61**

Note 8: Inventory and Related Property, Net

Inventory Held for Sale	
Inventory held for Current Sale	$ 24
Inventory Reserved for Future Sale	–
Excess, Obsolete and Unserviceable Inventory	–
Inventory Held for Repair	–
TOTAL, INVENTORY HELD FOR SALE	**$ 24**
Operating Materials and Supplies (OMS)	
OMS Held for Use	$ 8
OMS Reserved for Future Use	13
Excess, Obsolete and Unserviceable OMS	(5)
TOTAL, OPERATING MATERIALS AND SUPPLIES	**$ 16**
Stockpile Materials (SM)	
SM Held for Emergency or Contingency	$ 23
TOTAL, STOCKPILE MATERIALS	**$ 23**
Inventory and Related Property, Gross	$ 63
Less: Allowance for loss/obsolescence/spoilage	–
TOTAL INVENTORY AND RELATED PROPERTY, NET	**$ 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

Balances for the major categories of HHS Property, Plant and Equipment are listed below.

	Depreciation Method	Estimated Useful Lives	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights	N/A	N/A	$ 48		$ 48
Improvements to Land	Straight Line	5–20 years	–	$ –	–
Construction in Progress	N/A	N/A	480		480
Buildings, Facilities and Other Structures	Straight Line	15–40 years	2,141	(999)	1,142
Equipment	Straight Line	3–10 years	723	(373)	350
Assets Under Capital Lease	Straight Line	Life of Lease	32	(6)	26
Leasehold Improvements	Straight Line	7–15 years or Life of Lease	–	–	–
TOTALS			**$ 3,424**	**$ (1,378)**	**$ 2,046**

See the disclosure Deferred Maintenance on page IV.58 in the Required Supplementary Information section for information on deferred maintenance for General PP&E.

Note 10: Other Assets

Other Assets is comprised of the following, all of which are considered Entity Assets.

Intra-governmental	
Advances to Other Federal Entities	$ 116
Prepayments and Deferred Charges	1
Other	6,574
OPDIV COMBINED, INTRA-GOVERNMENTAL	**$ 6,691**
Less: Intra-OPDIV Eliminations	$ (89)
OPDIV CONSOLIDATED, INTRA-GOVERNMENTAL	**$ 6,602**
Less: Inter-OPDIV Eliminations	–
HHS CONSOLIDATED, INTRA-GOVERNMENTAL	**$ 6,602**
With the Public	
Prepayments and Deferred Charges	$ 4
Travel Advances and Emergency Employee Salary Advances	2
Other	12
HHS COMBINED, WITH THE PUBLIC	**$ 18**

Note 11: Accounts Payable

	Intra-governmental	With the Public	Total
Covered by Budgetary Resources	$ 122	$ 491	$ 613
Not Covered by Budgetary Resources	—	—	—
TOTAL OPDIV ACCOUNTS PAYABLE, COMBINED	**$ 122**	**$ 491**	**$ 613**
Less: Intra-OPDIV Eliminations	$ (21)		$ (21)
TOTAL OPDIV ACCOUNTS PAYABLE, CONSOLIDATED	**$ 101**	**$ 491**	**$ 592**
Less: Inter-OPDIV Eliminations	$ (43)		$ (43)
TOTAL HHS ACCOUNTS PAYABLE, CONSOLIDATED	**$ 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 (HCFA).

Liabilities Covered by Budgetary Resources	With the Public
Medicare	$ 24,185
Medicaid	12,331
Other	6
TOTAL, ENTITLEMENT BENEFITS DUE AND PAYABLE	**$ 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 shutdown of associated PP&E. The following table presents HHS OPDIV cleanup costs.

	Intra-governmental			With the Public		
OPDIV	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	$ 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.

Loan Programs	Defaulted Loans Guaranteed	Interest Payable	Liability for Loan Guarantees
HEAL Loans (HRSA)			
Pre-1992 guarantees	$ 28	$ –	$ 28
Post-1991 guarantees	306	–	306
Subtotal	**$ 334**	**$ –**	**$ 334**
Other			
Pre-1992 guarantees	$ 4	$ –	$ 4
Post-1991 guarantees	–	–	–
TOTAL	**$ 338**	**$ –**	**$ 338**

Note 15: Federal Employee and Veterans' Benefits

Liabilities Not Covered by Budgetary Resources	With the Public
PHS Commissioned Corp Pension Liability	$ 5,482
Workers' Compensation Benefits (Actuarial FECA Liability)	264
TOTAL, FEDERAL EMPLOYEE AND VETERANS' BENEFITS	**$ 5,746**

PHS Commissioned Corps Pension

HHS administers the Public Health Service (PHS) Commissioned Corps Retirement System for approximately 5,643 active duty officers and 4,278 retiree annuitants or survivors. Authorized by Public Law 78-410, it is a defined benefit plan and is non-contributory. 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, 2000, the actuarial present value of accumulated plan pension benefits was $4.94 billion of which $479 million was non-vested.

The liability of the medical benefits program is initially presented on these financial statements. As of September 30, 2000, the liability was actuarially determined to be $539.6 million. An estimate of the liability at September 30, 1999 was determined using a trend-line analysis of prior years costs and other factors. The full amount of the prior period ending estimate, $528.8 million, has been recorded as a prior period adjustment to the Program Support Center statements since it had not been previously presented.

Significant assumptions used by the actuary in its reports on the pension and medical programs as of September 30, 2000, were as follows: interest on federal securities of 6.25%; annual basic pay scale increase of 3.5%, and annual inflation of 3%. 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 Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting in FY 2000 were as follows:

- 6.15% in year 1
- 6.28% in year 2
- 6.30% in year 3, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (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 were as follows:

FY	COLA	CPIM
2000	1.97%	3.69%
2001	2.83%	4.24%
2002	2.90%	4.10%
2003	2.53%	4.16%
2004+	2.60%	4.16%

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

Note 16: Accrued Payroll and Benefits

	Intra-governmental			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
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

	Intra-governmental			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
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**

Advances from Other Federal Agencies of $112 million are 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 $268 million represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 2000. Other liability categories are described in Note 1, Significant Accounting Policies.

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.

	Trust Funds	Revolving Funds	Appropriated Funds	Inter-OPDIV Eliminations	Totals
Unexpended Appropriations					
Unobligated					
Available			$ 1,631		$ 1,631
Unavailable			10,970		10,970
Undelivered Orders			56,334		56,334
Subtotals			**$ 68,935**		**$ 68,935**
Cumulative Results of Operations	200, 280	813	$ (4,433)	85	$ 196,745
NET POSITION	**200, 280**	**813**	**$ 64,502**	**85**	**$ 265,680**

Note 19: Leases

Capital Leases

HHS and its components 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.

Summary of Assets Under Capital Lease	FY 2000
Land and Building	31
Machinery and Equipment	1
Other	–
Subtotal	**32**
Less: Accumulated Amortization	(6)
ASSETS UNDER CAPITAL LEASE	**26**

Future Minimum Lease Payments	Capital Leases	Operating Leases
Year 1	3	185
Year 2	3	188
Year 3	3	192
Year 4	3	187
Year 5	3	190
Later Years	42	330
TOTAL MINIMUM LEASE PAYMENTS	**57**	**1,272**
Less Imputed Interest	(28)	
TOTAL CAPITAL LEASE LIABILITY	**29**	

Operating Leases

HHS and its 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 of remaining noncancelable lease terms from one to twenty years. GSA leases in general are cancelable within 120 days notice.

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

	Education, Training, and Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Consolidated Totals
Intra-governmental							
Gross Cost	$ 132	$ 1,995	$ 247	$ –	$ –	$ 15	$ 2,389
Less: Exchange Revenue	(8)	(981)	–	–	–	–	(989)
TOTAL, NET COST – INTRA-GOVERNMENTAL	**$ 124**	**$ 1,014**	**$ 247**	**$ –**	**$ –**	**$ 15**	**$ 1,400**
With the Public							
Gross Cost	$ 13,962	$ 150,093	$ 218,705	$ 24,123	$ 189	$ 73	$ 407,145
Less: Exchange Revenue	–	(1,148)	(21,911)	–	–	–	(23,059)
TOTAL, NET COST – WITH THE PUBLIC	**$ 13,962**	**$ 148,945**	**$196,794**	**$ 24,123**	**$ 189**	**$ 73**	**$ 384,086**
Totals							
Gross Cost	$ 14,094	$ 152,088	$ 218,952	$ 24,123	$ 189	$ 88	$ 409,534
Less: Exchange Revenue	(8)	(2,129)	(21,911)	–	–	–	(24,048)
TOTAL, NET COST OF OPERATIONS	**$ 14,086**	**$ 149,959**	**$197,041**	**$ 24,123**	**$ 189**	**$ 88**	**$ 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. The majority of prior period adjustments noted in the table below result from the $528.8 million adjustment booked by the Program Support Center to report the beginning actuarial liability for medical benefits reported for PHS Commissioned Corp Officers. See Note 15, Federal Employee and Veterans' Benefits for a more detailed explanation of this prior period adjustment.

	Increases (Decreases) to Equity
Correction of Errors	$ (546)
Change in Accounting Principles	$ 15
Adjustments to Beginning Net Position	$ (183)
TOTAL	**$ (714)**

Adjustments to Beginning Net Position represent FY 1999 audit adjustments booked by OPDIVs after the HHS audit deadline of March 1, 2000. These amounts were included in the OPDIVs' FY 1999 audited statements, but not the Department's FY 1999 consolidated statements.

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 75 X 1501 to cover outlays. During FY 2000, receipts amounted to $1,375 million and outlays amounted to $1,369 million. At year-end, ACF held $15.8 million in its Fund Balance with Treasury accounts relating to these collections.

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 HCFA's 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 2000 was $11.9 billion or about 6.8 percent of the $173.6 billion in processed fee-for-service payments reported by HCFA. The estimated range of the improper payments at the 95 percent confidence level is $7.5 billion to $16.2 billion, or about 4 percent to 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. All 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 2000, 34,576 cost reports totaling $103.7 billion were reviewed. Approximately $82.9 billion represented inpatient claims to PPS providers. These inpatient claims were included in prior years 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 $20.8 billion.

2000 Cost Report Summary (in millions)

	Desk Reviews and Other	Audits	Total
Cost Reports	28,923	5,653	34,576
Costs Claimed	$ 40,713	$ 63,027	$ 103,740
Disallowed	$ 857	$ 1,449	$ 2,306

The $2.3 billion disallowed represents 11 percent of the $20.8 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 $2.3 billion to $2.9 billion. Therefore, by limiting the amount of full-scope audits that were conducted, HCFA may have overpaid providers by as much as $570 million.

Potential Liability

HCFA routinely processes and settles cost reports for institutional providers. As part of this process some providers have filed suits challenging aspects of the cost report settlement process. HCFA cannot reasonably estimate the probability of the providers successfully winning their suits nor the potential liability for the Department. However, in the opinion of management, the resolution of these matters will not have a material impact on the results of operations and financial of HCFA.

Note 24: Premiums Collected and 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 1999 through September 2000. Premiums collected from beneficiaries totaled $20.5 billion in FY 2000 and were matched by a $65.3 billion contribution from the federal government.

Required Supplementary Stewardship Information (RSSI)

This section includes the following RSSI statements:

- Stewardship Property, Plant, and Equipment
- Stewardship Investments
    - Non-federal Physical Property
    - Investment in Human Capital
    - Investment in Research and Development
- Social Insurance

Stewardship Property, Plant, and Equipment

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

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

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 natural 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 the Indian Health Service (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 use PP&E, must be returned to the Department of the Interior's Bureau of Indian Affairs for continuing trust responsibility and oversight.

IHS asset accountability reports differentiate Indian Trust land parcels, by site and installation numbers and trust lands, from general PP&E situated thereon.

IHS Stewardship Classes

Asset Description	Number of Sites	Total Square Footage	Federal Acreage	Total Acreage
Heritage Assets	3	3,429	5	5
Indian Trust Lands	81	–	434	434

Distribution of Stewardship Assets by Type and Area

	Heritage Assets			Indian Trust Lands	
	Number of Sites	Square Footage	Total Acreage	Number of Sites	Total Acreage
Aberdeen	–	–	–	9	75
Alaska	2	1,134	5	–	–
Albuquerque	–	–	–	4	4
Bemidji	–	–	–	2	9
Billings	–	–	–	7	48
Navajo	–	–	–	32	221
Phoenix	1	2,295	–	–	–
Portland	–	–	–	5	2
Tucson	–	–	–	5	12
TOTAL HHS	**3**	**3,429**	**5**	**81**	**434**

Investment in Non-Federal Physical Property

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Investment in Non-federal 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 definition, but grants for maintenance and operations are not considered investments. In HHS, the only investment in non-federal physical property relates to former federal properties donated by the Indian Health Service (IHS).

Former federal properties are sites, built with federal funds, whose ownership has been transferred to State, local or Indian tribes through the Indian Self-determination and Education Assistance Act, Public Law P.L. 93-638 Section 105 (f)(2), as amended. This act allows the Indian Health Service 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.

The Indian Health Service has two properties in Oklahoma City, Oklahoma. The square footage of these two properties is 142,850.

Investment in Human Capital

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

"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 unable to provide baseline data for two of its programs for 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. By definition, "Investment in Human Capital" refers to those expenses incurred for programs for education and training of the public that are intended to maintain or increase national productive capacity.

In contrast, the Administration on Developmental Disabilities (ADD) program is able to estimate their investment in human capital from 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 2000, grants awarded totaled over $8 million.

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	2000	1999	1998	1997	1996
ACF					
Administration on Developmental Disabilities	$8	$6	$1	N/A	N/A
NIH					
Research Training and Career Development	872	820	660	N/A	N/A
TOTALS	**881**	**826**	**661**	**NA**	**N/A**

N/A = Not available

Investment in Non-Federal Physical Property, Investment in Human Capital

Investment in Research and Development

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

OPDIV	Basic	Applied	Developmental	2000	1999	1998	1997	1996	TOTAL
ACF	—	$30	—	$30	$19	$13	N/A	N/A	$62
AHRQ	—	—	—	—	97	139	—	—	236
CDC	—	505	—	505	433	N/A	N/A	N/A	938
FDA	—	23	$3	26	18	53	N/A	N/A	97
HRSA	$15	—	—	15	18	44	N/A	N/A	77
NIH	8,539	5,933	—	14,472	11,855	9,675	N/A	N/A	36,003
TOTALS	**$8,554**	**$6,586**	**$3**	**$15,143**	**$12,440**	**$9,924**	**N/A**	**N/A**	**$37,507**

N/A = Not available

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 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 process.

The OPD Program was established by the Orphan Drug Act (P.L. 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 listed as No. 93-103 under the *Catalog of Federal Domestic Assistance*, whose purpose is assisting 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.

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. The timely dissemination of medical and scientific information is also a critical component of NIH's Research Program. 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.

Social Insurance

For the Year Ended September 30, 2000

HCFA's Medicare program, 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 xiv of this *Accountability Report*.

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 *2000 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* and the *2000 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 HCFA's Office of the Actuary (410-786-6386). The reports are also available online at **www.hcfa.gov/pubforms/tr/hi2000/toc.htm** and **www.hcfa.gov/pubforms/tr/smi2000/toc.htm**.

Please note that the 2000 Trustees Reports for HI and SMI (issued March 31, 2000) were used as source documents for this FY 2000 CFO Financial Report. As this report goes to print, we anticipate that the government-wide financial statement report for FY 2000 (expected to be issued March 31, 2001) will contain updated information from the 2001 Trustees Reports (which are expected to be issued on or near March 15, 2001). Thus, some data related to the Medicare Trust Funds contained in this *FY 2000 Accountability Report* may differ from that contained in the FY 2000 Financial Report of the United States Government.

Actuarial Projections

Cashflow in Nominal Dollars

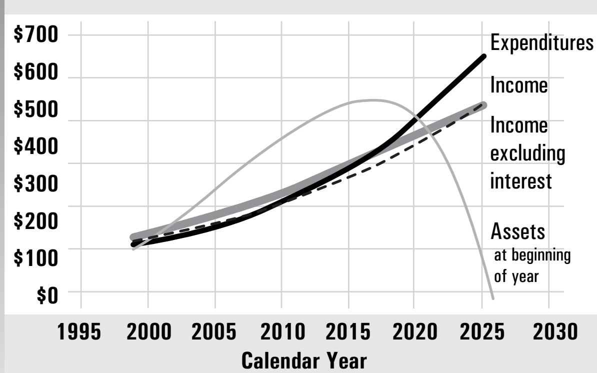
Using nominal dollars[1] for short-term projections paints a reasonably clear picture of expected performance with particular attention on cashflow and trust fund balances. Over longer periods, however, the changing value of the dollar can complicate efforts to compare dollar amounts in different periods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

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 2025. 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

Graph 1 shows the actuarial estimates of HI income, disbursements, and assets for each of the next 25 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 25 years. The estimates also include expenditures attributable to these current and future workers, in addition to current beneficiaries.

Graph 1: Hospital Insurance (HI) Income, Expenditures, and Assets: 1999–2025 (in billions)



Source: HCFA/OAct

As graph 1 shows, under the intermediate assumptions HI expenditures would begin to exceed income including interest in 2017 and income excluding interest in 2010. This situation is primarily due to the retirement, starting in 2010, of those born during the

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

1945–1965 baby boom. Beginning in 2017, the trust fund would start redeeming trust fund assets; in 2025, the assets would be depleted.

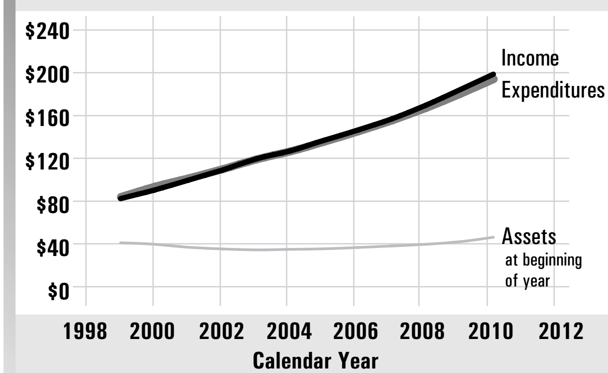
The projected year of depletion of the trust fund is very sensitive to assumed future economic and other trends. Under less favorable conditions the cash flow could turn negative much earlier and thereby accelerate asset exhaustion.

SMI

Graph 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 2025, SMI estimates cover 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 graph 2, and so are not projected 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. Graph 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.[2] Disbursements include benefit payments as well as administrative expenses.

Graph 2: Supplementary Medical Insurance (SMI) Income, Expenditures, and Assets: 1999–2010 (in billions)



Source: HCFA/OAct

As graph 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.

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,

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

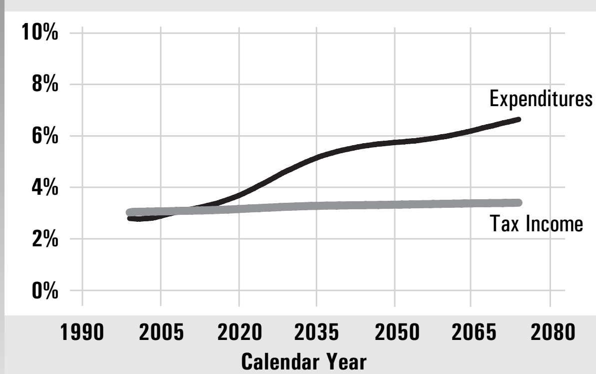
Medicare surpluses reduce the amount that must be borrowed from the public to finance those deficits. Unlike the assets of private pension plans, the trust funds do not consist of real economic assets that can be sold in the future to fund benefits. Instead, they are claims on the Treasury that, when 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 make it easier for the government to pay those benefits.

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").

Graph 3 illustrates income excluding interest and expenditures as a percent of taxable payroll over the next 75 years. Although the long-range financial outlook for the HI program has improved substantially in recent years as a result of the Balanced Budget Act of 1997, favorable economic conditions, and efforts to curb fraud and abuse, the program remains seriously underfunded through 2075. This is due in part to health care cost increases that exceed wage growth; a more significant cause, however, is the impending retirement of those born during the 1945–1965 baby boom.

Graph 3: HI Income Excluding Interest and Expenditures as a Percentage of Taxable Payroll: 1999–2075



Source: HCFA/OAct

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 graph 3 shows, the income rate is not expected to increase significantly over current levels. On the other hand, projected expenditures as a percent of taxable payroll sharply escalate between 2010 and 2035 and continue to increase throughout the period.

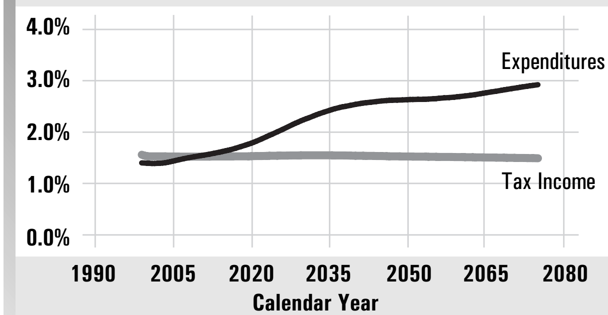
HI and SMI Cashflow as a Percent of GDP

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

Graph 4 shows income excluding interest and expenditures for the HI program over the next 75 years expressed as a percentage of GDP. In 1999, the expenditures were $131.4 billion, which was 1.40 percent of GDP. This percentage increases steadily throughout the entire 75-year period.

Graph 4: HI Income Excluding Interest and Expenditures as a Percent of GDP: 1999–2075



Source: HCFA/OAct

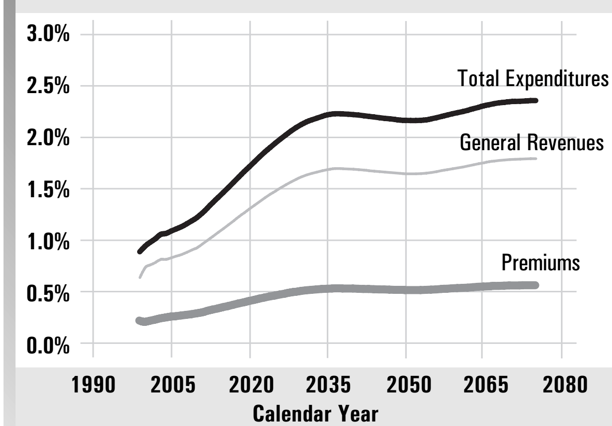
SMI

As noted earlier, because of the SMI financing mechanism in which income mirrors expenditures, it is not necessary to display income and expenditures separately. Rather, it is more important to examine the projected rise in expenditures.

Graph 5 shows expenditures for the SMI program over the next 75 years expressed as a percentage of GDP. In 1999, SMI expenditures were $80.5 billion, which was 0.89 percent of GDP. This percentage is projected to increase steadily through 2035, reflecting growth in the price, utilization, and intensity of SMI services that is expected to exceed GDP growth for many years, together with the effects of the baby boom retirement. After 2035 it levels off because SMI projections by assumption are tied directly to GDP and because the relatively fewer number of persons born after the baby boom will be eligible for SMI benefits.[3]

Also shown in graph 5 are the proportions of total costs that will be met through beneficiary premiums and general revenues under present law. As indicated, premiums will cover roughly 25 percent of total expenditures.

Graph 5: SMI Expenditures as a Percent of GDP: 1999–2075



Source: HCFA/OAct

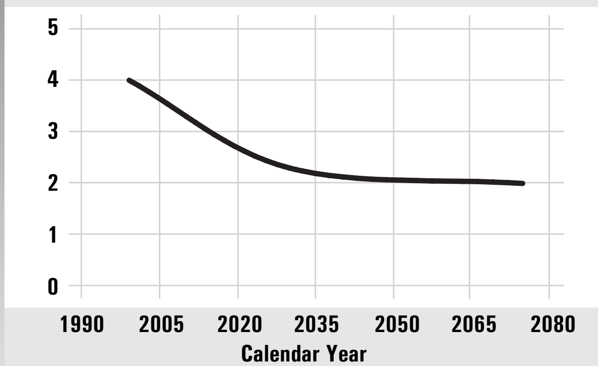
[3] For SMI, increases in the costs per enrollee during the initial 25-year period are assumed to gradually decline in the last 12 years to the same rate as GDP per capita and then to continue at the same rate as GDP per capita in the last 50 years.

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. Graph 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 1999, 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 2070.

Graph 6: Number of Covered Workers per HI Beneficiary: 1999–2075



Source: HCFA/OAct

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 cashflow, which is calculated by subtracting the actuarial present value of future expenditures from the actuarial present value of future income.

As shown in table 1, the HI program has an actuarial deficit of more than $2.5 trillion over the 75-year projection period. On the other hand, SMI 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 ofHospital Insurance and Supplementary Medical Insurance Revenues and Expenditures: 75-Year Projection as of January 1, 2000 (in billions)

	HI	SMI[2]
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)	$ 3,757	$ 6,109
Have attained eligibility age (age 65 and over)	97	934
Those expected to become participants (under age 15)	3,179	1,616
All current and future participants	7,033	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)	$ 6,702	$ 6,094
Have attained eligibility age (age 65 and over)	1,681	1,051
Those expected to become participants (under age 15)	1,349	1,514
All current and future participants	9,732	8,659
Actuarial present value[1] of estimated future income (excluding interest) less expenditures	$ -2,700	$ 0
Trust fund assets at start of period	$ 141	$ 45
Assets at start of period plus actuarial present value[1] of estimated future income (excluding interest) less expenditures	$ -2,558	$ 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.

[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, 2000. 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.

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 2000.

Table 2: Medicare Assumptions

	Fertility rate[1]	Net immigration	Real wage differential[2]	Annual percentage change in: Wages	CPI	GDP	Real interest rate[3]
2000	2.05	900,000	1.5	4.6	3.1	3.5	3.6
2005	2.03	900,000	1.0	4.2	3.3	2.0	2.9
2010	2.01	900,000	1.0	4.3	3.3	2.1	3.0
2020	1.97	900,000	1.0	4.3	3.3	1.7	3.0
2030	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2040	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2050	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2060	1.95	900,000	1.0	4.3	3.3	1.7	3.0
2070	1.95	900,000	1.0	4.3	3.3	1.7	3.0

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

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 individually to determine the impact on the HI actuarial present values and net cashflows.[4] The assumptions varied are the fertility

[4] 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.

rate, net immigration, real-wage differential, CPI, real-interest rate, and health care cost factors.

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 Health Care Financing Administration is sponsoring a current research effort by the Rand Corporation that is expected to provide the information necessary to produce such estimates.

For this analysis, the intermediate economic and demographic assumptions in the *2000 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, 2000 and are based on estimates of income and expenditures during the 75-year projection period.

Graphs 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 graphs depicting the estimated net cashflow indicate that, after increasing in the early years, net cashflow decreases steadily through 2025 under all three scenarios displayed. On the present value graphs, 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.

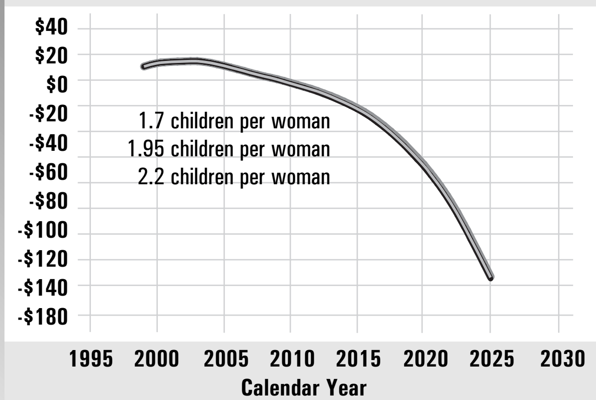
Table 3 demonstrates that if the assumed ultimate fertility rate is decreased from 1.95 to 1.7, the projected deficit of income over expenditures increases from $2,700 billion to $2,830 billion. On the other hand, if the ultimate fertility rate is increased from 1.95 to 2.2 children per woman, the deficit decreases to $2,575 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	-$2,830	-$2,700	-$2,575

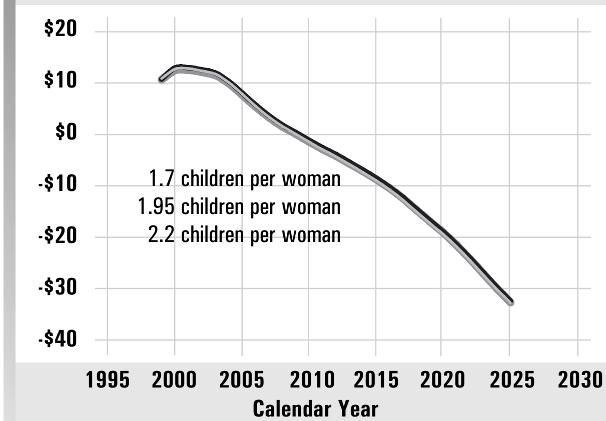
[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period.

Graph 7: HI Net Cashflow with Various Ultimate Fertility Rate Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 7a: Present Value of HI Net Cashflow with Various Ultimate Fertility Rate Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

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

As graphs 7 and 7A indicate, the fertility rate assumption has only a negligible impact on projected HI cashflows over the next 25 years. This result is because higher fertility in the first year only affects the labor force after roughly 20 years (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.

Net Immigration

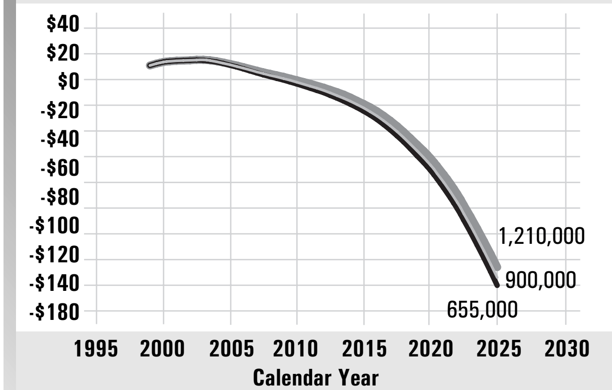
Table 4 shows the net present value of cashflow during the 75-year projection period under three alternative net immigration assumptions: 655,000 persons, 900,000 persons, and 1,210,000 persons per year.

Table 4: 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	-$2,725	-$2,700	-$2,657

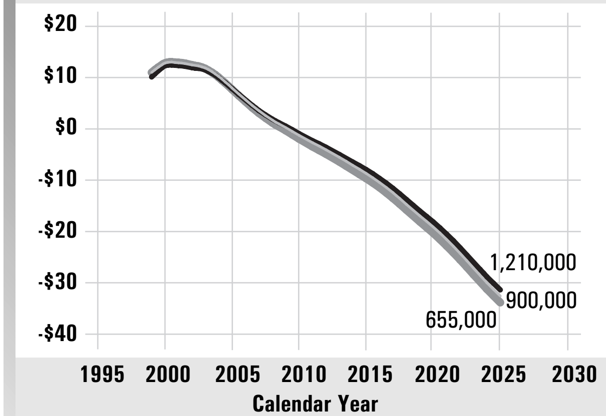
Table 4 demonstrates that if the ultimate net immigration assumption is decreased from 900,000 to 655,000 persons, the deficit of income over expenditures increases from $2,700 billion to $2,725 billion. On the other hand, if the ultimate net immigration assumption is increased from 900,000 to 1,210,000 persons, the deficit decreases to $2,657 billion.

Graph 8: HI Net Cashflow with Various Net Immigration Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 8a: Present Value of HI Net Cashflow with Various Net Immigration Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

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

As graphs 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.

Real-Wage Differential

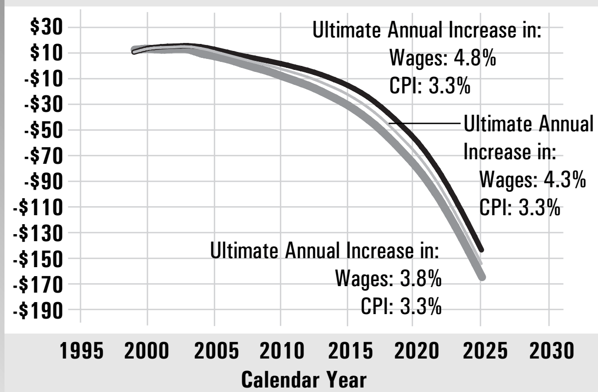
Table 5 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-wage differential assumptions: 0.5, 1.0, and 1.5 percentage points. In each case, the CPI is assumed to be 3.3 percent, yielding ultimate percentage increases in average annual wages 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 $2,700 billion to $2,745 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 $2,646 billion.

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

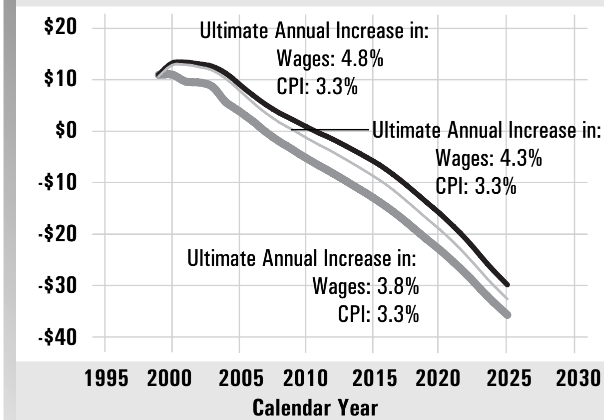
Ultimate percentage increase in wages — CPI	3.8–3.3	4.3–3.3	4.8–3.3
Ultimate percentage increase in real-wage differential	0.5	1.0	1.5
Income minus expenditures	-$2,745	-$2,700	-$2,646

Graph 9: HI Net Cashflow with Various Real-Wage Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 9a: Present Value of HI Net Cashflow with Various Real-Wage Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

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

As graphs 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 health care 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 health care costs are wage-related.

Consumer Price Index

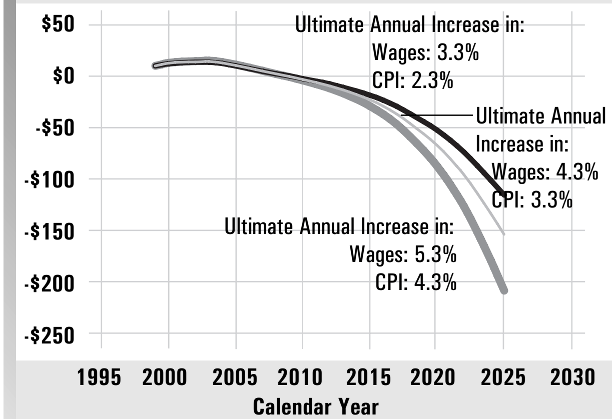
Table 6 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate CPI rate-of-increase assumptions: 2.3, 3.3, and 4.3 percent. In each case, the ultimate real-wage differential is assumed to be 1.0 percent, yielding ultimate percentage increases in 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 $2,700 billion to $2,716 billion. On the other hand, if the ultimate CPI increase assumption is increased from 3.3 percent to 4.3 percent, the deficit decreases to $2,696 billion.

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

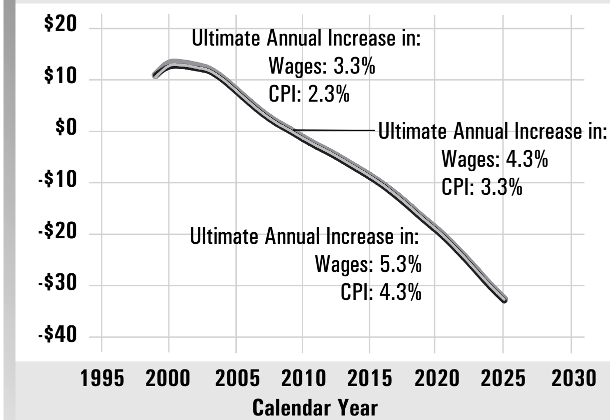
Ultimate percentage increase in wages — CPI	3.3–2.3	4.3–3.3	5.3–4.3
Income minus expenditures	-$2,716	-$2,700	-$2,696

Graph 10: HI Net Cashflow with Various CPI-Increase Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 10a: Present Value of HI Net Cashflow with Various CPI-Increase Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

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

As graphs 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.

Real-Interest Rate

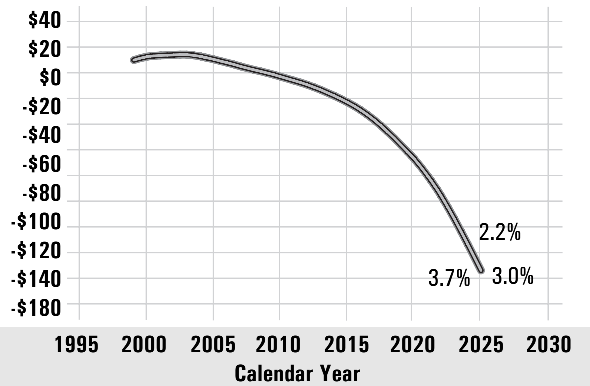
Table 7 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-interest assumptions: 2.2, 3.0, and 3.7 percent. In each case, the ultimate annual increase in the CPI is assumed to be 3.3 percent, resulting in ultimate annual yields of 5.5, 6.3,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

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

Ultimate real-interest rate	2.2 percent	3.0 percent	3.7 percent
Income minus expenditures	-$3,847	-$2,700	-$1,917

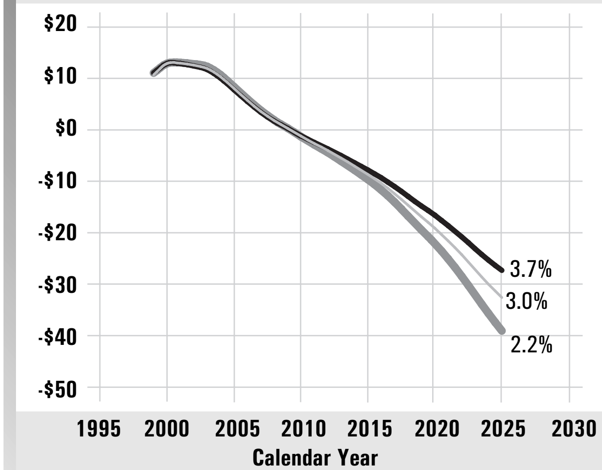
Table 7 demonstrates that if the ultimate real-interest rate percentage is decreased from 3.0 percent to 2.2 percent, the deficit of income over expenditures increases from $2,700 billion to $3,847 billion. On the other hand, if the ultimate real-interest rate assumption is increased from 3.0 percent to 3.7 percent, the deficit decreases to $1,917 billion.

Graph 11: HI Net Cashflow with Various Real-Interest Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 11a: Present Value of HI Net Cashflow with Various Real-Interest Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

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

As shown in graphs 11 and 11A, the present values of the net cashflow are more sensitive to the interest assumption than the 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 2025. 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.

Health Care Cost Factors

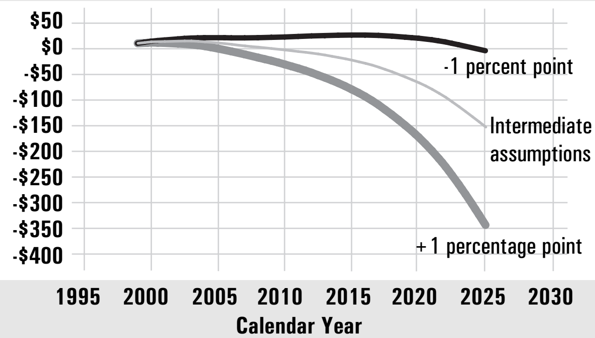
Table 8 shows the net present value of cashflow during the 75-year projection period under three alternative assumptions of the annual growth rate in the aggregate cost of providing covered health care services to beneficiaries. These assumptions are that the ultimate annual growth rate in such costs, 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 actually becomes a surplus of $129 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 $7,236 billion.

Table 8: Present Value of Estimated HI Income Less Expenditures under Various Health Care Cost Growth Rate Assumptions

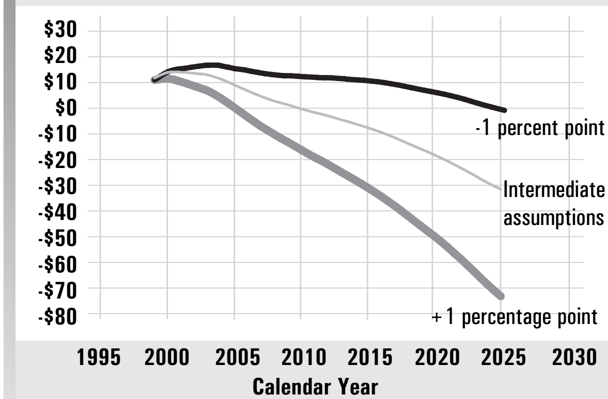
Annual cost/payroll relative growth rate	-1 percentage point	Intermediate assumptions	+1 percentage point
Income minus expenditures	$129	-$2,700	-$7,236

Graph 12: HI Net Cashflow with Various Health Care Cost Factor Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graph 12a: Present Value of HI Net Cashflow with Various Health Care Cost Factor Assumptions: 1999–2025 (in billions)



Source: HCFA/OAct

Graphs 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 costs without affecting tax income. As graphs 12 and 12A indicate, the financial status of the HI program is extremely sensitive to the relative growth rates for health care 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 17 years but to fall short by steadily increasing amounts in 2017 and later. These shortfalls can be met by redeeming trust fund assets, but only until 2025. The HI program could be brought into actuarial balance over the next 25 years with relatively minor changes, such as either reducing outlays or increasing income by 4 percent immediately (or some combination of the two) throughout this 25-year period.

The long-range outlook, however, remains unfavorable, in large part as a result of the impending retirement of the baby boom generation. Over the full 75-year projection period, substantially greater changes in income and/or outlays are needed to bring the program into actuarial balance.

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 health care services to beneficiaries. In their 2000 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 "further effective and decisive action, building on 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 2000 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 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 2000 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."

Required Supplementary Information (RSI)

This section includes the following RSI statements:

- Combining Statement of Budgetary Resources
- Condensed Balance Sheet — Franchise and Intra-governmental Support Revolving Funds
- Condensed Statement of Net Cost — Franchise and Intra-governmental Support Revolving Funds
- Deferred Maintenance
- Intra-governmental Transactions — Assets
- Intra-governmental Transactions — Liabilities
- Intra-governmental Transactions — Revenues and Expenses

Combining Statement of Budgetary Resources (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

	HCFA			Other OPDIV	OPDIV
	Medicare HI	Medicare SMI	Medicaid	Budgetary Accounts[1]	Combined Totals
Budgetary Resources					
Budget Authority	$ 158,592	$ 89,239	$ 118,981	$ 154,453	$ 521,265
Unobligated Balances – Beginning of Period	—	—	1,117	11,698	12,815
Spending Authority from Offsetting Collections	—	—	50	5,311	5,361
Adjustments	(29,226)	(114)	1,771	(2,602)	(30,171)
TOTAL BUDGETARY RESOURCES	**$ 129,366**	**$ 89,125**	**$ 121,919**	**$ 168,860**	**$ 509,270**
Status of Budgetary Resources					
Obligation Incurred	$ 129,366	$ 89,125	$ 121,809	$ 158,572	$ 498,872
Unobligated Balances—Available	—	—	110	4,674	4,784
Unobligated Balances—Not Available	—	—	—	5,614	5,614
TOTAL STATUS OF BUDGETARY RESOURCES	**$ 129,366**	**$ 89,125**	**$ 121,919**	**$ 168,860**	**$ 509,270**
Outlays					
Obligations Incurred	$ 129,366	$ 89,125	$ 121,809	$ 158,572	$ 498,872
Less: Spending Authority from Offsetting Collections and Adjustments	—	—	3,058	5,606	8,664
Subtotal	**$ 129,366**	**$ 89,125**	**$ 118,751**	**$ 152,966**	**$ 490,208**
Obligated Balance, Net — Beginning of Period	$ 465	$ 34	$ 4,751	$ 51,351	$ 56,601
Obligated Balance Transferred, Net	—	—	—	—	—
Less: Obligated Balance, Net — End of Period	635	167	5,581	59,454	65,837
TOTAL OUTLAYS	**$ 129,196**	**$ 88,992**	**$ 117,921**	**$ 144,863**	**$ 480,972**

[1] "Other OPDIV Budgetary Accounts" includes the budgetary accounts of the eleven HHS OPDIVs other than HCFA, as well as the remaining budgetary accounts not reported by HCFA under Medicare and Medicaid. Information on each of the major budgetary accounts for individual OPDIVs can be found in each OPDIVs' own annual report. OPDIVs reports can be accessed via the Department of Health and Human Services web site at: www.hhs.gov.

Summary of Other OPDIV Budgetary Accounts

	Budgetary Resources	Status of Budgetary Resources	Outlays
ACF	$ 45,094	$ 45,094	$ 37,451
AoA	934	934	885
AHRQ	214	214	52
CDC	3,330	3,330	2,604
FDA	1,413	1,413	1,023
HCFA	85,707	85,707	76,953
HRSA	5,573	5,573	4,392
IHS	2,895	2,895	2,711
NIH	19,316	19,316	15,414
OS	1,218	1,218	788
PSC	473	473	103
SAMHSA	2,693	2,693	2,487
TOTAL	**$ 168,860**	**$ 168,860**	**$ 144,863**

Condensed Balance Sheet — Franchise and Intra-Governmental Support Revolving Funds (in millions)

U.S. Department of Health and Human Services • As of September 30, 2000

	HHS Service and Supply Fund	NIH Service and Supply Fund	HRSA FOH	FDA Certification Fund	Combined Totals
Assets					
Fund Balance with Treasury	$ 48	$ 16	$ 3	$ 4	$ 71
Accounts Receivable, Net	55	15	32	–	102
Property, Plant and Equip, Net	6	20	–	–	26
Other Assets	11	18	–	1	30
TOTAL ASSETS	**$ 120**	**$ 69**	**$ 35**	**$ 5**	**$ 229**
Liabilities					
Accounts Payable	$ 19	$ 17	$ 9	$ –	$ 45
Other Liabilities	14	23	3	1	41
TOTAL LIABILITIES	**$ 33**	**$ 40**	**$ 12$**	**$ 1**	**$ 86**
Net Position					
Cumulative Results of Operations	$ 87	$ 29	$ 23	$ 4	$ 143
TOTAL LIABILITIES AND NET POSITION	**$ 120**	**$ 69**	**$ 35**	**$ 5**	**$ 229**

Condensed Statement of Net Cost — Franchise and Intra-Governmental Support Revolving Funds (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Program/Business Line	GrossCosts	Less: Earned Revenue	NetCosts
HHS Service and Supply Fund			
Administrative Operations Services	$ 169	$ 175	$ (6)
Financial Management Service	50	44	6
Human Resources Service	52	48	4
TOTAL	**$271**	**$267**	**$4**
NIH Service and Supply Fund			
Administrative Services	$ 138	$ 143	$ (5)
Information Technology	79	87	(8)
Instrumentation Services	10	11	(1)
Animal Services	26	26	(0)
TOTAL	**$253**	**$267**	**$(14)**
HRSA FOH			
Clinical Occupational Health	$ 48	$ 51	$ (3)
Environmental Health	12	13	(1)
Employee Assistance Program	36	32	4
TOTAL	**$ 96**	**$ 96**	**$ 0**
FDA Certification Fund			
Foods	$ 4	$ 4	$ 0

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, "service-for-fee" basis. Services and products are available in the areas of Acquisitions, Computer and Information Technology, Finance, Medical Supply Operation, Personnel and 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.

NIH provides administrative services, which include supply stores, printing and reproduction, medical arts and photography and a wide range of other services. The Information Technology includes the regional data processing center which sells computing services and programming services. 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 Federal Occupational Health (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.

The Food, Drug, and Cosmetic Act requires the certification of color additives and 21 CFR 80, Color Additive Certification, prescribes the fees for service. Salaries and expenses are funded by the FDA revolving fund for Certification and Other Services. The fund's activities are financed entirely be fees paid by the affected commercial organizations. The color manufacturers are the only customers who contribute to this fund.

Deferred Maintenance

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Deferred maintenance is maintenance that was not performed when it should 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 preventive maintenance, normal repairs, replacement of parts and structural components and other activities needed to preserve the asset so that is continues to provide acceptable services and achieves its expected life. Maintenance does 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 Institutes of Health, and the Food and Drug Administration all use the condition assessment survey for all classes of property.

Category of Asset	Condition	Cost to Return to Acceptable Condition
General PP&E		
Land	1	$ 0
Building	3 – 4	218.7
Other Structures	3 – 4	20.5
Equipment	2	0
TOTAL		**$ 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 of “fair” or above may still report necessary costs to return them to acceptable condition.

Intra-Governmental Transactions — Assets (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Agency	TFM Department Code	OPDIV Consolidated Totals			
		Fund Balance with Treasury	Investments	Accounts Receivable	Other
Department of Agriculture	12	$	$ —	$ 2	$ —
Department of Commerce	13		—	1	—
Department of Defense	17, 21, 57, 97		—	84	—
Department of Education	91		—	—	—
Department of Energy	89		—	8	—
Department of Housing and Urban Development	86		—	—	—
Department of Health and Human Services	75		—	119	—
Department of the Interior	14		—	1	—
Department of Justice	15		—	52	—
Department of Labor	16		—	2	—
Department of State	19		—	3	—
Department of Transportation	69		—	1	—
Department of the Treasury	20	78,093	219,172	1,355	6,561
Department of Veterans Affairs	36		—	33	7
Agency for International Development	72		—	7	—
Environmental Protection Agency	68		—	56	—
Federal Emergency Management Agency	58		—	3	—
General Services Administration	47		—	2	17
National Aeronautics and Space Administration	80		—	1	—
National Science Foundation	49		—	—	—
Nuclear Regulatory Commission	31		—	—	—
Office of Personnel Management	24		—	—	—
Small Business Administration	73		—	—	—
Social Security Administration	28		—	4	—
All Other Federal Agencies			1	578	17
TOTAL		**$ 78,093**	**$ 219,173**	**$ 2,312**	**$ 6,602**

Intra-governmental Transactions — Liabilities (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Agency	TFM Department Code	OPDIV Consolidated Totals			
		Accounts Payable	Environmental and Disposal Costs	Accrued Payroll and Benefits	Other
Department of Agriculture	12	$ —	$ —	$ —	$ —
Department of Commerce	13	—	—	—	1
Department of Defense	17, 21, 57, 97	11	3	—	40
Department of Education	91	—	—	—	—
Department of Energy	89	2	—	—	9
Department of Housing and Urban Development	86	—	—	—	3
Department of Health and Human Services	75	43	—	—	161
Department of the Interior	14	—	—	—	—
Department of Justice	15	—	—	—	—
Department of Labor	16	3	—	15	3
Department of State	19	—	—	—	—
Department of Transportation	69	—	—	—	1
Department of the Treasury	20	5	—	24	422
Department of Veterans Affairs	36	—	—	—	1
Agency for International Development	72	—	—	—	—
Environmental Protection Agency	68	—	—	—	53
Federal Emergency Management Agency	58	—	—	—	13
General Services Administration	47	31	—	—	35
National Aeronautics and Space Administration	80	—	—	—	—
National Science Foundation	49	—	—	—	—
Nuclear Regulatory Commission	31	—	—	—	—
Office of Personnel Management	24	—	—	18	—
Small Business Administration	73	—	—	—	—
Social Security Administration	28	—	—	—	—
All Other Federal Agencies		6	—	(2)	13
TOTAL		**$ 101**	**$ 3**	**$ 55**	**$ 755**

Intra-governmental Transactions – Revenues and Expenses (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Agency	TFM Department Code	OPDIV Consolidated Totals			
		Earned Revenue	Gross Cost	Non-exchange Revenue	
				Transfers-In	Transfers-Out
Department of Agriculture	12	$ 7	$ 4	$ –	$ –
Department of Commerce	13	12	40	–	–
Department of Defense	17, 21, 57, 97	31	98	61	–
Department of Education	91	7	31	–	–
Department of Energy	89	34	38	–	–
Department of Housing and Urban Development	86	5	–	–	–
Department of Health and Human Services	75	612	617	–	9
Department of the Interior	14	5	16	–	–
Department of Justice	15	21	84	–	–
Department of Labor	16	8	20	–	–
Department of State	19	8	23	–	–
Department of Transportation	69	5	2	2	–
Department of the Treasury	20	35	29	60	–
Department of Veterans Affairs	36	47	182	–	–
Agency for International Development	72	19	5	–	–
Environmental Protection Agency	68	69	1	–	–
Federal Emergency Management Agency	58	5	–	–	–
General Services Administration	47	13	475	–	7
National Aeronautics and Space Administration	80	6	1	–	–
National Science Foundation	49	1	13	–	–
Nuclear Regulatory Commission	31	2	–	–	–
Office of Personnel Management	24	–	627	–	–
Small Business Administration	73	–	–	–	–
Social Security Administration	28	13	4	2	998
All Other Federal Agencies		21	79	822	3
TOTAL		**$ 986**	**$ 2,389**	**$ 947**	**$ 1,017**

Other Accompanying Information

This section includes the following supplemental schedules:

- Consolidating Balance Sheet by Budget Function
- Consolidating Balance Sheet by Operating Division
- Consolidating Statement of Net Cost by Budget Function
- Gross Cost and Exchange Revenue
- Consolidating Statement of Changes in Net Position by Budget Function

Consolidating Balance Sheet by Budget Function (in millions)

U.S. Department of Health and Human Services • As of September 30, 2000

	Education, Training and Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Assets									
Intra-governmental									
Fund Balance with Treasury *(Note 2)*	$ 8,151	$ 44,811	$ 3,214	$ 21,744	$ 158	$ 15	$ 78,093		$ 78,093
Investments, Net *(Note 3)*	–	1,607	217,566	–	–	–	219,173	$ –	219,173
Accounts Receivable, Net *(Note 4)*	3	481	1,797	–	–	52	2,333	(140)	2,193
Other *(Note 10)*	–	6,691	–	–	–	–	6,691	(89)	6,602
Total Intra-governmental	**$ 8,154**	**$ 53,590**	**$ 222,577**	**$ 21,744**	**$ 158**	**$ 67**	**$ 306,290**	**$ (229)**	**$ 306,061**
Accounts Receivable, Net *(Note 4)*	–	248	3,713	–	–	–	3,961		3,961
Loans Receivable and Foreclosed Property *(Note 5)*	–	427	–	–	–	–	427		427
Cash and Other Monetary Assets *(Note 7)*	–	–	61	–	–	–	61		61
Inventory and Related Property, Net *(Note 8)*	–	63	–	–	–	–	63		63
General Property, Plant and Equipment, Net *(Note 9)*	–	2,028	17	–	–	1	2,046		2,046
Other *(Note 10)*	–	18	–	–	–	–	18		18
TOTAL ASSETS	**$ 8,154**	**$ 56,374**	**$ 226,368**	**$ 21,744**	**$ 158**	**$ 68**	**$ 312,866**	**$ (229)**	**$ 312,637**

statement continues . . .

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements. In addition to this statement, 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 Balance Sheet by Budget Function (in millions), continued

U.S. Department of Health and Human Services • As of September 30, 2000

	Education, Training and Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Liabilities									
Intra-governmental									
Accounts Payable *(Note 11)*	$ 3	$ 118	$ –	$ 1	$ –	$ –	$ 122	$ (64)	$ 58
Environmental and Disposal Costs *(Note 13)*	–	3	–	–	–	–	3	–	3
Accrued Payroll and Benefits *(Note 16)*	1	50	4	–	–	–	55	–	55
Other *(Note 17)*	–	511	333	–	–	–	844	(250)	594
Total Intra-governmental	**$ 4**	**$ 682**	**$ 337**	**$ 1**	**$ –**	**$ –**	**$ 1,024**	**$ (314)**	**$ 710**
Accounts Payable *(Note 11)*	$ 10	$ 443	$ 31	$ 6	$ –	$ 1	$ 491		$ 491
Entitlement Benefits Due and Payable *(Note 12)*	6	12,331	24,185	–	–	–	36,522		36,522
Accrued Grand Liability *(Note 6)*	(393)	949	(2)	1,241	44	4	1,843		1,843
Environmental and Disposal Costs *(Note 13)*	–	12	–	–	–	–	12		12
Loan Guarantees *(Note 14)*	–	338	–	–	–	–	338		338
Federal Employee and Veterans Benefits *(Note 15)*	5	5,731	9	–	–	1	5,746		5,746
Accrued Payroll and Benefits *(Note 16)*	12	598	63	–	–	3	676		676
Other *(Note 17)*	–	442	172	5	–	–	619		619
TOTAL LIABILITIES	**$ (356)**	**$ 21,526**	**$ 24,795**	**$ 1,253**	**$44**	**$ 9**	**$ 47,271**	**$ (314)**	**$ 46,957**
Net Position *(Note 18)*									
Unexpended Appropriations	$ 8,526	$ 36,602	$ 3,142	$ 20,491	$ 114	$ 60	$ 68,935		$ 68,935
Cumulative Results of Operations	(16)	(1,754)	198,431	–	–	(1)	196,660	85	196,745
TOTAL NET POSITION	**$ 8,510**	**$ 34,848**	**$ 201,573**	**$ 20,491**	**$ 114**	**$ 59**	**$ 265,595**	**$ 85**	**$ 265,680**
TOTAL LIABILITIES AND NET POSITION	**$ 8,154**	**$ 56,374**	**$ 226,368**	**$ 21,744**	**$ 158**	**$ 68**	**$ 312,866**	**$ (229)**	**$ 312,637**

The accompanying "Notes to Principal Financial Statements" are an integral part of these statements. In addition to this statement, 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 Balance Sheet by Operating Division (in millions)

U.S. Department of Health and Human Services • As of September 30, 2000

	ACF	AoA	AHRQ	CDC	FDA	HCFA	HRSA	IHS	NIH	OS	PSC	SAMHSA	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Assets															
Intra-governmental															
Fund Balance with Treasury *(Note 2)*	$ 29,702	$ 310	$ 219	$ 2,725	$ 456	$ 20,091	$ 4,038	$ 1,168	$ 16,574	$ 733	$ 73	$ 2,004	$ 78,093		$ 78,093
Investments, Net *(Note 3)*	–	–	–	–	–	217,566	1,590	–	17	–	–	–	219,173	$ –	219,173
Accounts Receivable, Net *(Note 4)*	2	1	4	99	6	1,797	91	30	110	125	46	1	2,312	(119)	2,193
Other *(Note 10)*	–	–	–	7	14	6,561	2	1	17	–	–	–	6,602	–	6,602
Total Intra-governmental	**$ 29,704**	**$ 311**	**$ 223**	**$ 2,831**	**$ 476**	**$ 246,015**	**$ 5,721**	**$ 1,199**	**$ 16,718**	**$ 858**	**$ 119**	**$ 2,005**	**$ 306,180**	**$ (119)**	**$ 306,061**
Accounts Receivable, Net *(Note 4)*	–	–	–	8	14	3,878	3	36	10	–	9	3	3,961		3,961
Loans Receivable and Foreclosed Property *(Note 5)*	–	–	–	–	–	–	427	–	–	–	–	–	427		427
Cash and Other Monetary Assets *(Note 7)*	–	–	–	–	–	61	–	–	–	–	–	–	61		61
Inventory and Related Property, Net *(Note 8)*	–	–	–	27	–	–	–	12	13	–	11	–	63		63
General Property, Plant, and Equipment, Net *(Note 9)*	–	–	–	177	189	18	–	676	976	3	6	1	2,046		2,046
Other *(Note 10)*	–	–	–	2	–	–	–	2	2	12	–	–	18		18
TOTAL ASSETS	**$ 29,704**	**$ 311**	**$ 223**	**$ 3,045**	**$ 679**	**$ 249,972**	**$ 6,151**	**$ 1,925**	**$ 17,719**	**$ 873**	**$ 145**	**$ 2,009**	**$ 312,756**	**$ (119)**	**$ 312,637**

statement continues . . .

The accompanying *Notes* to the financial statements are an integral part of these statements. 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 Balance Sheet by Operating Division (in millions), continued

U.S. Department of Health and Human Services • As of September 30, 2000

	ACF	AoA	AHRQ	CDC	FDA	HCFA	HRSA	IHS	NIH	OS	PSC	SAMHSA	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Liabilities															
Intra-governmental															
Accounts Payable *(Note 11)*	$ 4	$ –	$ 2	$ 14	$ 15	$ –	$ 7	$ 5	$ 40	$ 9	$ 1	$ 4	$ 101	$ (43)	$ 58
Environmental and Disposal Costs *(Note 13)*	–	–	–	–	3	–	–	–	–	–	–	–	3	–	3
Accrued Payroll and Benefits *(Note 16)*	1	–	–	3	9	$ 4	2	11	18	2	4	1	55	–	55
Other *(Note 17)*	–	–	112	56	1	427	74	51	12	–	–	22	755	(161)	594
Total Intra-governmental	**$ 5**	**$ –**	**$ 114**	**$ 73**	**$ 28**	**$ 431**	**$ 83**	**$ 67**	**$ 70**	**$ 11**	**$ 5**	**$ 27**	**$ 914**	**$ (204)**	**$ 710**
Accounts Payable *(Note 11)*	$ 16	$ –	$ 6	$ 80	$ 23	$ 33	$ 48	$ 73	$ 150	$ 25	$ 19	$ 18	$ 491		$ 491
Entitlement Benefits Due and Payable *(Note 12)*	6	–	–	–	–	36,516	–	–	–	–	–	–	36,522		36,522
Accrued Grant Liability *(Note 6)*	828	49	(2)	(228)	2	(2)	285	(18)	863	8	–	58	1,843		1,843
Environmental and Disposal Costs *(Note 13)*	–	–	–	–	3	–	–	–	9	–	–	–	12		12
Loan Guarantees *(Note 14)*	–	–	–	–	–	–	338	–	–	–	–	–	338		338
Federal Employee and Veterans Benefits *(Note 15)*	5	–	–	16	21	10	34	71	58	21	5,486	24	5,746		5,746
Accrued Payroll and Benefits *(Note 16)*	11	1	5	73	88	66	28	112	233	29	22	8	676		676
Other *(Note 17)*	5	–	–	3	2	187	269	64	91	–	–	(2)	619		619
TOTAL LIABILITIES	**$ 876**	**$ 50**	**$ 123**	**$ 17**	**$ 167**	**$ 37,241**	**$ 1,085**	**$ 369**	**$ 1,474**	**$ 94**	**$ 5,532**	**$ 133**	**$ 47,161**	**$ (204)**	**$ 46,957**
Net Position *(Note 18)*															
Unexpended Appropriations	$ 28,845	$ 261	$ 104	$ 2,897	$ 330	$ 14,119	$ 3,267	$ 1,050	$ 15,334	$ 814	$ 9	$ 1,905	$ 68,935		$ 68,935
Cumulative Results of Operations	(17)	–	(4)	131	182	198,612	1,799	506	911	(35)	(5,396)	(29)	196,660	$ 85	196,745
TOTAL NET POSITION	**$ 28,828**	**$ 261**	**$ 100**	**$ 3,028**	**$ 512**	**$ 212,731**	**$ 5,066**	**$ 1,556**	**$ 16,245**	**$ 779**	**$ (5,387)**	**$ 1,876**	**$ 265,595**	**$ 85**	**$ 265,680**
TOTAL LIABILITIES AND NET POSITION	**$ 29,704**	**$ 311**	**$ 223**	**$ 3,045**	**$ 679**	**$ 249,972**	**$ 6,151**	**$ 1,925**	**$ 17,719**	**$ 873**	**$ 145**	**$ 2,009**	**$ 312,756**	**$ (119)**	**$ 312,637**

The accompanying *Notes* to the financial statements are an integral part of these statements. 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 (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

Operating Division	Education, Training and Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Combined Totals	Intra-HHS Eliminations Cost (-)	Intra-HHS Eliminations Revenue (+)	HHS Consolidated Totals
ACF	$ 13,183	$ –	$ –	$ 24,123	$ 126	$ –	$ 37,432	$ (19)	$ 3	$ 37,416
AoA	904	–	–	–	–	–	904	(2)	–	902
AHRQ	–	97	–	–	–	–	97	(5)	69	161
CDC	–	2,588	–	–	63	88	2,739	(50)	98	2,787
FDA	–	1,065	–	–	–	–	1,065	(49)	22	1,038
HCFA	–	119,965	197,041	–	–	–	317,006	(26)	(7)	316,973
HRSA	–	4,383	–	–	–	–	4,383	(59)	101	4,425
IHS	–	2,462	–	–	–	–	2,462	(28)	12	2,446
NIH	–	15,748	–	–	–	–	15,748	(234)	57	15,571
OS	–	805	–	–	–	–	805	(110)	77	772
PSC	–	365	–	–	–	–	365	(12)	170	523
SAMHSA	–	2,480	–	–	–	–	2,480	(23)	10	2,467
NET COST OF OPERATIONS	**$ 14,087**	**$ 149,958**	**$ 197,041**	**$ 24,123**	**$ 189**	**$ 88**	**$ 385,486**	**$ (617)**	**$ 612**	**$385,481**

Gross Cost and Exchange Revenue (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

	Intra-governmental						With the Public		OPDIV
	Gross Cost			Less: Exchange Revenue					
Operating Division	Combined	Eliminations	Consolidated	Combined	Eliminations	Consolidated	Gross Cost	Less: Exchange Revenue	Consolidated Net Cost of Operations
ACF	$ 140	$ (13)	$ 127	$ 20	$ (13)	$ 7	$ 37,312	$ –	$ 37,432
AoA	5	–	5	–	–	–	899	–	904
AHRQ	20	–	20	71	–	71	152	4	97
CDC	358	(7)	351	159	(7)	152	2,551	11	2,739
FDA	295	–	295	27	–	27	950	153	1,065
HCFA	276	–	276	3	–	3	338,784	22,051	317,006
HRSA	152	(17)	135	214	(17)	197	4,540	95	4,383
IHS	280	(1)	279	13	(1)	12	2,820	625	2,462
NIH	1,643	(1,008)	635	1,138	(1,008)	130	15,345	102	15,748
OS	155	(5)	150	112	(5)	107	762	–	805
PSC	43	–	43	254	–	254	594	18	365
SAMHSA	73	–	73	26	–	26	2,433	–	2,480
TOTALS	**$ 3,440**	**$ (1,051)**	**$ 2,389**	**$ 2,037**	**$ (1,051)**	**$ 986**	**$ 407,142**	**$ 23,059**	**$ 385,486**

Consolidating Statement of Changes in Net Position by Budget Function (in millions)

U.S. Department of Health and Human Services • For the Year Ended September 30, 2000

	Education, Training and Social Services	Health	Medicare	Income Security	Administration of Justice	Natural Resources and Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Net Cost of Operations	$ 14,087	$ 149,958	$ 197,041	$ 24,123	$ 189	$ 88	$ 385,486	$ (5)	$ 385,481
Financing Sources (other than exchange revenues):									
Appropriations Used	14,099	149,579	74,715	24,130	159	87	262,769		262,769
Taxes (and other non-exchange revenue)	–	208	156,252	–	–	–	156,460	–	156,460
Donations (non-exchange revenue)	–	35	–	–	–	–	35		35
Imputed Financing	10	280	22	–	–	2	314	–	314
Transfers-in	–	256	293,310	–	–	–	293,566	(292,619)	947
Transfers-out	–	–	(293,636)	–	–	–	(293,636)	292,628	(1,008)
Other Financing Sources	–	3	38	–	–	–	41	–	41
NET RESULTS OF OPERATIONS	**$ 22**	**$ 403**	**$ 33,660**	**$ 7**	**$ (30)**	**$ 1**	**$ 34,063**	**$ 14**	**$ 34,077**
Prior Period Adjustments *(Note 21)*	$ –	$ (716)	$ –	$ 1	$ –	$ 1	$ (714)	$ –	$ (714)
Unreconciled Transactions Affecting the Change in Net Position							–	71	71
NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS	**$ 22**	**$ (313)**	**$ 33,660**	**$ 8**	**$ (30)**	**$ 2**	**$ 33,349**	**$ 85**	**$ 33,434**
Increase (Decrease) in Unexpended Appropriations	$ (899)	$ 6,042	$ 3,108	$ (231)	$ 8	$ (9)	$ 8,019		$ 8,019
CHANGE IN NET POSITION	**$ (877)**	**$ 5,729**	**$ 36,768**	**$ (223)**	**$ (22)**	**$ (7)**	**$ 41,368**	**$ 85**	**$ 41,453**
Net Potion – Beginning of Period	$ 9,387	$ 29,119	$ 164,805	$ 20,714	$ 136	$ 66	$ 224,227		$ 224,227
NET POSITION – END OF PERIOD	**$ 8,510**	**$ 34,848**	**$ 201,573**	**$ 20,491**	**$ 114**	**$ 59**	**$ 265,595**	**$ 85**	**$ 265,680**

The accompanying *Notes* to the financial statements are an integral part of these statements.