

# United States Government Supplemental Information for the Year Ended September 30, 1998 (Unaudited)

## Net Cost Detail

The Statement of Net Cost presents the cost of the Government's major functions. The objectives of each of the functions are described below. Also, the statement contains the definitions of "Gross cost," "Earned revenue" and "Net cost."

<b>National Defense</b>	<p>Amounts listed under this function include the costs to provide military forces to deter war; to be prepared to engage in war; and to preserve the peace and security of the United States, the Territories, Commonwealth, its possessions and any area occupied by the United States. National defense also in-</p>	<p>cludes the cost to train, equip and compensate the armed forces; develop, acquire, utilize and dispose of weapons systems; conduct research and development to maintain technological superiority, cut costs and improve performance of weapon systems; and carry out other defense related activities.</p>
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<p><b>Human Resources</b></p> <p><b>Education, Training, Employment and Social Services</b></p> <p>The "Education, training, employment and social services" function serves to extend knowledge and skills, enhance employment and employment opportunities, protect workplace standards and provide services to the needy.</p>	<p><b>Education, Training, Employment and Social Services</b></p> <p>(In billions of dollars)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Subfunctions</th> <th style="text-align: right;">Gross Cost</th> <th style="text-align: right;">Earned Revenue</th> <th style="text-align: right;">Net Cost</th> </tr> </thead> <tbody> <tr> <td>Elementary, secondary and vocational education . . . . .</td> <td style="text-align: right;">16.2</td> <td style="text-align: right;">-</td> <td style="text-align: right;">16.2</td> </tr> <tr> <td>Higher education . . . . .</td> <td style="text-align: right;">13.6</td> <td style="text-align: right;">3.3</td> <td style="text-align: right;">10.3</td> </tr> <tr> <td>Research and general education aids . . . . .</td> <td style="text-align: right;">2.5</td> <td style="text-align: right;">-</td> <td style="text-align: right;">2.5</td> </tr> <tr> <td>Training and employment . . . . .</td> <td style="text-align: right;">5.4</td> <td style="text-align: right;">-</td> <td style="text-align: right;">5.4</td> </tr> <tr> <td>Other labor services . . . . .</td> <td style="text-align: right;">0.8</td> <td style="text-align: right;">-</td> <td style="text-align: right;">0.8</td> </tr> <tr> <td>Social services . . . . .</td> <td style="text-align: right;">16.2</td> <td style="text-align: right;">-</td> <td style="text-align: right;">16.2</td> </tr> <tr> <td><b>Total education, training, employment and social services . . . . .</b></td> <td style="text-align: right;"><b>54.7</b></td> <td style="text-align: right;"><b>3.3</b></td> <td style="text-align: right;"><b>51.4</b></td> </tr> </tbody> </table>	Subfunctions	Gross Cost	Earned Revenue	Net Cost	Elementary, secondary and vocational education . . . . .	16.2	-	16.2	Higher education . . . . .	13.6	3.3	10.3	Research and general education aids . . . . .	2.5	-	2.5	Training and employment . . . . .	5.4	-	5.4	Other labor services . . . . .	0.8	-	0.8	Social services . . . . .	16.2	-	16.2	<b>Total education, training, employment and social services . . . . .</b>	<b>54.7</b>	<b>3.3</b>	<b>51.4</b>
Subfunctions	Gross Cost	Earned Revenue	Net Cost																														
Elementary, secondary and vocational education . . . . .	16.2	-	16.2																														
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<b>Total education, training, employment and social services . . . . .</b>	<b>54.7</b>	<b>3.3</b>	<b>51.4</b>																														

## Human Resources, cont.

### Health

Listed under the "Health" function are the costs to promote physical and mental health, including the prevention of illness and accidents, and the Medicaid program. Although the Medicare program is the largest Federal health program, by law it is in a separate function for budget purposes. Also excluded from the "Health" subfunction is Federal health care for military personnel and veterans.

### Health

(In billions of dollars)

<b>Subfunctions</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Health care services . . . . .	109.0	0.6	108.4
Health research and training . . . . .	13.5	0.3	13.2
Consumer and occupational health and safety . . . . .	1.9	0.2	1.7
Cost not allocated to subfunctions . . . . .	0.9	-	0.9
<b>Total health . . . . .</b>	<b>125.3</b>	<b>1.1</b>	<b>124.2</b>

### Medicare

Federal hospital insurance and Federal supplementary medical programs make up Medicare. This function is not further subdivided. For more information on Medicare, see the note in the Stewardship Responsibilities section of Stewardship Information, and Note 17–Dedicated Collections.

### Income Security

The cost of providing payments to persons for whom no current service is rendered comprises the "Income security" function. Included are disability, unemployment, welfare and similar programs, except Social Security and income security for veterans. Also included are

food stamps; special milk and child nutrition programs; unemployment compensation and workers' compensation; public assistance cash payments; benefits paid to the elderly and coal miners; and low- and moderate-income housing assistance. The cost of Federal pensions and retiree health benefits are allocated to other functions.

### Social Security

"Social Security" costs include payments to eligible beneficiaries of the old-age and survivors insurance and disability insurance programs. These are collectively referred to as "Social Security." The Social Security program is the single largest Federal program and is funded primarily by payroll taxes. For more information on Social Security, refer to the Stewardship Information section on Stewardship Responsibilities and Note 17–Dedicated Collections.

### Income Security

(In billions of dollars)

<b>Subfunctions</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Unemployment compensation . . .	24.0	1.0	23.0
Housing assistance . . . . .	27.1	-	27.1
Food and nutritional assistance . . . . .	35.5	0.2	35.3
Other income security . . . . .	81.4	4.4	77.0
Cost not allocated to subfunctions . . . . .	13.8	2.1	11.7
<b>Total income security . . . . .</b>	<b>181.8</b>	<b>7.7</b>	<b>174.1</b>

**Human Resources, cont.**

**Veterans Benefits and Services**

The amounts listed under this function include specific benefits and services paid to those with prior military service. Included are veterans compensation, life insurance, pensions, burial benefits, education, training, medical care, veterans housing and VA administrative expenses. The net cost for the subfunction titled "Income security for veterans" increased this fiscal year by \$109.4 billion. This increase resulted from a change in actuarial methodology and interest rate assumptions.

**Veterans Benefits and Services**

(In billions of dollars)

<b>Subfunctions</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Income security for veterans . . . . .	137.6	-	137.6
Veterans education, training and rehabilitation . . . . .	2.0	-	2.0
Hospital and medical care for veterans . . . . .	18.5	0.6	17.9
Veterans housing . . . . .	0.6	0.5	0.1
Other veterans benefits and services . . . . .	1.5	0.2	1.3
<b>Total veterans benefits and services . . . . .</b>	<b>160.2</b>	<b>1.3</b>	<b>158.9</b>

**Physical Resources**

**Energy**

The "Energy" subfunction includes the cost of promoting an adequate supply and appropriate use of energy to serve the needs of the economy.

**Energy**

(In billions of dollars)

<b>Subfunctions</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Energy supply . . . . .	11.7	11.3	0.4
Energy conservation . . . . .	0.7	-	0.7
Emergency energy preparedness . . . . .	0.2	-	0.2
Energy information, policy and regulation . . . . .	0.7	0.6	0.1
<b>Total energy . . . . .</b>	<b>13.3</b>	<b>11.9</b>	<b>1.4</b>

**Natural Resources and Environment**

This function is comprised of cost incurred to develop, manage and maintain the Nation's natural resources and environment. Excluded are funding for community water supply programs, basic sewer systems and waste treatment plants that are part of community or regional development programs.

**Natural Resources and Environment**

(In billions of dollars)

<b>Subfunctions</b>	<b>Gross Cost</b>	<b>Earned Revenue</b>	<b>Net Cost</b>
Water resources . . . . .	7.9	1.6	6.3
Conservation and land management . . . . .	5.3	1.0	4.3
Recreational resources . . . . .	1.7	0.3	1.4
Pollution control and abatement . . . . .	8.4	0.8	7.6
Other natural resources . . . . .	3.7	0.5	3.2
<b>Total natural resources and environment . . . . .</b>	<b>27.0</b>	<b>4.2</b>	<b>22.8</b>

## Physical Resources, cont.

### Commerce and Housing Credit

This function encompasses the promotion and regulation of the commerce, housing and deposit insurance industries. Included under "Commerce and housing credit" are costs to collect and disseminate social and economic data; provide general purpose subsidies to business and individuals, including credit subsidies to housing; and support the Postal Service fund.

### Transportation

Grants to States and others for local or national transportation of passengers and property make up the bulk of the costs associated with this function. Included are costs to construct facilities; purchase equipment; do research, testing and evaluation; and provide operating subsidies to transportation facilities (such as airports and railroads).

### Commerce and Housing Credit

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Mortgage credit . . . . .	2.9	4.8	(1.9)
Postal Service . . . . .	78.1	60.0	18.1
Deposit insurance . . . . .	3.3	1.0	2.3
Other advancement of commerce . . . . .	12.2	4.9	7.3
Total commerce and housing credit . . . . .	96.5	70.7	25.8

### Transportation

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Ground transportation . . . . .	27.4	2.3	25.1
Air transportation . . . . .	8.6	0.6	8.0
Water transportation . . . . .	5.3	0.8	4.5
Other transportation . . . . .	0.3	-	0.3
Total transportation . . . . .	41.6	3.7	37.9

### Community and Regional Development

The costs of promoting viable community economies by developing physical facilities or financial infrastructures comprise this

function. Also included are the costs of developing transportation facilities that are integral parts of community development

programs. Aid to businesses is usually excluded from this function unless it promotes the economic development of depressed areas and is not designed to promote particular lines of business for their own sake.

### Community and Regional Development

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Community development . . . . .	7.1	0.2	6.9
Area and regional development . . . . .	3.9	0.6	3.3
Disaster relief and insurance . . . . .	3.7	1.6	2.1
Total community and regional development . . . . .	14.7	2.4	12.3

## Net Interest

Interest costs are primarily amounts on Federal securities held by the public. Interest payments on these securities are made by Treasury's Bureau of the Public Debt.

## Other Functions

world, and promoting international security and economic development abroad.

search, NASA space programs and Energy general science research.

### International Affairs

This function includes the cost of maintaining peaceful relations, supporting commerce and travel between the United States and the rest of the

### General Science, Space and Technology

This function covers the costs of National Science Foundation re-

### Agriculture

Costs associated with promoting agricultural economic stability and maintaining and increasing agricultural production are found under the "Agriculture" function.

### International Affairs

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
International development and humanitarian assistance . . . . .	10.5	1.1	9.4
International security assistance . . . . .	2.4	1.0	1.4
Conduct of foreign affairs . . . . .	4.9	0.6	4.3
Foreign information and exchange activities . . . . .	1.3	-	1.3
International financial programs . . . . .	5.7	3.3	2.4
Total international affairs . . . . .	24.8	6.0	18.8

### General Science, Space and Technology

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
General science and basic research . . . . .	5.1	-	5.1
Space flight, research and supporting activities . . . . .	14.8	0.1	14.7
Total general science, space and technology . . . . .	19.9	0.1	19.8

### Agriculture

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Farm income stabilization . . . . .	16.0	1.9	14.1
Agriculture research and service . . . . .	3.1	0.4	2.7
Total agriculture . . . . .	19.1	2.3	16.8

## Other Functions, cont.

### Administration of Justice

The costs of judicial services include police protection, law enforcement (including civil rights), rehabilitation and incarceration of criminals, and the general maintenance of domestic order. It also includes the cost of providing court-appointed counsel or other legal services for individuals. Not found under "Administration of

justice" are the costs of the legislative branch and police and guard activities that protect Federal property. Also, the cost of National Guard personnel and military personnel who are called upon occasionally to maintain public safety and the cost of military police are included under the national defense function.

### General Government

"General Government" covers general overhead costs of the Federal Government. This includes legislative and executive activities as well as central fiscal, personnel and property activities. All activities reasonably or closely associated with other functions are included in those functions rather than "General Government."

### Administration of Justice

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Federal law enforcement activities . . . . .	13.2	0.4	12.8
Federal litigative and judicial activities . . . . .	6.6	0.5	6.1
Federal correctional activities . . . . .	4.0	0.2	3.8
Criminal justice activities. . . . .	4.5	0.3	4.2
Total administration of justice. . . . .	28.3	1.4	26.9

### General Government

(In billions of dollars)

Subfunctions	Gross Cost	Earned Revenue	Net Cost
Legislative functions . . . . .	1.6	-	1.6
Executive direction and management. . . . .	0.4	-	0.4
Central fiscal operations . . . . .	11.0	2.0	9.0
General property and records management . . . . .	12.1	0.4	11.7
Central personnel management . . . . .	0.2	-	0.2
General purpose fiscal assistance . . . . .	1.6	0.1	1.5
Other general Government . . . . .	2.3	0.3	2.0
Total general Government . . . . .	29.2	2.8	26.4

## Reconciliation of the Excess of Net Cost Over Revenue to the Unified Budget Surplus

For fiscal 1998, the unified budget reported a surplus of \$69.2 billion. For the same period, the Financial Report reports an excess of net cost over revenue of \$133.8 billion. The difference between these two amounts occurs because they are prepared on different measurement basis to carry out their different objectives. The Financial Report is prepared on the accrual basis, according to standards recommended by the Federal Accounting Standards Advisory Board as issued by OMB and GAO. Under accrual accounting, transactions are reported when the events giving rise to the transactions occur rather when the cash is received or paid. By contrast, the unified budget is computed primarily on the cash basis, according to accepted budget concepts and policies. The most significant differences between these two bases involve the timing of recognition and measurement of revenue and costs.

The differences between these two basis of accounting can be divided into four primary categories.

1. Receipts recognized in the budget that are not recognized as revenue in the Financial Report, such as:
  - Collections of pre-credit reform loans.
  - Collections of taxes receivable.

- Collections of accounts receivable.
  - Proceeds from the sale of capital assets representing "book value."
2. Revenues recognized in the Financial Report that are not recognized as receipts in the budget, such as:
    - Increases in taxes receivable.
    - Increases in accounts receivable.
  3. Outlays recognized in the budget that are not recognized as costs in the Financial Report, such as:
    - Purchases of inventory and property, plant and equipment.
    - Reductions in accounts payable.
  4. Costs recognized in the Financial Report that are not recognized as outlays in the budget, such as:
    - Depreciation on property, plant and equipment.
    - Increases in estimated liabilities for employee pensions.
    - Increases in estimated liabilities for employee benefits.
    - Increases in estimated environmental liabilities.
    - Defaults on pre-credit reform loans.

In fiscal 1998, some of the the primary differences between the unified budget surplus and the excess of

net cost over revenue were as follows:

1. VA compensation—An interest rate change was made in the actuarial assumptions for Veterans compensation that significantly increased the liability. This increase in the liability is recognized as a current period expense in the Financial Report. The related liability is disclosed in Note 10—Federal Employee and Veteran Benefits Payable.

2. Military and Federal employees—The increase in actuarial health and pension liabilities for military and Federal employees is recognized as a current period expense in the Financial Report. For a detailed disclosure, see Note 10—Federal Employee and Veteran Benefits Payable.

3. Environmental Expenses—The increase in estimated liabilities associated with removing, containing and/or disposing of hazardous waste is recognized as a current period expense in the Financial Report. For a detailed disclosure, see Note 11—Environmental Liabilities.

4. District of Columbia (DC) pension fund—In fiscal 1998, the Federal Government assumed management responsibility of the DC pension fund. The Financial Report recognized the transfer of this fund as a \$8.5 billion liability for future payments to retirees, and as a \$3 billion

### Reconciliation of the Excess of Net Cost over Revenue to the Unified Budget Surplus for the Year Ended September 30 (Unaudited)

(In billions of dollars)

Unified budget surplus . . . . .	69.2
Veterans compensation . . . . .	(109.4)
Military and Federal employees . . . . .	(39.8)
Environmental liabilities . . . . .	(12.8)
District of Columbia pension fund . . . . .	(5.5)
Net amount of all other differences . . . . .	(35.5)
Financial Report's excess of net cost over revenue . . . . .	(133.8)

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## Appendix: List of Significant Government Entities Included and Excluded

This Financial Report includes the executive, legislative and judicial branches of the Government. Excluded are privately owned Government-sponsored enterprises such as the Federal Home Loan Banks and the Federal National Mortgage Association. The Federal Reserve System also

is excluded because organizations and functions pertaining to monetary policy are traditionally separate from, and independent of, other central Government organizations and functions.

### Significant Entities Included in these Statements and their Website Addresses:

Executive Office of the President	Agency for International Development (AID)
Office of Management and Budget (OMB)	<a href="http://www.info.usaid.gov">www.info.usaid.gov</a>
<a href="http://www.whitehouse.gov/wh/eop/omb">www.whitehouse.gov/wh/eop/omb</a>	Central Intelligence Agency (CIA)
Department of Agriculture (Agriculture)	<a href="http://www.odci.gov">www.odci.gov</a>
<a href="http://www.usda.gov">www.usda.gov</a>	Commodity Credit Corporation
Department of Commerce (Commerce)	Commodity Futures Trading Commission
<a href="http://www.doc.gov">www.doc.gov</a>	Corporation for Public Broadcasting
Department of Defense (DOD)	Environmental Protection Agency (EPA)
<a href="http://www.defenselink.mil">www.defenselink.mil</a>	<a href="http://www.epa.gov">www.epa.gov</a>
Department of Education (Education)	Export-Import Bank of the United States
<a href="http://www.ed.gov">www.ed.gov</a>	<a href="http://www.exim.gov">www.exim.gov</a>
Department of Energy (Energy)	Farm Credit Administration
<a href="http://www.doe.gov">www.doe.gov</a>	<a href="http://www.fca.gov">www.fca.gov</a>
Department of Health and Human Services (HHS)	Federal Communications Commission (FCC)
<a href="http://www.hhs.gov">www.hhs.gov</a>	<a href="http://www.fcc.gov">www.fcc.gov</a>
Department of Housing and Urban Development (HUD)	Federal Deposit Insurance Corporation (FDIC)
<a href="http://www.hud.gov">www.hud.gov</a>	<a href="http://www.fdic.gov">www.fdic.gov</a>
Department of Interior (Interior)	Federal Emergency Management Agency (FEMA)
<a href="http://www.doi.gov">www.doi.gov</a>	<a href="http://www.fema.gov">www.fema.gov</a>
Department of Justice (Justice)	Federal Trade Commission (FTC)
<a href="http://www.usdoj.gov">www.usdoj.gov</a>	<a href="http://www.ftc.gov">www.ftc.gov</a>
Department of Labor (Labor)	General Services Administration (GSA)
<a href="http://www.dol.gov">www.dol.gov</a>	<a href="http://www.gsa.gov">www.gsa.gov</a>
Department of State (State)	National Aeronautics and Space Administration (NASA)
<a href="http://www.state.gov">www.state.gov</a>	<a href="http://www.nasa.gov">www.nasa.gov</a>
Department of the Air Force (Air Force)	National Archives and Records Administration
<a href="http://www.af.mil">www.af.mil</a>	<a href="http://www.nara.gov">www.nara.gov</a>
Department of the Army (Army)	National Credit Union Administration
<a href="http://www.army.mil">www.army.mil</a>	<a href="http://www.ncua.gov">www.ncua.gov</a>
Department of the Navy (Navy)	National Science Foundation (NSF)
<a href="http://www.navy.mil">www.navy.mil</a>	<a href="http://www.nsf.gov">www.nsf.gov</a>
Department of the Treasury (Treasury)	National Transportation Safety Board (NTSB)
<a href="http://www.ustreas.gov">www.ustreas.gov</a>	<a href="http://www.nts.gov">www.nts.gov</a>
Department of Transportation (Transportation)	Office of Personnel Management (OPM)
<a href="http://www.dot.gov">www.dot.gov</a>	<a href="http://www.opm.gov">www.opm.gov</a>
Department of Veterans Affairs (VA)	Pension Benefit Guaranty Corporation
<a href="http://www.va.gov">www.va.gov</a>	<a href="http://www.pbgc.gov">www.pbgc.gov</a>
U. S. Postal Service	
<a href="http://www.usps.gov">www.usps.gov</a>	

## Entities Included, cont.

Securities and Exchange Commission (SEC)  
[www.sec.gov](http://www.sec.gov)  
 Small Business Administration (SBA)  
[www.sba.gov](http://www.sba.gov)  
 Smithsonian Institution  
[www.si.edu](http://www.si.edu)  
 Social Security Administration (SSA)  
[www.ssa.gov](http://www.ssa.gov)  
 Tennessee Valley Authority (TVA)  
[www.tva.gov](http://www.tva.gov)  
 Nuclear Regulatory Commission  
[www.nrc.gov](http://www.nrc.gov)  
 Army Corps of Engineers  
[www.usace.army.mil](http://www.usace.army.mil)  
 U.S. Information Agency  
[www.usia.gov](http://www.usia.gov)  
 Enrichment Corporation-(until 7/28/98)

Other Boards and Commissions  
 Library of Congress (LOC)  
[www.loc.gov](http://www.loc.gov)  
 Government Printing Office (GPO)  
[www.gpo.gov](http://www.gpo.gov)  
 General Accounting Office (GAO)  
[www.gao.gov](http://www.gao.gov)  
 Congressional Budget Office (CBO)  
[www.cbo.gov](http://www.cbo.gov)  
 Other legislative and judicial-(cash transactions only)

## Significant entities excluded from these statements:

Federal Reserve Banks (FRBs)  
 Board of Governors of the Federal Reserve System  
 Federal Retirement Thrift Investment Board  
 Thrift Savings Plan (TSP)  
 Farm Credit System  
 Federal Home Loan Banks  
 Financing Corporation  
 Freddie Mac  
 Fannie Mae  
 Sallie Mae  
 Resolution Funding Corporation  
 Army and Air Force Exchange Service  
 Navy Exchange Service Command  
 Marine Corps Exchange