

SECTION IV:

**FINANCIAL STATEMENTS, NOTES
AND SUPPLEMENTAL SCHEDULES**

Principal Financial Statements and Notes:

Consolidated Balance Sheet

Consolidated Statement of Net Cost

Consolidated Statement of Changes in Net Position

Consolidated Statement of Custodial Activity

Combined Statement of Financing

Combined Statement of Budgetary Resources

Notes to the Financial Statements

**U.S. Department of Health and Human Services
Consolidated Balance Sheet
As of September 30, 1998
(Dollars in Millions)**

	Combined Totals	Intra-HHS Eliminations	Consolidated Totals
Assets			
Entity Assets:			
Intragovernmental			
Fund Balance with Treasury (Note 2)	\$ 64,701	\$ -	\$ 64,701
Investments, Net (Note 3)	161,943	-	161,943
Accounts Receivable, Net (Note 4)	399	(84)	315
Other (Note 9)	<u>68</u>	<u>-</u>	<u>68</u>
Total Intragovernmental	\$ 227,111	\$ (84)	\$ 227,027
Accounts Receivable, Net (Note 4)	3,666	-	3,666
Loans Receivable, Net (Note 5)	416	-	416
Advances (Note 6)	1,066	-	1,066
Inventory and Related Property (Note 7)	87	-	87
General Property, Plant & Equipment, Net (Note 8)	1,686	-	1,686
Other (Note 9)	<u>51</u>	<u>-</u>	<u>51</u>
Total Entity	234,083	(84)	233,999
Non-Entity Assets:			
Accounts Receivable, Net (Note 4)	<u>1,290</u>	<u>-</u>	<u>1,290</u>
Total Non-Entity	<u>1,290</u>	<u>-</u>	<u>1,290</u>
Total Assets	<u>\$ 235,373</u>	<u>\$ (84)</u>	<u>\$ 235,289</u>
Liabilities			
Liabilities Covered by Budgetary Resources			
Intragovernmental			
Accounts Payable (Note 10)	\$ 147	\$ (84)	\$ 63
Other (Note 14)	<u>122</u>	<u>-</u>	<u>122</u>
Total Intragovernmental	\$ 269	\$ (84)	\$ 185
Accounts Payable (Note 10)	40,181	-	40,181
Accrued Grants (Note 11)	280	-	280
Loan Guarantees (Note 12)	337	-	337
Other (Note 14)	<u>456</u>	<u>-</u>	<u>456</u>
Total Liabilities Covered by Budgetary Resources	\$ 41,523	\$ (84)	\$ 41,439
Liabilities Not Covered by Budgetary Resources			
Intragovernmental			
Other (Note 14)	<u>14</u>	<u>-</u>	<u>14</u>
Total Intragovernmental	\$ 14	\$ -	\$ 14
Federal Employee & Veterans Benefits (Note 13)	3,643	-	3,643
Other (Note 14)	<u>2,006</u>	<u>-</u>	<u>2,006</u>
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 5,663</u>	<u>\$ -</u>	<u>\$ 5,663</u>
Total Liabilities	<u>\$ 47,186</u>	<u>\$ (84)</u>	<u>\$ 47,102</u>
Net Position (Note 15)			
Unexpended Appropriations	53,270	-	53,270
Cumulative Results of Operations	<u>134,917</u>	<u>-</u>	<u>134,917</u>
Total Net Position	<u>\$ 188,187</u>	<u>\$ -</u>	<u>\$ 188,187</u>
Total Liabilities & Net Position	<u>\$ 235,373</u>	<u>\$ (84)</u>	<u>\$ 235,289</u>

The accompanying notes are an integral part of these statements. In addition, detailed information on individual operating divisions (OPDIVs) can be found in the OPDIVs' audited financial statement. OPDIV financial statements can be accessed on the Internet at: www.hhs.gov

U. S. Department of Health and Human Services
 CONSOLIDATED STATEMENT OF NET COST
 For the Year Ended September 30, 1998
 (Dollars in Millions)

Operating Division	Combined Totals	Intra-HHS Eliminations Costs (-) Revenues (+)		Consolidated Totals
ACF	\$ 31,144	\$ (31)	\$ 2	\$ 31,115
AoA	588	(2)	0	586
AHCPR	75	(5)	72	142
CDC	2421	(38)	32	2415
FDA	875	(46)	12	841
HCFA	290946	(29)	2	290919
HRSA	3773	(70)	21	3724
IHS	2194	(59)	12	2147
NIH	11860	(141)	30	11749
OS	329	(35)	63	357
PSC	433	(15)	160	578
SAMHSA	<u>2066</u>	<u>(17)</u>	<u>11</u>	<u>2060</u>
Net Cost of Operations	<u>\$ 346,704</u>	<u>\$ (488)</u>	<u>\$ 417</u>	<u>\$ 346,633</u>

The accompanying notes are an integral part of these statements. In addition, detailed information on individual operating divisions (OPDIVs) can be found in the OPDIVs' audited financial statement. OPDIV financial statements can be accessed on the Internet at: www.hhs.gov.

U. S. Department of Health and Human Services
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 1998
(Dollars in Millions)

NET COST OF OPERATIONS	\$ 346,633
FINANCING SOURCES (OTHER THAN EXCHANGE REVENUES:)	
Appropriations Used	153,618
Taxes (and other non-exchange revenue)	121,915
Donations (non-exchange revenue)	38
Imputed Financing	187
Other Financing Sources	77,396
NET RESULTS OF OPERATIONS	<u>\$ 6,521</u>
PRIOR PERIOD ADJUSTMENTS	838
NET CHANGE IN CUMULATIVE RESULTS OF OPERATIONS	<u>\$ 7,359</u>
INCREASE (DECREASE) IN UNEXPENDED APPROPRIATIONS	13,351
CHANGE IN NET POSITION	<u>\$ 20,710</u>
NET POSITION - BEGINNING OF PERIOD	<u>167,477</u>
NET POSITION - END OF PERIOD	<u><u>\$ 188,187</u></u>

U. S. Department of Health and Human Service
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Year Ended September 30, 1998
(Dollars in Millions)

SOURCES OF COLLECTIONS

Cash Collections:	
General Fund Receipts	\$ 1,086
Audit Disallowances	25
Interest	11
Royalties	35
Other Custodial Revenue	<u>3</u>
 Total Revenue	 <u>1,160</u>

DISPOSITION OF REVENUE

Transferred to Others:	
U.S. Treasury	1,122
The Public	<u>14</u>
Net Transferred to Others	1,136
 Increase in Amounts to be Transferred	 2
 Retained by the Entity	 <u>22</u>
 Total Disposition of Revenue	 <u>1,160</u>
 Net Custodial Activity	 <u><u>\$ -</u></u>

**U. S. Department of Health and Human Services
COMBINED STATEMENT OF FINANCING
For the Year Ended September 30, 1998
(Dollars in Millions)**

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	\$ 453,678
Less: Offsetting collections, recoveries of prior-year authority, and changes in unfilled customer orders	<u>(10,406)</u>
Net budgetary resources used to finance activities	<u>443,272</u>

NON-BUDGETARY:

Property received from others without reimbursement	200
Cost incurred by others for the entity without reimbursement	92
Other non-budgetary resources	<u>(205)</u>
Net non-budgetary resources used to finance activities	<u>87</u>

TOTAL RESOURCES USED TO FINANCE ACTIVITIES \$ 443,359

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	\$ 12,040
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BUDGETARY OFFSETTING COLLECTIONS THAT DO NOT INCREASE EXCHANGE REVENUE OR DECREASE EXPENSES:

Decrease or (increase) in revenue collected in advance	32
Collections that decrease assets unrelated to exchange revenue	(38)
Credit program collections that increase liabilities for loan guarantees or allowances for subsidy	0
Other	0

ADJUSTMENTS OTHER THAN COLLECTIONS MADE TO COMPUTE NET BUDGETARY RESOURCES THAT DO NOT AFFECT NET COST OF OPERATIONS:

Recoveries of prior-year authority	(1,669)
Decrease or (increase) in unfilled customer orders	(98)
Other	(1,608)
Resources that fund expenses recognized in prior period	41,577
Resources that finance the acquisition of assets or liquidations of liabilities	<u>188</u>
Total resources used to fund items not part of the net cost of operations	<u>50,424</u>

RESOURCES USED TO FINANCE NET COST OF OPERATIONS \$ 392,935

**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	\$ 768
Losses or (gains) from re-evaluation of assets and liabilities	37
Decrease or (increase) in exchange revenue receivable from the public	(1,811)
Other	<u>(20,776)</u>
Subtotal	<u>(21,782)</u>

EXPENSES THAT WILL BE FINANCED WITH BUDGETARY RESOURCES RECOGNIZED IN FUTURE PERIODS:

Annual leave expense from increase in annual leave liability	18
Credit program subsidy expense from upward subsidy re-estimates	0
Other	<u>40,220</u>
Subtotal	<u>40,238</u>

Other net cost components that do not require or generate resources during the reporting period 347

Total components of net cost of operations that do not require or generate resources during the reporting period 18,803

NET COST OF OPERATIONS \$ 411,738

NOTE:

In FY 1998, the Statement of Financing is presented on a combined basis and the Statement of Net Cost is presented on a consolidated basis. The net cost of operations amount on the statement of financing differs from the net cost of operations amount reported on the net cost of operations by \$65,034 (in millions). This difference results from the amount of the HCFA eliminations between the Payments to the Healthcare Trust Fund and the Medicare Trust Fund.

The accompanying notes are an integral part of these statements.

U. S. Department of Health and Human Services
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 1998
(Dollars in Millions)

BUDGETARY RESOURCES:

Budget Authority	\$ 452,367
Unobligated Balances - Beginning of Period	167,038
Spending Authority from Offsetting Collectio	4,916
Adjustments	5,441
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Total Budgetary Resources	<u><u>\$ 629,762</u></u>

STATUS OF BUDGETARY RESOURCES

Obligation Incurred	\$ 453,678
Unobligated Balances - Available	169,855
Unobligated Balances - Not Available	6,229
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Total Status of Budgetary Resources	<u><u>\$ 629,762</u></u>

OUTLAYS:

Obligations Incurred	\$ 453,678
Less: Spending Authority from Offsetting Collections and Adjustments	(10,525)
Obligated Balance, Net - Beginning of Period	40,098
Obligated Balance Transferred, Net	(301)
Less: Obligated Balance, Net - End of Period	<u>(47,302)</u>
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Total Outlays	<u><u>\$ 435,648</u></u>

The accompanying notes are an integral part of these statements.

**U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
NOTES TO THE FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 1998**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Department of Health and Human Services consists of the following twelve (12) financial reporting entities, identified as Operating Divisions (OPDIVs), which have diverse missions and programs:

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 Health Care Policy and Research (AHCPR)
12. Office of the Secretary (OS)

In FY 1998, the first nine (9) OPDIVs listed above received full scope audits, while the last three (3) 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, and generally accepted accounting principles of the Federal Government, as specified by OMB. These statements are therefore different from financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control HHS's 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's twelve OPDIVs; each issued under separate cover. Intra-entity eliminations are presented on the Consolidated/Consolidating Balance Sheet, the Consolidated/Consolidating Statement of Net Cost, and the Consolidated/Consolidating 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 & 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 income tax receivables, which the IRS collects for the U.S. Government but does not have authority to spend.

Fund Balances 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 the public. Amounts due from the public are presented net of an allowance for loss on uncollectable 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. 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.

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 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.

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.

Advances and Prepayments

Advances are cash outlays made by the Department to its employees, grantees or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the Department receives. Prepayments are payments made to cover certain periodic expenses before they are incurred. Progress payments on work in process are not included in advances and prepayments. Advances to the public, primarily grant advances, are reported in *Note 6, "Advances To The Public."* Advances to other Federal agencies are reported in *Note 9, "Other Assets."*

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 (FECA) payments. For HHS revolving funds, all liabilities are funded as they occur.

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 such as current worker's FECA payments due to the Department of Labor. Accounts Payable also includes Entitlement Benefits Payable from both Medicare and Medicaid (HCFA).

Accrued Grants

HHS grant programs are classified into two categories, block grants and non-block grants.

Block Grants

For most block grant programs, OPDIVs record expenses as the grantees draw funds. Therefore the year-end accrual for block grants is equal to the amount of funds drawn that have not already been recorded as expenditures.

Non-Block Grants

For non-block programs, grantees draw funds (recorded as advances in OPDIV systems) commensurate with their immediate cash needs. When grantees pay bills they report this to HHS' Division of Payment Management (DPM), quarterly and DPM reports these grantee expenditures to the OPDIVs. The OPDIVs then record an expense and reduce the grantee advance balance accordingly.

In FY 97 DPM calculated the grant accrual for HHS' non-block programs based upon the Departmental model. This process calculated an average daily grantee spending rate by subtracting reported grantee expenditures from total grant awards and dividing this amount by the number of days remaining in the life of the grant. This average daily spending rate was then multiplied by the number of days since the last expenditures were reported to HHS. HHS OPDIVs recorded the lesser of this accrual or Grant Dollars Remaining, where *Grant Dollars Remaining = Total Grant Award - Reported Expenditures*. After reviewing the estimate, the OIG could not fully verify its reasonableness, which resulted in a qualification of the FY 97 financial statements.

In 1998 all OPDIVs except HCFA adopted a new process to estimate and accrue unreported grantee expenditures. Grantees report their expenses on a quarterly basis using the grantee expenditure report, SF272. The new process divides unreported grantee expenditures into two components: 1) 4th quarter grantee expenditures incurred and expected to be reported on the September 30 SF 272, and 2) 4th quarter grantee expenditures incurred but not *expected to be reported* (IBNR) on the September 30 SF 272.

The estimate of the first component was based upon historical grantee data. Grantee advances have proven to be a reliable predictor of quarterly grantee expenditures. Based on this relationship a regression analysis, using historical grantee advance and expenditure data, was used to estimate 4th quarter grantee expenditures. The estimated 4th quarter grantee expenditures were calculated by PMS, transmitted to the OPDIVs and are reported in the accompanying financial statements.

To estimate the second component, IBNR, HHS conducted 4 grantee surveys to determine if grantees had unreported expenses at year-end and if so, in what amounts. As a result of the surveys HHS determined that grantees typically had year-end IBNR equal to approximately 2 weeks of annual reported expenditures. This two-week accrual of grantee IBNR expenses was calculated by the Department, transmitted to OPDIVs and is reported in the accompanying financial statements.

Federal Employee & Veterans' Benefits

Federal Employee & 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 Statement of Net Cost and the Statement of Changes in Net Position, respectively.

The lone exception to this policy is the PHS Commissioned Corps Retirement System. The HHS-administered PHS Commissioned Corps Retirement System is discussed in Note 13, "Federal Employee & 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 7 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 4 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.

Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or

prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken. Any liability for sick leave that is accrued but not taken by a CSRS-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of FERS-covered employees.

Obligations Related to Canceled Appropriations

Payments may be required of up to 1% 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 \$545 million as of September 30, 1998.

Revenues and Other Financing Sources

Funding for the Department/OPDIV 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 include donations. 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 is an "other financing source" which reflects cost incurred by one Federal entity which are paid for by another Federal entity. These are also known as inter-entity costs. For financial statements covering fiscal years 1998 and 1999, 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 worker's compensation under FECA, and (4) losses in litigation proceedings (Federal Accounting Standards Advisory Board (FASAB) Interpretation No. 2, Accounting for Treasury Judgement Fund transactions).¹

Financing for the Public Health Service (PHS) Commissioned Corps Retirement System is provided through annual appropriations. The estimate for PHS Commissioned Corps employees is an intra-HHS elimination because the PSC recognizes the liability for their retirement plan.

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."

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.

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% of annual wages-employees and employers were each required to contribute 1.45% of employees' wages, with no limitation, to the HI Trust Fund. Self-employed individuals paid the full 2.9% 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 activities and with 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.

Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to the Department/OPDIV. 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, 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). Management has determined that, due to the implementation of new accounting standards and new principal financial statements for FY 1998, it is neither feasible nor prudent to attempt to restate FY 1997 amounts in the current statements. Therefore, prior year comparative data will not be presented in the financial statements.

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.

(in millions)	<u>Entity Assets</u>	<u>Non-entity Assets</u>	<u>Total</u>
Trust Funds	\$ 1,077	0	\$ 1,077
Revolving Funds	735	0	735
Appropriated Funds	62,910	0	62,910
Other Funds	<u>(21)</u>	<u>0</u>	<u>(21)</u>
Total	<u>\$ 64,701</u>	<u>0</u>	<u>\$ 64,701</u>

NOTE 3. INVESTMENTS, NET

HHS invests trust fund cash that is in excess of current needs in U.S. Treasury Securities. The Treasury is HHS' agent and advisor for investing.

(in millions)	Cost	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities:					
Marketable	\$ -	\$ -	\$ -	-	\$ -
Non-Marketable: Par Value	157,762	-	157,762	-	157,762
Non-Marketable: Market-Based	<u>1,347</u>	<u>(31)</u>	<u>1,316</u>	=	<u>1,316</u>
Subtotal	<u>159,109</u>	<u>(31)</u>	<u>159,078</u>	=	<u>159,078</u>
Accrued Interest	<u>2,865</u>	=	<u>2,865</u>	=	<u>2,865</u>
Total	<u>\$ 161,974</u>	<u>\$ (31)</u>	<u>\$ 161,943</u>	=	<u>\$ 161,943</u>

HCFA invests in U.S. Treasury Special Issues exclusive to HI and SMI Trust Funds that are purchased and redeemed at face value. Certificates are short-term and pay from 5 3/8 to 5 3/4 percent. Bond interest rates range from 5 7/8 to 13 3/4 percent. Bonds mature at various dates from June 1999 to June 2013. The accrued interest receivable on investments totaled \$2,865 million as of September 30, 1998.

HRSA's Vaccine Injury Compensation Trust Fund invests in market-based (MK) special securities. Securities currently held are MK Bills and Notes maturing in fiscal years 1999, 2004, and 2008.

The NIH invests a portion of their trust fund cash in short-term U. S. Treasury Securities. The majority of HHS' investments in securities are held to maturity and no provision is made for unrealized gains and losses.

NOTE 4. ACCOUNTS RECEIVABLE, NET

(In Millions)	Ending Bal, Gross Receivables	Interest Receivable	Allowance	Net Accounts Receivables
Entity:				
Intragovernmental	<u>\$ 437</u>	-	<u>\$ (38)</u>	<u>\$ 399</u>
From the Public				
Medicare	7,380	-	(3,806)	3,574
Medicaid	37	-	(6)	31
Other Public	<u>73</u>	=	<u>(12)</u>	<u>61</u>
Total, Public	<u>7,490</u>	<u>0</u>	<u>(3,824)</u>	<u>3,666</u>
Total, Entity	<u>\$ 7,927</u>	<u>0</u>	<u>\$ (3,862)</u>	<u>\$ 4,065</u>
Non-Entity:				
From the Public	<u>\$ 1,532</u>	=	<u>\$ (242)</u>	<u>\$ 1,290</u>
Total, Non-Entity	<u>\$ 1,532</u>	=	<u>\$ (242)</u>	<u>\$ 1,290</u>

HCFA's Medicare receivables are primarily due to overpayments to providers, beneficiaries, physicians and suppliers, and to claims where Medicare should be the secondary payer. The Medicaid balance is the net realizable value of disallowances in dispute with the States.

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, NET

Loans receivable are included for the Health Education Assistance Loans (HEAL) guaranteed loan program which is administered by HRSA. The gross receivables amount for this program represents defaulted loans, which have been paid to lenders under the guarantee, and includes principal and interest.

(In millions)					
Loan Programs	Loans Receivable (Principal)	Interest Receivable	Gross Loans Receivable	Allowance	Net Receivables
HEAL Loans (HRSA)					
Pre-1992 loans	\$ 494	\$ 14	\$ 508	\$ (138)	\$ 370
Post-1991 loans	<u>29</u>	<u>23</u>	<u>52</u>	<u>(6)</u>	<u>46</u>
Total	<u>\$ 523</u>	<u>\$ 37</u>	<u>\$ 560</u>	<u>\$ (144)</u>	<u>\$ 416</u>

NOTE 6. ADVANCES, TO THE PUBLIC

Advances to the Public does not include advances to Federal agencies for goods and services to be provided—these advances are reported as “Advances to Others, Intragovernmental” in **Note 9. Other Assets**.

(In millions)	
To the Public	
Grant Advances, Net	\$ 1,019
Travel Advances and Emergency Employee Payments	1
Other	<u>46</u>
Total Advances	<u>\$1,066</u>

Advances to the Public includes advances to grantees in excess of their grant-related expenses, payments to HHS employees for travel and emergency salary advances, and advances to Non-Federal agencies for goods and services to be provided to HHS.

Grant Advances, Net

For non-block grants, OPDIVs record the initial draw down of funds from grant awards as an Advance to the Public. When grantees submit their quarterly expense reports (SF 272), OPDIVs reduce the advance and increase expense for the amounts reported by the grantee. At fiscal year end OPDIVs book an accrual for IBNR grant expenses. If grant advances outstanding at year end exceed the accrual for IBNR, then the OPDIV reports an asset for net grant advances. Otherwise, the OPDIV reports a liability called Accrued Grants for the excess of IBNR over outstanding grant advances.

At the department level, the asset and liability balances for the individual OPDIVs are separately combined and reported as separate line-items on the HHS-wide Balance Sheet. Netting OPDIV grant advance balances with OPDIV accrued grant liability balances would result in a net asset for HHS of \$739 million, as follows:

Grant Advances, Net	\$1,019
Accrued Grants	<u>(280)</u>
 Net of Grant Assets and Liabilities	 <u>\$ 739</u>

(See Note 1, Significant Accounting Policies, for a description of the accrued grant expense and the change in methodology for FY 98)

NOTE 7. INVENTORY & RELATED PROPERTY, NET

(in millions)	
<u>Inventory Held for Sale:</u>	
Inventory held for current sale	\$ <u>35</u>
Total, Inventory Held for Sale	<u>\$ 35</u>
<u>Operating Materials & Supplies (OMS):</u>	
OMS held for use	\$ 34
OMS reserved for future use	(4)
Total, Operating Materials & Supplies	<u>\$ 30</u>
<u>Stockpile Materials (SM):</u>	
SM held for emergency or contingency	\$ <u>22</u>
Total, Stockpile Materials	<u>\$ 22</u>
Inventory & Related Property, Gross	\$ 87
less: Allowance for loss/obsolescence/spoilage	<u>—</u>
Inventory & Related Property, Net	<u>\$ 87</u>

HHS 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 FASAB Standard No. 3, Inventory and related Property.

HHS inventories are comprised of inventory held for sale, operating materials and supplies used in general operations and stockpile materials. CDC is mandated by law to maintain a vaccine stockpile to meet unanticipated needs for the vaccines, and for 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.

NOTE 8. GENERAL PROPERTY PLANT AND EQUIPMENT, NET

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

(In Millions)	Depreciation Method	Est. Useful Lives	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land & Land Rights	N/A	N/A	\$ 32	\$ -	\$ 32
Improvements to Land	Straight Line	5-20 yrs		-	-
Construction in Progress	N/A	N/A	171	-	171
Buildings, Facilities & Other Structures	Straight Line	15-40 yrs	2,039	(889)	1,150
Equipment	Straight Line	3-10 yrs	10,661	(10,350)	311
Assets Under Capital Lease	Straight Line	life of lease	24	(2)	22
Leasehold Improvements	Straight Line	7-15 yrs or life of lease	1	(1)	-
Totals			<u>\$ 12,928</u>	<u>\$ (11,242)</u>	<u>\$ 1,686</u>

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

NOTE 9. OTHER ASSETS

(In millions)	Entity Assets
Intragovernmental	
Prepayments & Deferred Charges	\$ -
Advances to Other Federal Entities	<u>68</u>
Total, Intragovernmental	\$ 68
Other	<u>51</u>
Total Other Assets	<u>\$ 119</u>

NOTE 10. ACCOUNTS PAYABLE

(In millions)	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources	
	Intra-governmental	With the Public	Intra-Governmental	With the Public
Accounts Payable	\$ 63	\$ 611	\$ -	\$ -
Entitlement Benefits Payable	-	-	-	-
Medicare Claims	-	28,790	-	-
Medicaid	-	<u>10,780</u>	-	-
Totals	<u>\$ 63</u>	<u>\$ 40,181</u>	<u>\$ 0</u>	<u>\$ 0</u>

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). Other entitlement programs within the department are immaterial and are included in Accounts Payable with the public.

NOTE 11. ACCRUED GRANTS

A liability for accrued grants occurs when grant advances outstanding at year end are less than the accrual for IBNR grant expenses. Otherwise, HHS reports an asset called Grant Advances (see Note 6, "Advances to the Public", for details).

NOTE 12. LOAN GUARANTEES

(In Millions) Loan Programs	Defaulted Loans Guaranteed	Interest Payable	Liability for Loan Guarantees
HEAL Guarantees (HRSA)			
Pre-1992 guarantees	\$ 75	\$ -	\$ 75
Post-1991 guarantees	<u>259</u>	-	<u>259</u>
Subtotal	334	0	334
Other	<u>3</u>	-	3
Total	<u>\$ 337</u>	<u>\$ 0</u>	<u>\$ 337</u>

HCFA's Health Maintenance Organization (HMO) Loan & Loan Guarantee Program was originally established to provide working capital to HMOs during their initial period of operations and to guarantee loans made by private lenders to HMOs. The last loan commitments were made in FY 1983. Direct loans to HMOs were sold, with a guarantee, to the Federal Financing Bank (FFB). The FFB purchase proceeds were then used as capital for additional direct loans. Therefore, the fund operates as a revolving fund. Currently, HCFA collects principal and interest payments from HMO borrowers, and in turn pays FFB.

NOTE 13. FEDERAL EMPLOYEE & VETERANS' BENEFITS

(In millions)	
Liabilities Not Covered by Budgetary Resources	
PHS Commissioned Corp Pension Liability	\$ 3,522
Future Workers' Compensation Benefits (FECA Actuarial Liability)	<u>121</u>
Total, Federal Employee & Veterans' Benefits	<u>\$ 3,643</u>

PHS Commissioned Corps Pension

HHS administers the PHS Commissioned Corps Retirement System for approximately 6,015 active duty officers and 4,056 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 not borne by the plan. The actuarial present value of accumulated plan benefits is \$3,522 million. If the aggregate entry age normal cost actuarial valuation method was used, the accrued liability would be \$4,239 million. In addition, since the measurement date for the actuarial liability is September 30, 1997, a roll forward projection amount, based on trend data, of approximately \$185 million could be added to this projection.

Future Workers' Compensation Benefits

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approval 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 1998 was 5.69% in year 1 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 methodology also includes a discounting formula to recognize the timing of compensation payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

NOTE 14. OTHER LIABILITIES

(In millions)	Liabilities Covered by Budgetary Resources		Liabilities Not Covered by Budgetary Resources	
	Intra-governmental	With the Public	Intra-governmental	With the Public
Advances from Other Federal Agencies	\$ 120	\$ -	\$ -	\$ -
Environmental Cleanup Costs	1	-	14	2
Capital Lease Liability	-	-	-	-
Contingent Liabilities <i>(including grant authority available)</i>	-	-	-	-
Accrued Payroll & Annual Leave Earned	-	253	-	352
Vaccine Injury Compensation Program	-	203	-	-
Other	<u>1</u>	-	-	<u>1,652</u>
Total, Other Liabilities	<u>\$ 122</u>	<u>\$ 456</u>	<u>\$ 14</u>	<u>\$ 2,006</u>

Advances from Other Federal Agencies of \$120 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 liability of \$203 million represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 1998.

The Health Care Financing Administration 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. We 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 condition of HHS.

Environmental Cleanup Costs

Cleanup 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. In accordance with SFFAS # 5 Accounting for Liabilities of the Federal Government and SFFAS #6 Property Plant and Equipment, HHS has recognized a liability for cleanup of \$17 million. The following table presents HHS OPDIV cleanup costs:

(In Millions)				
OPDIV	Method for Assigning Cost	Total Est. Cleanup Cost	Less: Unrecognized Portion (Deferred Cleanup Costs Only)	Liability Recognized for Cleanup Costs
NIH	Estimated Cost of Similar Remediation	\$ 10	\$ -	\$ 10
FDA	Estimated Cost of Similar Remediation	7	-	7
		<u>\$ 17</u>	<u>\$ 0</u>	<u>\$ 17</u>

NOTE 15. 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.

(In millions)	
Unexpended Appropriations:	
Unobligated,	
Available	\$ 5,060
Unavailable	7,642
Undelivered Orders	<u>40,568</u>
Subtotal	53,270
Cumulative Results of Operations	<u>134,917</u>
Net Position	<u>\$ 188,187</u>

NOTE 16. 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 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. The claims submitted for payment to Medicare contractors contained no visible errors. However, when the medical review asked for documentation from providers to support their claims, there was an 7.1 percent error rate with a dollar value in the range of \$7.8-\$17.4 billion (\$12.6 billion midpoint). This is a reduction from 1997 error rate of 11 percent with a dollar value in the range of \$12.1-\$28.4 billion (\$20.3 billion midpoint). 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 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 1998, 32,903 cost reports totaling \$95.9 billion were reviewed. Approximately \$70 billion represented inpatient claims to PPS providers. The cost report settlements, therefore, focused on the remaining non-PPS balance of about \$26 billion.

**1998 Cost Report Summary
(Dollars in millions)**

	Desk Reviews and Other	Audits	Total
Providers	27,101	5,802	32,903
Costs Claimed	\$36,119	\$59,781	\$95,900
Disallowed	\$552	\$1,083	\$1,635

The \$1.6 billion disallowed represents 6 percent of this \$26 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 \$1.6 billion to \$2.2 billion. Therefore, by limiting the amount of full-scope audits that were conducted, HCFA may have overpaid providers by as much as \$600 million.

NOTE 17. MEDICARE 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 is \$43.80 beginning January 1997. Premiums collected from beneficiaries totaled \$19.4 billion in FY 1998 and were matched by a \$59.8 billion contribution from the Federal government.

NOTE 18. EMPLOYMENT TAX REVENUE

For periods after December 31, 1993, employees and employers are each required to contribute 1.45 percent of employees' wages, and self-employed persons are required to contribute 2.90 percent of net income, with no limitation, to the HI Trust Fund. The Social Security Act requires the transfer of these contributions from the General Fund of Treasury to the HI Trust Fund based on the amount of wages certified by the Commissioner of Social Security from SSA records of wages established and maintained by SSA in accordance with wage information reports. The SSA uses the wage totals reported annually by employers via the quarterly Internal Revenue Service Form 941 as the basis for conducting quarterly certification of regular wages.

NOTE 19. SUBSEQUENT EVENT – TOBACCO SETTLEMENT

Subsequent to year-end, certain States entered into a settlement agreement with tobacco companies for reimbursement of medical costs incurred in treating tobacco-related illnesses. Under Section 1903(d) of the Social Security Act, States must allocate from the amount of any Medicaid-related expenditures recovery, the pro-rata share to which the Federal government is entitled. The financial statements have not recognized a receivable for any proceeds as a result of the tobacco settlement since the final disposition of these funds has not been determined.

Required Supplementary Stewardship Information:

Stewardship PP&E

Stewardship Investments

**U.S. Department of Health and Human Services
Consolidating Balance Sheet by Budget Function
As of September 30, 1998**

	<i>(in millions)</i>							
	Education, Training and Social Services	Health	Medicare	Income Security	Admin. of Justice	Combined Totals	Intra-HHS Eliminations	Consolidated Totals
Assets								
Entity Assets:								
Intragovernmental								
Fund Balance with Treasury	\$ 9,086	\$ 37,208	\$ 899	\$ 17,361	\$ 147	\$ 64,701	\$ -	\$ 64,701
Investments	-	1,326	160,617	-	-	161,943	-	161,943
Accounts Receivable, Net	6	585	6	2	-	599	(284)	315
Other	-	68	-	-	-	68	-	68
Total Intragovernmental	\$ 9,092	\$ 39,187	\$ 161,522	\$ 17,363	\$ 147	\$ 227,311	\$ (284)	\$ 227,027
Investments								
Accounts Receivable, Net	-	92	3,574	-	-	3,666	-	3,666
Loans Receivable, Net	-	416	-	-	-	416	-	416
Advances	7	367	29	640	23	1,066	-	1,066
Inventory and Related Property	-	87	-	-	-	87	-	87
General Property, Plant & Equipment, Net	-	1,662	24	-	-	1,686	-	1,686
Other	-	-	51	-	-	51	-	51
Total Entity	9,099	41,811	165,200	18,003	170	234,283	(284)	233,999
Non-Entity Assets:								
Accounts Receivable, Net (Note 4)	-	1,117	-	173	-	1,290	-	1,290
Total Non-Entity	-	1,117	-	173	-	1,290	-	1,290
Total Assets	\$ 9,099	\$ 42,928	\$ 165,200	\$ 18,176	\$ 170	\$ 235,573	\$ (284)	\$ 235,289
Liabilities								
Liabilities Covered by Budgetary Resources								
Intragovernmental								
Accounts Payable	\$ 4	\$ 139	\$ 203	\$ 1	\$ -	\$ 347	\$ (284)	\$ 63
Other	-	122	-	-	-	122	-	122
Total Intragovernmental	\$ 4	\$ 261	\$ 203	\$ 1	\$ -	\$ 469	\$ (284)	\$ 185
Accounts Payable	15	11,326	28,837	3	-	40,181	-	40,181
Accrued Grants	166	110	-	-	4	280	-	280
Loan Guarantees	-	337	-	-	-	337	-	337
Other	5	435	16	-	-	456	-	456
Total Liabilities Covered by Budgetary Resources	\$ 190	\$ 12,469	\$ 29,056	\$ 4	\$ 4	\$ 41,723	\$ (284)	\$ 41,439
Liabilities Not Covered by Budgetary Resources								
Intragovernmental								
Other	-	14	-	-	-	14	-	14
Total Intragovernmental	\$ -	\$ 14	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ 14
Federal Employee & Veterans Benefits	3	3,640	-	-	-	3,643	-	3,643
Other Liabilities	12	1,491	331	172	-	2,006	-	2,006
Total Liabilities Not Covered by Budgetary Resources	\$ 15	\$ 5,145	\$ 331	\$ 172	\$ -	\$ 5,663	\$ -	\$ 5,663
Total Liabilities	\$ 205	\$ 17,614	\$ 29,387	\$ 176	\$ 4	\$ 47,386	\$ (284)	\$ 47,102
Net Position (Note 9)								
Unexpended Appropriations	8,851	25,441	804	17,998	176	53,270	-	53,270
Cumulative Results of Operations	43	(127)	135,009	2	(10)	134,917	-	134,917
Total Net Position	\$ 8,894	\$ 25,314	\$ 135,813	\$ 18,000	\$ 166	\$ 188,187	\$ -	\$ 188,187
Total Liabilities & Net Position	\$ 9,099	\$ 42,928	\$ 165,200	\$ 18,176	\$ 170	\$ 235,573	\$ (284)	\$ 235,289

**U.S. Department of Health and Human Services
 Consolidating Balance Sheet by Operating Division
 As of September 30, 1998**

(in millions)

	HCFA	NIH	ACF	AoA	AHCPR	CDC	FDA	HRSA	IHS	SAMHSA	OS	PSC	Combined Totals	Intra-HHS Eliminations	Consolidated Totals
Assets															
Entity Assets:															
Intragovernmental															
Fund Balances with Treasury	\$ 16,792	\$12,447	\$26,246	\$310	\$ 143	\$2,170	\$439	\$3,229	\$1,082	\$ 1,635	\$197	\$ 11	\$ 64,701	\$ -	\$ 64,701
Investments	160,617	10	-	-	-	-	-	1,316	-	-	-	-	161,943	-	161,943
Accounts Receivable, Net	7	114	8	-	1	72	6	23	4	6	85	73	399	(84)	315
Other	-	41	-	-	-	8	6	13	-	-	-	-	68	-	68
Total Intragovernmental	\$177,416	\$12,612	\$26,254	\$310	\$ 144	\$2,250	\$451	\$4,581	\$1,086	\$ 1,641	\$282	\$ 84	\$ 227,111	\$ (84)	\$ 227,027
Investments															
Accounts Receivable, Net	3,609	16	-	-	1	3	12	7	15	-	-	3	3,666	-	3,666
Loans Receivable, Net	-	-	-	-	-	-	-	416	-	-	-	-	416	-	416
Advances	38	318	670	-	2	1	2	-	17	4	14	-	1,066	-	1,066
Inventory and Related Property	-	11	-	-	-	31	-	-	10	-	-	35	87	-	87
General Property, Plant & Equipment, Net	25	714	-	-	-	145	158	3	637	1	-	3	1,686	-	1,686
Other	51	-	-	-	-	-	-	-	-	-	-	-	51	-	51
Total Entity	\$181,139	\$13,671	\$26,924	\$310	\$ 147	\$2,430	\$623	\$5,007	\$1,765	\$ 1,646	\$296	\$ 125	\$ 234,083	\$ (84)	\$ 233,999
Non-Entity Assets:															
Accounts Receivable, Net	102	3	173	-	-	-	-	719	7	5	2	279	1,290	-	1,290
Total Non-Entity	102	3	173	-	-	-	-	719	7	5	2	279	1,290	-	1,290
Total Assets	\$181,241	\$13,674	\$27,097	\$310	\$ 147	\$2,430	\$623	\$5,726	\$1,772	\$ 1,651	\$298	\$ 404	\$ 235,373	\$ (84)	\$ 235,289
Liabilities															
Liabilities Covered by Budgetary Resources															
Intragovernmental															
Accounts Payable	\$ 16	\$ 16	\$ 5	\$-	\$ 1	\$ 48	\$ 8	\$ 9	\$ 17	\$ 5	\$ 14	\$ 8	\$ 147	\$ (84)	\$ 63
Other	-	-	-	-	-	41	2	-	79	-	-	-	122	-	122
Total Intragovernmental	16	16	5	-	1	89	10	9	96	5	14	8	269	(84)	185
Accounts Payable	39,636	177	17	1	7	110	25	48	65	14	50	31	40,181	-	40,181
Accrued Grants	-	-	153	13	-	4	5	105	-	-	-	-	280	-	280
Loan Guarantees	3	-	-	-	-	-	-	334	-	-	-	-	337	-	337
Other Liabilities	16	124	5	-	1	-	33	213	35	3	9	17	456	-	456
Total Liabilities Covered by Budgetary Resources	39,671	317	180	14	9	203	73	709	196	22	73	56	41,523	(84)	41,439
Liabilities Not Covered by Budgetary Resources															
Intragovernmental															
Other	-	10	-	-	-	-	4	-	-	-	-	-	14	-	14
Total Intragovernmental	-	10	-	-	-	-	4	-	-	-	-	-	14	-	14
Federal Employee & Veterans Benefits	-	-	3	-	-	11	18	23	47	2	14	3,525	3,643	-	3,643
Other Liabilities	435	115	183	1	2	58	50	763	85	10	19	285	2,006	-	2,006
Total Liabilities Not Covered by Budgetary Resources	435	125	186	1	2	69	72	786	132	12	33	3,810	5,663	-	5,663
Total Liabilities	\$ 40,106	\$ 442	\$ 366	\$ 15	\$ 11	\$ 272	\$145	\$1,495	\$ 328	\$ 34	\$106	\$ 3,866	\$ 47,186	\$ (84)	\$ 47,102
Net Position															
Unexpended Appropriations															
Unexpended Appropriations	6,043	12,437	26,697	294	102	2,047	305	2,732	776	1,558	258	21	53,270	-	53,270
Cumulative Results of Operations	135,092	795	34	1	34	111	173	1,499	668	59	(66)	(3,483)	134,917	-	134,917
Total Net Position	\$141,135	\$13,232	\$26,731	\$295	\$ 136	\$2,158	\$478	\$4,231	\$1,444	\$ 1,617	\$192	\$(3,462)	\$ 188,187	\$ -	\$ 188,187
Total Liabilities & Net Position	\$181,241	\$13,674	\$27,097	\$310	\$ 147	\$2,430	\$623	\$5,726	\$1,772	\$ 1,651	\$298	\$ 404	\$ 235,373	\$ (84)	\$ 235,289

U. S. Department of Health and Human Services
CONSOLIDATING STATEMENT OF NET COST BY BUDGET FUNCTION
For the Year Ended September 30, 1998
(Dollars in Millions)

Operating Division	Education, Training, & Social Services	Health	Medicare	Income Security	Admin of Justice	Combined Totals	Intra-HHS Costs	Eliminations Revenues	Consolidated Totals
ACF	\$ 12,686	\$ -	\$ -	\$18,428	\$ 30	\$ 31,144	\$ (31)	\$ 2	\$ 31,115
AoA	588	-	-	-	-	588	(2)	-	586
AHCPR	-	75	-	-	-	75	(5)	72	142
CDC	-	2,375	-	-	46	2,421	(38)	32	2,415
FDA	-	875	-	-	-	875	(46)	12	841
HCFA	-	97,929	193,017	-	-	290,946	(29)	2	290,919
HRSA	-	3,773	-	-	-	3,773	(70)	21	3,724
IHS	-	2,194	-	-	-	2,194	(59)	12	2,147
NIH	-	11,860	-	-	-	11,860	(141)	30	11,749
OS	-	329	-	-	-	329	(35)	63	357
PSC	-	433	-	-	-	433	(15)	160	578
SAMHSA	-	2,066	-	-	-	2,066	(17)	11	2,060
Net Cost of Operations	<u>\$ 13,274</u>	<u>\$121,909</u>	<u>\$193,017</u>	<u>\$18,428</u>	<u>\$ 76</u>	<u>\$346,704</u>	<u>\$ (488)</u>	<u>\$ 417</u>	<u>\$ 346,633</u>

The accompanying notes are an integral part of these statements. In addition, 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

**Department of Health and Human Service
 Public and Intragovernmental Net Costs
 For the year ended September 30, 1998
 (Dollars in Millions)**

Operating Division	Intra- Governmental	With the Public	Gross Costs	Less: Earned Revenue	Combined Net Cost of Operations
ACF	\$ -	\$ 31,144	\$ 31,144	\$ -	\$ 31,144
AoA	-	589	589	1	588
AHCPR	-	147	147	72	75
CDC	292	2,275	2,567	146	2,421
FDA	-	875	875	-	875
HCFA	33	311,805	311,838	20,892	290,946
HRSA	-	4,127	4,127	354	3,773
IHS	-	2,594	2,594	400	2,194
NIH	298	11,740	12,038	178	11,860
OS	-	446	446	117	329
PSC	150	527	677	244	433
SAMHSA	-	2,074	2,074	8	2,066
Total Public and Intragovernmental Costs	\$ 773	\$368,343	\$369,116	\$ 22,412	\$ 346,704

Supplemental Financial Statements:

Consolidating Balance Sheet by Budget Function

Consolidating Balance Sheet by Operating Division

Consolidating Statement of Net Cost by Budget Function

Public and Intragovernmental Net Costs

**Department of Health and Human Services
Stewardship PP&E
For the Year Ended September 30, 1998**

HHS' sole Stewardship PP&E is maintained by the Indian Health Service (IHS). These assets are categorized as heritage assets, former Federal properties, and Indian Trust Lands. Heritage assets are PP&E that are historically, architecturally, or culturally significant. This category includes buildings on the National Historic Register, cemetery sites, etc.

Former Federal Properties are sites, built with Federal funds, whose ownership has been transferred to State/local governments or Indian tribes through the Indian Self-Determination and Education Assistance Act, P.L. 93-638 105(f)(2), as amended. Public Law (P.L.) 103-413, the Indian Health Care Reform Act of 1994, modified P.L. 93-638, the Indian Self-Determination Act, to allow the Indian Health Service to '...donate to an Indian tribe or tribal organization title to any personal or real property...' section 105 (f) (2). Under this authority, the final regulations governing these transfers were developed and published on June 24, 1996, as 25 CFR Part 900.

Indian Trust lands are those lands that do not meet the definition of Stewardship land (i.e., land other than those acquired for or used in connection with general (capitalized) PP&E), but have always been held by IHS as separate and distinct, because of the Government's long-term trust responsibility. All 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.

Asset Description	Number Of Sites	Total Square Footage	Federal Acreage	Total Acreage
Heritage Assets	3	3,429	5.32	5.32
Former Federal Properties	1	142,850		
Indian Trust Lands	81		433.80	433.80
Totals	85	146,279	439.12	439.12

Distribution of Stewardship Assets by Type and Area

	Heritage Assets			Former Federal Properties		Indian Trust Land	
	<u>Number of Sites</u>	<u>Square Footage</u>	<u>Total Acreage</u>	<u>Number Of Sites</u>	<u>Square Footage</u>	<u>Number of Sites</u>	<u>Total Acreage</u>
Aberdeen						9	74.7
Alaska	2	1,134	5.32				
Albuquerque						4	3.6
Bemidji						2	9.4
Billings						7	48.0
Navajo						32	220.7
Oklahoma City				1	142,850	2	9.9
Phoenix	1	2,295				15	54.0
Portland						5	1.5
Tucson						5	12.0
Total	<u>3</u>	<u>3,429</u>	<u>5.32</u>	<u>1</u>	<u>142,850</u>	<u>81</u>	<u>433.8</u>

Department of Health and Human Services
Stewardship Investments
Investment in Research and Development
For the Year Ended September 30, 1998
(Dollars in Millions)

	Total	Basic	Applied	Development
Administration for Children & Families	12.73	0.00	12.73	0.00
	100.0%	0.0%	100.0%	0.0%
Administration on Aging	0.03	0.00	0.03	0.00
	100.0%	0.0%	100.0%	0.0%
Agency for Health Care Policy & Research	139.51	0.00	139.51	0.00
	100.0%	0.0%	100.0%	0.0%
Centers for Disease Control & Prevention	0.40	0.00	0.40	0.00
	100.0%	0.0%	100.0%	0.0%
Food & Drug Administration	53.36	0.00	41.39	11.97
	100.0%	0.0%	100.0%	0.0%
Health Resources & Services Administration	43.99	3.53	40.46	0.00
	100.0%	8.0%	92.0%	0.0%
National Institutes of Health	11,037.92	6,308.71	3,366.57	1,362.64
	100.0%	57.2%	30.5%	12.3%
Office of the Secretary	14.40	0.00	12.01	2.39
	100.0%	0.0%	83.4%	16.6%
Substance Abuse & Mental Health Svcs Admin	1.54	0.00	0.00	1.54
	100.0%	0.0%	0.0%	100.0%
Department of Health & Human Services, total	11,303.88	6,312.24	3,613.10	1,378.54
	100.0%	53.7%	34.2%	12.1%

**Department of Health and Human Services
Stewardship Investments
Investment in Human Capital
For the Year Ended September 30, 1998**

By definition, "Investments in Human Capital" refers to those 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: ACF and NIH.

Administration for Children and Families (ACF)

ACF is unable to provide baseline data for two of its programs for FY 1998. Under both the Temporary Assistance for Needy Families (TANF) program and the Office of Refugee Resettlement (ORR), States have flexibility in how they spend their money. Under TANF, States are authorized in part to spend money on training and education that prepares people for work, as well as transitional services for training on-the-job. ORR grants are used by States to provide employment-related and social services to refugees. Under both TANF and ORR programs, each State decides how much it will spend on these and other activities. Since there is nothing in statute or regulation requiring States to report discretely how much they spend on training and education, ACF is unable to provide detailed information on these two programs at this time.

In contrast, the Administration on Developmental Disabilities (ADD) program within ACF 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 non-profit institutions to enhance the independence, productivity, integration, and inclusion of people with developmental disabilities into the community. Monies also support the development of national and state policy to serve this community. For FY 1998, grants awarded totaled \$1.04 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. In FY 1998, the NIH funded 15,336 full-time training positions. 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. During FY 1998, the net NIH Investment in Human Capital was \$660.47 million.

Required Supplementary Information:

**Condensed Balance Sheet – Franchise and Intra-governmental
Support Revolving Funds**

**Condensed Statement of Net Cost – Franchise and
Intra-Governmental Support Revolving Funds**

Department of Health and Human Services
Condensed Balance Sheet - Franchise and Intragovernmental Support Revolving Funds
For the year ended September 30, 1998
(dollars in thousands)

	NIH Service & Supply Fund	HRSA FOH	HHS Service & Supply Fund	FDA Certification Fund	Combined Total
Assets					
Fund Balance with Treasury	\$ (4,006)	\$ 13,593	\$ (16,177)	\$ 6,673	\$ 83
Accounts Receivable, Net	8,160	17,088	76,723	-	101,971
Property, Plant & Equipment, Net	9,973	-	2,466	560	12,999
Other Assets	<u>13,198</u>	<u>-</u>	<u>34,785</u>	<u>-</u>	<u>47,983</u>
Total Assets	<u>\$ 27,325</u>	<u>\$ 30,681</u>	<u>\$ 97,797</u>	<u>\$ 7,233</u>	<u>\$ 163,036</u>
Liabilities					
Accounts Payable	\$ 25,270	\$ 10,089	\$ 39,242	\$ 23	\$ 74,624
Deferred Revenue	10,824	-	-	-	10,824
Other Liabilities	<u>549</u>	<u>2,519</u>	<u>11,633</u>	<u>1,286</u>	<u>15,987</u>
Total Liabilities	<u>36,643</u>	<u>12,608</u>	<u>50,875</u>	<u>1,309</u>	<u>101,435</u>
Net Position					
Cumulative Results of Operations	<u>(9,318)</u>	<u>18,073</u>	<u>46,922</u>	<u>5,924</u>	<u>61,601</u>
Total Net Position	<u>(9,318)</u>	<u>18,073</u>	<u>46,922</u>	<u>5,924</u>	<u>61,601</u>
Total Liabilities & Net Position	<u>\$ 27,325</u>	<u>\$ 30,681</u>	<u>\$ 97,797</u>	<u>\$ 7,233</u>	<u>\$ 163,036</u>

Department of Health and Human Services
Condensed Statement of Net Cost - Franchise and Intragovernmental Support Revolving Funds
For the year ended September 30, 1998
(dollars in thousands)

Program/Product Lines	Intragovernmental	With the Public	Gross Cost	Less: Earned Revenue	Net Cost
NIH Service & Supply Fund					
Administrative Services	\$ 142,431		\$ 142,431	\$ 143,255	\$ 824
Information Technology	75,400	-	75,400	77,642	2,242
Instrumentation Services	10,203	-	10,203	9,250	(953)
Animal Services	<u>20,253</u>	<u>-</u>	<u>20,253</u>	<u>19,771</u>	<u>(482)</u>
Total	<u>\$ 248,287</u>	<u>\$ -</u>	<u>\$ 248,287</u>	<u>\$ 249,918</u>	<u>\$ 1,631</u>
HRSA FOH					
Clinical Occupational Health	\$ 3,867	\$ 31,380	\$ 35,247	\$ 35,397	\$ 150
Environmental Health	1,259	10,217	11,476	11,524	48
Employee Assistance	<u>3,867</u>	<u>31,380</u>	<u>35,247</u>	<u>35,397</u>	<u>150</u>
Total	<u>\$ 8,993</u>	<u>\$ 72,977</u>	<u>\$ 81,970</u>	<u>\$ 82,318</u>	<u>\$ 348</u>
HHS Service & Supply Fund					
Administrative Operations Service	\$ 80,923	\$ 74,291	\$ 155,214	\$ 150,785	\$ (4,429)
Financial Management Service	23,753	21,806	45,559	44,259	(1,300)
Human Resources Service	<u>26,267</u>	<u>24,115</u>	<u>50,382</u>	<u>48,944</u>	<u>(1,438)</u>
Total	<u>\$ 130,943</u>	<u>\$ 120,212</u>	<u>\$ 251,155</u>	<u>\$ 243,988</u>	<u>\$ (7,167)</u>
FDA Certification Fund					
Foods	\$ 2,738	\$ 238	\$ 2,976	\$ 4,265	\$ (1,289)
Human Drugs	<u>372</u>	<u>32</u>	<u>404</u>	<u>121</u>	<u>283</u>
Total	<u>\$ 3,110</u>	<u>\$ 270</u>	<u>\$ 3,380</u>	<u>\$ 4,386</u>	<u>\$ (1,006)</u>