Section III - Financial Statements, Notes, Supplemental and Other Accompanying Information

U.S. Department of Health and Human Services
CONSOLIDATED BALANCE SHEET
As of September 30, 2003 and 2002
(in millions)

	2003	Restated 2002
Assets (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$86,289	$84,774
Investments, Net (Note 5)	282,350	273,867
Accounts Receivable, Net (Note 6)	899	846
Anticipated Congressional Appropriations (Note 7)	11,830	10,399
Other (Note 11)	350	149
Total Intragovernmental	$ 381,718	$ 370,035
Accounts Receivable, Net (Note 6)	2,817	4,146
Loans Receivable and Foreclosed Property, Net (Note 8)	387	370
Cash and Other Monetary Assets (Note 4)	843	375
Inventory and Related Property, Net (Note 9)	93	165
General Property, Plant & Equipment, Net (Note 10)	3,249	2,847
Other (Note 11)	85	59
Total Assets	**$ 389,192**	**$ 377,997**
Liabilities (Note 12)		
Intragovernmental		
Accounts Payable	$271	$274
Accrued Payroll and Benefits	70	76
Other (Note 17)	594	1,013
Total Intragovernmental	$ 935	$ 1,363
Accounts Payable	888	845
Entitlement Benefits Due and Payable (Note 13)	48,123	44,576
Environmental and Disposal Costs (Note 15)	39	38
Accrued Grant Liability (Note 16)	3,752	3,502
Loan Guarantees Liability (Note 8)	362	276
Federal Employee & Veterans Benefits (Note 14)	6,903	8,174
Accrued Payroll & Benefits	718	792
Other (Note 17)	1,339	889
Total Liabilities	**$ 63,059**	**$ 60,455**
Net Position		
Unexpended Appropriations	75,385	73,703
Cumulative Results of Operations	250,748	243,839
Total Net Position	**$ 326,133**	**$ 317,542**
Total Liabilities & Net Position	**$ 389,192**	**$ 377,997**

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

U.S. Department of Health and Human Services
CONSOLIDATED STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

	2003	Restated 2002
Responsibility Segments		
Administration for Children & Family (ACF)	$47,593	$45,936
Administration on Aging (AoA)	1,315	1,102
Agency for Healthcare Research & Quality (AHRQ)	311	271
Centers for Disease Control & Prevention (CDC)	5,406	4,533
Centers for Medicare & Medicaid Services (CMS)	416,009	384,879
Food & Drug Administration (FDA)	1,361	1,239
Health Resources & Services Administration (HRSA)	6,648	5,750
Indian Health Service (IHS)	3,048	2,873
National Institutes of Health (NIH)	22,723	20,230
Office of the Secretary (OS)	2,166	1,327
Program Support Center (PSC)	553	1,122
Substance Abuse & Mental Health Services Administration (SAMHSA)	3,029	2,880
Net Cost of Operations	**$510,162**	**$472,142**

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

U.S. Department of Health and Human Services
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

	2003		Restated 2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$243,839	$73,703	$220,492	$70,051
Prior period adjustments (+/-) (Note 20)	381	(1)	(47)	(67)
Unreconciled Transactions Affecting Change in Net Position	(14)	-	11	-
Beginning balances, as adjusted	$244,206	$73,702	$220,456	$69,984
Budgetary Financing Sources:				
Appropriations received	-	359,031	-	340,646
Appropriations transferred-in/out (+/-)	-	(720)	-	(282)
Other adjustments (rescissions, etc) (+/-)	310	(8,196)	121	(11,218)
Appropriations used	348,432	(348,432)	325,427	(325,427)
Nonexchange revenue	167,616	-	170,231	-
Donations and forfeitures of cash and cash equivalents	47	-	47	-
Transfers-in/out without reimbursement (+/-)	(746)	-	(884)	-
Other budgetary financing sources (+/-)	(2)	-	223	-
Other Financing Sources:				
Donations and forfeitures of property	-	-	1	-
Transfers-in/out without reimbursement (+/-)	698	-	(25)	-
Imputed financing from costs absorbed by others	339	-	363	-
Other (+/-)	10	-	21	-
Total Financing Sources	$516,704	$1,683	$495,525	$3,719
Net Cost of Operations (+/-)	510,162	-	472,142	-
Ending Balances	**$250,748**	**$75,385**	**$243,839**	**$73,703**

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

U.S. Department of Health and Human Services
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

	2003		Restated 2002	
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:				
Budget Authority				
Appropriations Received	$645,547	$-	$626,513	$-
Borrowing authority	-	-	-	-
Contract authority	-	-	-	-
Net transfers (+/-)	(692)	-	149	-
Other	4	(1)	(5)	-
Unobligated Balances – Beginning of Period				
Beginning of Period	10,549	354	7,450	330
Net transfers, actual (+/-)	(5)	-	-	-
Anticipated Transfers balances (+/-)	-	-	-	-
Spending Authority from Offsetting Collections				
Earned				
Collected	4,959	147	4,016	52
Receivable from Federal sources	(131)	23	59	-
Change in unfilled customer orders				
Advance received	(126)	-	374	-
Without advance from Federal sources	876	-	217	-
Anticipated for rest of year, without advances	-	-	-	-
Transfers from trust funds	2,645	-	2,388	-
Subtotal	$8,223	$170	$7,054	$52
Recoveries of prior year obligations				
Actual	7,676	-	7,562	-
Anticipated	-	-	-	-
Temporarily not available pursuant to Public Law	(7,944)	-	(28,350)	-
Permanently not available (-)	(9,474)	-	(7,385)	-
Total Budgetary Resources	**$653,884**	**$523**	**$612,988**	**$382**
Status of Budgetary Resources:				
Obligations Incurred (Note 24)				
Direct	$641,021	$242	$598,642	$28
Reimbursable	5,154	-	3,924	-
Subtotal	$646,175	$242	$602,566	$28
Unobligated Balances - Available				
Apportioned	2,498	281	5,235	-
Exempt from apportionment	85	-	150	354
Other available	-	-	-	-
Unobligated Balances - Not Available	5,126	-	5,037	-
Total Status of Budgetary Resources	**$653,884**	**$523**	**$612,988**	**$382**
Relationship of Obligations to Outlays:				
Obligated Balance, Net – Beginning of Period	$76,406	$-	$72,131	$-
Obligated Balance Transferred, Net (+/-)	-	-	-	-
Obligated Balance, Net – End of Period				
Accounts receivable (-)	(1,430)	(23)	(1,539)	-
Unfilled customer orders from Federal sources (-)	(1,480)	-	(607)	-
Undelivered orders	71,636	-	69,404	-
Accounts payable	13,143	-	9,148	-
Outlays				
Disbursements	632,250	242	590,075	28
Collections (-)	(7,437)	(147)	(6,400)	(52)
Subtotal	$624,813	$95	$583,675	$(24)
Less: Offsetting receipts	28,443	-	25,965	-
Net Outlays	**$596,370**	**$95**	**$557,710**	**$(24)**

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

U.S. Department of Health and Human Services
CONSOLIDATED STATEMENT OF FINANCING
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

	2003	Restated 2002
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated		
Obligations Incurred	$646,417	$602,593
Less: Spending Authority from Offsetting Collections and Recoveries	16,069	14,669
Obligations Net of Offsetting Collections and Recoveries	$630,348	$587,924
Less: Offsetting Receipts	28,443	25,965
Net Obligations	$601,905	$561,959
Non-Budgetary Resources		
Donations and Forfeitures of Property	$-	$1
Non-Budgetary Transfers in/out Without Reimbursement	698	(25)
Imputed Financing From Costs Absorbed by Others	339	363
Other Non-Budgetary Resources	10	21
Net Non-Budgetary Resources Used to Finance Activities	$1,047	$360
Total Resources Used to Finance Activities	**$602,952**	**$562,319**
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	$1,625	$4,198
Resources That Fund Expenses Recognized in Prior Periods	39,543	39,200
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections That Increase Liabilities for Loans Guarantees or Allowances for Subsidy	(26)	(49)
Other	(189)	(541)
Resources That Finance the Acquisition of Assets or Liquidations of Liabilities	509	492
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	93,939	87,161
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$135,401	$130,461
Total Resources Used to Finance the Net Cost of Operations	**$467,551**	**$431,858**
COMPONENTS OF NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$34	$18
Increase in Environmental and Disposal Liability	(1)	(20)
Upward/downward Reestimates of Credit Subsidy Expense	(84)	-
Increase in Exchange Revenue Receivable from the Public	1,252	705
Other	2,493	700
Accrued Entitlement Benefit Costs (CMS only)	39,326	39,526
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$43,020	$40,929
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$77	$61
Losses or (Gains) from Revaluation of Assets and Liabilities	4	(1)
Other	(490)	(705)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$(409)	$(645)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	42,611	40,284
NET COST OF OPERATIONS	**$510,162**	**$472,142**

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

U.S. Department of Health and Human Services
Notes to the Principal Financial Statements
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

Note 1. Summary of Significant Accounting Policies

Reporting Entity
The Department of Health and Human Services (HHS) is a cabinet-level agency of the executive branch of the federal government. Its predecessor, the Department of Health, Education and Welfare (HEW) officially came into existence on April 11, 1953. In 1979, the Department of Education Organization Act was signed into law, providing for a separate Department of Education. HEW officially became the Department of Health and Human Services, on May 4, 1980.

Organization and Structure of HHS
As of September 30, 2003, the Department was comprised of eleven Operating Divisions (OPDIVs) with diverse missions and programs. Each OPDIV is considered a responsibility segment for purposes of preparing the HHS-wide Statement of Net Cost. A responsibility segment is a component of a reporting entity that is responsible for carrying out a mission, conducting a major line of activity, or producing one or a group of related products or services. The managers of the responsibility segments report to the entity's top management directly and their resources and results of operations can be clearly distinguished from those of other responsibility segments of the entity. In FY 2003 there was a change in the number of OPDIVs from twelve to eleven. The Program Support Center is now under the Office of the Secretary, but due to their business activities offering services to other OPDIVs and federal agencies PSC reports on their activity separately. The twelve responsibility segments are:

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

The Agency for Toxic Substances and Disease Registry is combined with the Centers for Disease Control and Prevention for financial reporting purposes; therefore, these footnotes will refer to them as one OPDIV.

Homeland Security Act of 2002
This Act created changes to the structure of HHS. The Office of Emergency Preparedness and some smaller programs were transferred to the Department of Homeland Security (DHS) as of March 1, 2003. Budget authority of $567 million was transferred to DHS. OS transferred Stockpile Materials held for emergencies to the DHS in the amount of $648 million. One program was transferred to HHS's ACF from the Immigration and Naturalization Service. This program, the Unaccompanied Alien Children Program, transferred in $20.1 million.

Basis of Accounting and Presentation
The financial statements have been prepared to report the financial position and results of operations of HHS, pursuant to the requirements of 31 U.S.C. 351 (b), the Chief Financial Officers Act of 1990 (P.L. 101-576), as amended by the Reports Consolidation Act of 2000 (P.L. 106-531). They have been prepared from Departmental records in accordance with the form and content guidance of the Office of Management and Budget (OMB) Bulletin 01-09 and accounting principles generally accepted in the United States (GAAP) for the federal government as prescribed by the Federal Accounting Standards Advisory Board (FASAB) and recognized by the American Institute of Certified Public Accountants (AICPA) as Federal GAAP. 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 appropriations and fund accounts, and a number of accounts used for suspense, collection of receipts and general government functions. The effects of intra-entity transactions are eliminated in the presentation of the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position and the Consolidated Statement of Financing. The Statement of Budgetary Resources is presented on a combined basis. Supplemental information is accumulated from the OPDIV reports, regulatory reports and other sources within HHS.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. CMS uses the cash basis of accounting in the Medicare program to record benefit payments disbursed during the fiscal year, supplemented by the accrual method to estimate the value of benefit payments incurred but not yet paid as of the fiscal year-end. A number of other OPDIVs also use the cash basis of accounting for some programs with an accrual adjustment made by recording year-end estimates of unpaid liabilities.

Entity and Non-Entity Assets
Entity assets are assets that the reporting entity has authority to use in its operations. The authority to use funds in an entity's operations means entity management has the authority to decide how funds are used, or management is legally obligated to use funds to meet entity obligations.

Non-entity assets are held by the entity but are not available to the entity. An example of non-entity assets is Child Support Enforcement collections. ACF collects funds for the U.S. Government but does not have the authority to spend these funds.

The HHS financial statements do not report entity and non-entity assets separately on the face of the statement, but instead present entity/non-entity detail in Note 2, Non-Entity Assets.

Fund Balance with Treasury
The Department maintains its available funds with the U.S. Department of the Treasury (Treasury) except for imprest fund accounts. "Fund Balance with Treasury" includes appropriated, revolving and trust funds available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by Treasury, and HHS's records are reconciled with those of Treasury on a regular basis.

Note 3 provides additional information.

Investments
Trust fund balances are investments (plus the accrued interest on investments) held by Treasury. Federal law requires that trust fund investments that are not necessary to meet current expenditures be invested in "interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States." These investments are carried at face value as determined by Treasury. Interest income is compounded semiannually.

Note 5 provides additional information on Investments.

Accounts Receivable, Net
Accounts Receivable consists of amounts owed to HHS by other federal agencies and by the public. Intragovernmental accounts receivable arise generally from the provision of goods and services to other federal agencies and are considered to be fully collectible. Amounts due from the public are presented net of an allowance for doubtful accounts. The allowance for loss is established based on past collection experience and/or an analysis of the outstanding balances. Accounts receivable also includes interest due to HHS that is directly attributable to delinquent accounts receivable.

Note 6 provides additional information on Accounts Receivable.

Loans Receivable
Loans are accounted for as receivables after funds are disbursed. In accordance with the Credit Reform Act of 1990, loans obligated prior to October 1, 1991, the 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, an allowance equal to the present value of the subsidy costs reduces the amount of gross loans receivable. Loans receivable also include interest due to HHS for direct loans and/or defaulted loan guarantees.

Note 8 provides additional information on Loans.

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

Programs Not Subject to the Expense Accrual: These programs are formula grants (also referred to as "block grants") under which states provide a variety of services or payments to individuals and local agencies. Expenses are recorded as the grantees draw funds. These programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

Programs Subject to the Expense Accrual: For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in HHS's accounting systems) as bills or salary payments come due. The grantees report actual disbursements quarterly and the amounts are recorded as an expense and a reduction to the advance balance in the accounting systems. At year-end, the OPDIVs use actual grant payments when this data is available. When the data is not available, HHS employs a process to estimate the year-end grant accrual based on historical spending patterns to predict unreported grantee expenditures. The year-end accrual for these non-block grants equals the estimate of fourth quarter disbursements, plus an average of two weeks annual expenditures for expenses incurred prior to cash drawdowns. (Refer to Note 16 "Accrued Grant Liability.")

Although the Temporary Assistance for Needy Families program and the Child Care Development Fund Program are referred to as block grants, they are treated as non-block grants for purposes of the expense accrual, since they do report their expenditures back to HHS unlike other block grant programs. Grant expenses should not equal cash draws. Grantees can only draw for immediate cash needs, thus, if payment (e.g. salaries paid every 2 weeks) is due 5 days from now, they cannot be drawn down until cash is expected to be disbursed.

HHS reports advances other than grant advances in Note 11 "Other Assets."

Inventory and Related Property
Inventory and Related Property includes Inventory Held for Sale, Operating Materials and Supplies and Stockpile Materials. Inventory Held for Sale consists of small equipment and supplies held by PSC and NIH Service and Supply Funds for sale to HHS components and other federal entities. Operating Materials and Supplies consists of pharmaceuticals and other medical supplies used in providing medical services and conducting medical research.

All inventories are recorded as assets when purchased and are expensed when they are consumed or sold. Inventories are recorded at either: (1) historical cost (or a method which reasonably approximates historical cost), or (2) the lower of cost (using a weighted-average cost method) or market.

Note 9 provides additional information on Inventory.

General Property, Plant and Equipment, net
General Property, Plant and Equipment (PP&E) consists of buildings, structures and facilities used for general operations; land acquired for general operating purposes; vehicles and equipment; and construction-in-progress. Other property consists of internal use software. The basis for recording purchased PP&E is full cost, which includes all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. All PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two (2) years or greater are capitalized**.**

PP&E are depreciated using the straight-line method over the estimated useful life of the asset. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

The capitalization threshold for internal use software costs for appropriated fund accounts is $1,000,000 or above. The internal use software capitalization threshold for revolving funds is $500,000. Costs below the threshold levels are expensed. The software is depreciated for a period of time consistent with the estimated useful life used for planning and acquisition purposes.

Note 10 provides additional information on general purpose property, plant and equipment.

Liabilities
Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since HHS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity. In accordance with Public Law and existing federal accounting standards, no liability is

recognized for future payments to be made on behalf of current workers contributing to the Medicare Hospital Insurance Trust Fund, since future Medicare benefits are not tied to prior Medicare contributions.

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

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

Liabilities Covered by Budgetary Resources and Liabilities Not Covered by Budgetary Resources are combined on the balance sheet. The breakout of these resources is presented in Note 12 "Liabilities Not Covered by Budgetary Resources", Note 13 "Entitlement Benefits Due and Payable", Note 14 "Federal Employee and Veterans' Benefits", Note 15 "Environmental and Disposal Costs" and Note 17 "Other Liabilities".

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

Accrued Payroll and Benefits
Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave, since from a budgetary standpoint this annual leave will be paid from future appropriations when the leave is used by employees. Rather than from amounts which had been appropriated to HHS as of the date of the financial statements. The amount accrued is based upon current pay of the employees. Sick leave and other types of leave are expensed when used and no future liability is recognized for these amounts.

Entitlement Benefits Due and Payable
Entitlement Benefits Due and Payable represent benefits due and payable to the public from entitlement programs enacted by law. For HHS, this includes benefit payments due from CMS's Medicare and Medicaid programs for the costs of medical services incurred but not paid as of September 30. The Medicare estimate is developed by the Office of the Actuary (OACT) and is based on historical trends of completeness that take into consideration estimated deductible and coinsurance amounts. The estimate represents (1) claims incurred that may or may not have been submitted to the Medicare contractors and were not yet approved for payment, (2) claims that have been approved for payment by the Medicare contractors for which checks have not yet

been issued, (3) checks that have been issued by the Medicare contractors in payment of a claim and that have not yet been cashed by payees, (4) periodic interim payments, and (5) retroactive settlements of cost reports.

The Medicaid estimate represents the net of unreported expenses incurred by the States less amounts owed to the States for overpayment of Medicaid funds to providers, anticipated rebates from drug manufacturers, and settlements of probate and fraud and abuse cases. The FY 2003 estimate was developed based on historical relationships between prior Medicaid net payables and current Medicaid activity. The FY 2002 estimate is based on information provided by the States.

Note 13 provides additional information on Entitlement Benefits Due and Payable.

Federal Employee and Veterans' Benefits

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

Most HHS employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, each OPDIV makes matching contributions equal to 7 percent of basic pay. For FERS employees, the DHHS 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 U.S. Office of Personnel Management (OPM) reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

The lone exception to this policy is the Public Health Service (PHS) Commissioned Corps Retirement System. This HHS-administered system is discussed in Note 14 "Federal Employee and Veterans' Benefits."

Note 14 provides additional information on Federal Employee and Veterans' Benefits.

Revenue and Financing Sources

The United States Constitution prescribes that no money may be expended by a federal agency unless and until funds have been made available by congressional appropriation. Thus, the existence of all financing sources is dependent upon congressional appropriation.

Appropriations. The vast majority of the Department's operating funds are appropriated by the Congress to the Department from the general receipts of the Treasury. These funds are made available to HHS for a specified time period, one fiscal year, multiple fiscal years, or indefinitely, depending upon the intended use of the funds. For example, funds for general operations are generally made available for one fiscal year; funds for long-term projects such as major construction will be available to the Department for the expected life of the project; and funds used to establish revolving fund operations are generally available indefinitely (i.e., no year funds). The Statement of Budgetary Resources presents information about the resources appropriated to the Department.

Exchange and Non-Exchange Revenue. HHS classifies revenues as either exchange revenue or non-exchange revenue. Exchange revenues are those that derive from transactions in which both the government and the other party receive value, including reimbursements for services performed for other federal agencies and the public and other sales of goods and services. These revenues are presented on the HHS Consolidated Statement of Net Cost and reduce the cost of operations borne by the taxpayer. Non-exchange revenues result from donations to the government and from the government's sovereign right to demand payment, including taxes. Non-exchange revenues are not considered to reduce the cost of the Department's operations and are reported on the Consolidated Statement of Changes in Net Position.

With minor exceptions, all receipts of revenues by federal agencies are processed through Treasury's central accounting system. Regardless of whether they derive from exchange or non-exchange transactions, all receipts that are not earmarked by congressional appropriation for immediate departmental use are deposited in the general or special funds of the Treasury. Amounts not retained for use by the Department are reported as transfers to other government agencies on the HHS Statement of Changes in Net Position.

In certain cases, the prices charged by HHS are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through working capital funds are intended to recover the full costs incurred by these activities.

Imputed Financing Sources. In certain instances, operating costs of HHS are paid out of funds appropriated to other federal agencies. For example, by law the Office of Personnel Management pays certain costs of retirement programs, and certain legal judgments against HHS are paid from the Judgment Fund maintained by Treasury. When costs that are identifiable to HHS and directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts as operating expenses of HHS. In addition, HHS recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of Department operations by other federal agencies.

Other Financing Sources. Medicare's Hospital Insurance program, or Medicare Part A, is financed through the Hospital Insurance Trust Fund, whose revenues come primarily through the Medicare portion of payroll and self-employment taxes collected under the Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act (SECA). The Medicare payroll

tax rate is 2.9 percent of annual wages. Employees and employers are each required to contribute 1.45 percent of employees' wages, with no limitation, to the Hospital Insurance Trust Fund. Self-employed individuals pay the full 2.9 percent themselves.

Medicare's Supplemental Medical Insurance program, 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.

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

Note 24 provides additional information on Contingencies.

Use of Estimates in Preparing Financial Statements
Preparation of financial statements in accordance with federal accounting standards requires HHS to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities, as of the date of the financial statements.
Estimates and assumptions also affect the revenues and expenses accrued and reported in the financial statements. Actual results may differ from those estimates.

Reclassifications
Certain reclassifications were made to the presentation of the FY 2002 financial statements to improve their comparability with FY 2003 statements. In particular, the reclassification of a $1,957 million reappropriation in the contingency fund in the Administration for Children and Families contributed to the restatement of the FY 2002 Statements of Budgetary Resources and Changes in Net Position.

Reconciliation of FACTS II to the Statement of Budgetary Resources
Management recognizes that the FACTS II submission of budgetary data does not agree with the Statement of Budgetary Resources as presented in the audited financial statements. There are many known recurring differences that contribute to this condition that are properly reported on the Statement of Budgetary Resources and are appropriately not included in the FACTS II submission. Some of these reconciling items include: accounts payable adjustments, estimated grantee expenditure reports (SF 272s) not yet received for the 4th quarter, estimated grantee

expenses incurred but not reported, and certain intra departmental transactions (Intra Departmental Delegations of Authority – IDDAs).

Intragovernmental Relationships and Transactions
In the course of its operations, HHS has relationships and financial transactions with numerous federal agencies. The more prominent of these are 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's financial statements and the corresponding liabilities on the Treasury's financial statements would be eliminated.

Medicare Hospital Insurance (HI) Trust Fund
Medicare contractors are paid by CMS to process Medicare claims for hospital inpatient services, hospice, and certain skilled nursing and home health services. Benefit payments made by the Medicare contractors for these services, as well as administrative costs, are charged to the HI trust fund. The CMS payments to managed care plans are also charged to this fund. The financial statements include HI trust fund activities administered by the Department of the Treasury (Treasury). This trust fund has permanent indefinite authority.

Medicare Supplementary Medical Insurance (SMI) Trust Fund
Medicare contractors are paid by CMS to process Medicare claims for physicians, medical suppliers, hospital outpatient services and rehabilitation, end stage renal disease (ESRD), rural health clinics, and certain skilled nursing and home health services. Benefit payments made by the Medicare contractors for these services, as well as administrative costs, are charged to the SMI trust fund. The CMS payments to managed care plans are also charged to this fund. The financial statements include SMI trust fund activities administered by Treasury. This trust fund has permanent indefinite authority.

Medicare Integrity Program (MIP)
The Health Insurance Portability and Accountability Act, Public Law 104-191, established the MIP and codified the program integrity activities previously known as "payment safeguards." This account is also called the Health Care Fraud and Abuse Control (HCFAC) Program, or simply "Fraud and Abuse." The CMS contracts with eligible entities to perform such activities as medical and utilization reviews, fraud reviews, cost report audits, and the education of providers and beneficiaries with respect to payment integrity and benefit quality assurance issues. The MIP is funded by the HI trust fund.

(in millions)

Note 2. Non-Entity Assets

	2003	Restated 2002
Intragovernmental:		
Fund balance with Treasury	$ 5	$ 5
Accounts receivable	-	3
Other	-	-
Total Intragovernmental	$ 5	$ 8
Accounts receivable	$ 90	$ 428
Cash and other monetary assets	-	-
Other	-	-
Total non-entity assets	$ 95	$ 436
Total entity assets	389,097	377,561
Total Assets	$ 389,192	$ 377,997

Note 3. Fund Balance with Treasury

HHS's undisbursed account balances at September 30, 2003 and 2002 are listed below by fund type. Other Funds include balances in deposit, suspense, clearing and related non-spending accounts.

Fund Balance with Treasury:	2003	Restated 2002
Trust Funds	$ (162)	$ 3,201
Revolving Funds	761	803
Appropriated Funds	85,151	80,208
Other Funds	539	562
Total	$ 86,289	$ 84,774

Status of Fund Balance with Treasury	2003	Restated 2002
Unobligated Balance		
Available	$ 2,773	$ 5,642
Unavailable	2,336	3,338
Obligated Balance not yet Disbursed	81,180	75,794
Total	$ 86,289	$ 84,774

CMS provides daily estimates for the benefit payments in the trust funds. At the end of the month the draws made from the trust fund are based on estimated benefit payments. When actual benefit payments for the month are higher than the estimate, a negative balance occurs. The adjustments to bring the estimate to match actuals are done in the following month. The estimate was too low at September 30 for both the HI and SMI trust funds this year. In past years, CMS has had a negative balance in one trust fund and a positive in the other trust fund, but this year both have negative balances, hence creating a negative balance in the trust fund for the department.

(in millions)

Note 4. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist primarily of the amount of time account balances at the Medicare contractors' commercial banks. CMS uses the Checks Paid Letter-of-Credit method for reimbursing Medicare contractors for the payment of covered Medicare services. Medicare contractors issue checks against a Medicare Benefits account maintained at commercial banks. In order to compensate commercial banks for handling the Medicare Benefits accounts, Medicare funds are deposited into non-interest bearing time accounts. The interest foregone by the federal government on these time accounts is used to reimburse the commercial banks. The account balance in FY 2003 was $ 843 million and in FY 2002 the balance was $375 million.

Note 5. Investments, net

HHS invests trust fund cash in excess of current needs in U.S. Treasury securities. The U.S. Treasury Department is HHS's agent and advisor for investing. The majority of HHS's investments in securities are held to maturity and no provision is made for unrealized gains or losses. They are purchased and reported at amortized cost on a straight-line basis, but redeemed at face value. Since these investments are expected to be held to maturity, no provision for unrealized gain or loss on these securities is made. All investments are considered entity assets.

As of September 30, 2003

	Cost	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	$ 20	$ -	$ 20	$ -	$ 20
Non-Marketable: Par Value	276,244	-	276,244	-	276,244
Non-Marketable: Market-based	1,989	31	2,020	-	2,020
Subtotal	$ 278,253	$ 31	$ 278,284	$ -	$ 278,284
Accrued Interest	4,066	-	4,066	-	4,066
Total, Intragovernmental	$ 282,319	$ 31	$ 282,350	$ -	$ 282,350

As of September 30, 2002

	Cost	Unamortized (Premium) Discount	Investments, Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	$ 27	$ -	$ 27	$ -	$ 27
Non-Marketable: Par Value	267,711	-	267,711	-	267,711
Non-Marketable: Market-based	1,853	44	1,897	-	1,897
Subtotal	$ 269,591	$ 44	$ 269,635	-	$ 269,635
Accrued Interest	4,232	-	4,232	-	4,232
Total, Intragovernmental	$ 273,823	$44	$ 273,867	$ -	$ 273,867

CMS invests in U.S. Treasury Special Issues that are special public obligations for exclusive purchase by the Medicare trust funds. Special issues are always purchased and redeemed at face value. Certificates are short term and pay 4 ½ percent (4 3/8 FY 2002). The bond interest rates range from 3 ½ percent to 8 ¾ percent (5 ¼ to 8 ¾ FY 2002). The accrued interest receivable as of September 30, 2003 and 2002 was $ 4,066 million and $ 4,232 million, respectively.

(in millions)

HRSA's Vaccine Injury Compensation Trust Fund (VICP) and Ricky Ray Hemophelia Relief funds are invested in market-based (MK) special securities and One-Day Certificates. These non-marketable MK securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. Currently, securities held by the VICP will mature in fiscal years 2004, 2005, 2006, and 2008.

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

Note 6. Accounts Receivable, net

HHS's accounts receivable as of September 30, 2003 and 2002 are summarized below.

As of September 30, 2003

	Accounts Receivable Principal	Interest Receivable	Accounts Receivable, Gross	Allowance	Net OPDIV Receivables Combined	Intra-OPDIV Eliminations	Net OPDIV Receivables Consolidated	Inter-OPDIV Eliminations	Net HHS Receivables Consol.
Intragovernmental									
Entity	$ 7,140	$ -	$ 7,140	$ -	$ 7,140	$ (6,128)	$ 1,012	$ (113)	$ 899
Non-Entity	-	-	-	-	-	-	-	-	-
Total, Intragovernmental	$ 7,140	$ -	$ 7,140	$ -	$ 7,140	$ (6,128)	$ 1,012	$ (113)	$ 899
With the Public									
Entity									
Medicare	$ 5,322	$ -	$ 5,322	$ (3,273)	$ 2,049	$ -	$ 2,049	$ -	$ 2,049
Other	1,343	-	1,343	(665)	678	-	678	-	678
Non-Entity	74	502	576	(486)	90	-	90	-	90
Total, With the Public	$ 6,739	$ 502	$ 7,241	$ (4,424)	$ 2,817	$ -	$ 2,817	$ -	$ 2,817

Restated
As of September 30, 2002

	Accounts Receivable Principal	Interest Receivable	Accounts Receivable, Gross	Allowance	Net OPDIV Receivables Combined	Intra-OPDIV Eliminations	Net OPDIV Receivables Consolidated	Inter-OPDIV Eliminations	Net HHS Receivables Consol.
Intragovernmental									
Entity	$ 2,844	$ -	$ 2,844	$ -	$ 2,844	$ (1,876)	$ 968	$ (125)	$ 843
Non-Entity	3	-	3	-	3	-	3	-	3
Total, Intragovernmental	$ 2,847	$ -	$ 2,847	$ -	$ 2,847	$ (1,876)	$ 971	$ (125)	$ 846
With the Public									
Entity									
Medicare	$ 6,335	$ -	$ 6,335	$ (3,667)	$ 2,668	$ -	$ 2,668	$ -	$ 2,668
Other	1,642	-	1,642	(592)	1,050	-	1,050	-	1,050
Non-Entity	388	630	1,018	(590)	428	-	428	-	428
Total, With the Public	$ 8,365	$ 630	$ 8,995	$ (4,849)	$ 4,146	$ -	$ 4,146	$ -	$ 4,146

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

HHS's 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.

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

Note 7. Anticipated Congressional Appropriation

The CMS has recorded $11,830 million in anticipated Congressional appropriations ($10,399 in FY 2002) to cover liabilities incurred as of September 30 by the Medicaid program and the Payments to the Health Care Trust Funds appropriation, as discussed below:

Medicaid

Beginning in FY 1996, CMS has accrued an expense and liability for Medicaid claims incurred but not reported (IBNR) as of September 30. In FY 2003, the IBNR expense exceeded the available unexpended Medicaid appropriations in the amount of $8,449 million ($10,399 in FY 2002). A review of appropriation language by CMS's Office of General Counsel (OGC) has resulted in a determination that the Medicaid appropriation's indefinite authority provision allows for the entire IBNR amount to be reported as a funded liability.

Payments to the Health Care Trust Funds

The SMI program is financed primarily by the general fund appropriation, Payments to the Health Care Trust Funds, and by monthly premiums paid by beneficiaries. Section 1844 of the Social Security Act authorizes funds to be appropriated from the general fund to match premiums payable and deposited in the Trust Fund . . . Section 1844 also outlines the ratio for the match and the method to make the trust funds whole if insufficient funds are available in the appropriation to match all SMI premiums received in the fiscal year. The appropriated amount is an estimate calculated annually by CMS's Office of the Actuary (OACT) and can be insufficient in any particular fiscal year. In FY 2003, the estimate was insufficient and the matching ceased prior to the close of the fiscal year. Subsequently, OACT has valued the unmatched amount as $3,381 million (which includes $46.4 million in interest). When this occurs, Section 1844 allows for a reimbursement to be made to the SMI Trust Fund from the Payments to the Health Care Trust Funds appropriation enacted for the following year. Consequently, CMS has recorded a $3,381 million anticipated appropriation in FY 2003 for the amount of the unmatched SMI premiums. Although the actual transfer of funds will occur in FY 2004, CMS has reported the $3,381 million as revenues earned in FY 2003.

(in millions)

Note 8. Direct Loans and Loan Guarantee Programs

HRSA operates guaranteed loan programs for the Health Center and Health Education Assistance Loans (HEAL) programs. For HEAL, the administration guarantees payment of principal and interest made by private lenders to medical students (who are enrolled in various approved fields of practice) in the event of default, death or permanent disability. Health Center Program (Post-1991) guarantees the loans to HRSA grantees, made by non-federal lenders.

Total loans guaranteed under these programs, as of September 30, 2003 and 2002 are summarized as follows.

	2003		Restated 2002	
HEAL Loan Guarantees:	No. of Loans	Amount	No. of Loans	Amount
Pre-1992 loans	54,026	$ 436	63,403	$ 483
Post-1991 loans	82,944	1,880	94,238	2,254
Health Centers Loan Guarantees	7	14	6	10
Total	136,977	$ 2,330	157,647	$ 2,747

The receivable amount reported in the Balance Sheet represents defaulted loans, which have been paid to lenders under the guarantee. The lenders are required to perform certain procedures in an effort to collect amounts due prior to submitting the loan for payment under the guarantee. An allowance for loss has been established for estimated uncollectible amounts on the loans. The allowance is based on management's assessment of the future collectibility analysis of these aged loans based on the last date of collection.

HHS's loans receivable at September 30, 2003 and 2002 are summarized below.

September 30, 2003:	Loans, Receivable,	Interest	Loans Receivable,		Loans, Receivable,
Defaulted Guaranteed Loans:	Principal	Receivable	Gross	Allowance	Net
HEAL Loans (HRSA)					
Pre-1992 Loans	$ 490	$ 12	$ 502	$ (203)	$ 299
Post-1991 Loans	112	3	115	(27)	88
Subtotal	$ 602	$ 15	$ 617	$ (230)	$ 387
Other					
Pre-1992 Loans	-	-	-	-	-
Post-1991 Loans	4	-	4	(4)	-
Total	$ 606	$ 15	$ 621	$ (234)	$ 387

(in millions)

September 30, 2002: Defaulted Guaranteed Loans:	Loans, Receivable, Principal	Interest Receivable	Loans Receivable, Gross	Allowance	Loans, Receivable, Net
HEAL Loans (HRSA)					
Pre-1992 Loans	$ 492	$ 12	$ 504	$ (201)	$ 303
Post-1991 Loans	87	2	89	(22)	67
Subtotal	$ 579	$ 14	$ 593	$ (223)	$ 370
Other					
Post-1991 Loans	4	-	4	(4)	-
Total	$ 583	$ 14	$ 597	$ (227)	$ 370

The liability amount reported in the Balance Sheet represents future estimated payouts on defaulted loans under the loan guarantee program. The post-1991 loan guarantee liability is established based on criteria set forth in accordance to the Credit Reform Act of 1990. This Act requires that the present value of cash outflows, associated with the estimated amount to be paid out under loan guarantees for each fiscal year, be calculated to determine the liability. The calculation is performed using a computer model established by OMB, utilizing assumptions made by the HEAL program based on historical data, such as default rates and interest rates. The liability is adjusted and accounted for independently each year based on loans issued annually under the guarantee. The pre-1992 loan guarantee liability for losses is established based upon an average default rate of approximately 3.76 percent in 2003 and 3.95 percent in 2002. The liability is adjusted each year for the change in default rates.

The loan guarantee liability is summarized as follows:

	2003	2002
Loan Guarantee Liabilities:		
HEAL Loans (HRSA)		
Pre-1992 Loans	$ 15	$ 17
Post-1991 Loans	344	256
Subtotal	$ 359	$ 273
Other		
Post-1991 Loans	3	3
Total Loan Guarantee Liabilities	$ 362	$ 276

Loan guarantee subsidy expense:
Loan guarantee subsidy expense is required for new loans or new loan guarantee obligations. The HEAL program's existing borrowers are allowed to refinance loans to achieve better terms of their existing loans. OMB ruled that although the HEAL program does not have authority to make loans to new borrowers, it is completely authorized (see Public Health Service Act, Section 701-709) to refinance existing loans to existing borrowers. This includes extending new loan terms to existing borrowers for up to 25 years.

(in millions)

Loan guarantee subsidy expense for the years ended September 2003 and 2002 is summarized as follows:

	2003	Restated 2002
Loan Defaults (Net of Recoveries)	$ (5)	$ 9
Interest cohort	(23)	(24)
Other write-offs	(138)	(20)
Other	62	(32)
Total current year subsidy	$ (104)	$ (67)
Re-estimates	(68)	-
Total Loan Guarantee Subsidy Expense	$ (172)	$ (67)

Note 9. Inventory and Related Property, Net

HHS's inventory and related property, net at September 30, 2003 and 2002 are summarized below.

	2003	2002
Inventory Held for Sale:		
Inventory Held for Current Sale	$ 33	$ 29
Total Inventory Held for Sale	$ 33	$ 29
Operating Materials and Supplies:		
Operating Materials and Supplies Held for Use	$ 7	$ 10
Operating Materials and Supplies Reserved for Future Use	-	-
Total Operating Materials and Supplies	$ 7	$ 10
Stockpile Materials:		
Stockpile Materials Held for Emergency or Contingency	$ 53	$ 126
Total Stockpile Materials	$ 53	$ 126
Inventory and Related Property, Gross	$ 93	$ 165
Less: Allowance for Loss/Obsolescence/Spoilage	-	-
Inventory and Related Property, Net	$ 93	$ 165

HHS inventories are comprised of inventory held for sale, operating materials and supplies used in general operations, and stockpile materials. Inventories are valued at historical cost, with the exception of the NIH inventory valued at cost.

NIH has an inventory of materials to support their day-to-day activities. The NIH inventory is valued using the moving average cost method.

The PSC, through its Perry Point Supply Services Center, maintains an inventory of pharmaceutical items for sale to HHS components and other federal agencies.

During FY 2003 OS transferred Stockpile Materials held for emergencies to the Department of Homeland Security, a federal agency outside of HHS, in the amount of $648 million.

(in millions)

Note 10. General Property, Plant and Equipment, Net

Major categories of HHS General Property, Plant and Equipment (PP&E) at September 30, 2003 and 2002 are listed below.

			2003			Restated 2002
	Depreciation Method	Estimated Useful Lives	Acquisition Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land & Land Rights			$ 48	$ -	$ 48	$ 48
Construction in Progress			1,025	-	1,025	773
Buildings, Facilities & Other Structures	Straight Line	5-50 Yrs	2,196	(770)	1,426	1,430
Equipment	Straight Line	3-20 Yrs	941	(419)	522	453
Internal Use Software	Straight Line	Various	109	(15)	94	45
Assets Under Capital Lease	Straight Line	Life of Lease	107	(15)	92	98
Leasehold Improvements	Straight Line	*Life of Lease	42	-	42	-
Totals			$ 4,468	$ (1,219)	$3,249	$ 2,847

*7 to 15 years or life of lease.

See Note 1. “Summary of Significant Accounting Policies” for capitalization criteria and thresholds.

Note 11. Other Assets

Other Assets at September 30, 2003 and 2002 are comprised of the following, all of which are considered entity assets.

	2003	Restated 2002
Intragovernmental		
Advances to Other Federal Entities	$ 654	$ 429
Other	23	(3)
OPDIV Combined, Intragovernmental	677	426
Less: Intra-OPDIV Eliminations	(326)	(277)
OPDIV Consolidated, Intragovernmental	351	149
Less: Inter-OPDIV Eliminations	(1)	-
HHS Consolidated, Intragovernmental	$ 350	$ 149
With the Public		
Prepayments and Deferred Charges	$ -	$ 1
Travel Advances & Emergency Employee Salary Advances	6	4
Other	79	54
HHS Consolidated, With the Public	$ 85	$ 59

A major portion of the Other Assets is the advance balance with PMS related activity of $72 million reported by CMS.

(in millions)

Note 12. Liabilities Not Covered by Budgetary Resources

	2003	Restated 2002
Intragovernmental:		
Accounts Payable	$ -	$ -
Accrued Payroll and Benefits	20	16
Other	151	748
Total Intragovernmental	$ 171	$ 764
Entitlement Benefits Due and Payable	$ 39,326	$ 39,526
Environmental and Disposal Costs	37	37
Federal Employees and Veterans' Benefits	6,903	8,174
Accrued Payroll and Benefits	418	370
Other	705	395
Total Liabilities Not Covered by Budgetary Resources	$ 47,560	$ 49,266
Total Liabilities Covered by Budgetary Resources	15,499	11,189
Total Liabilities	$ 63,059	$ 60,455

Note 13. Entitlement Benefits Due and Payable

Entitlement Benefits Due and Payable represents benefits due and payable to the public at year-end from entitlement programs enacted by law. In HHS the largest entitlement programs are the CMS managed Medicare and Medicaid programs which comprise all of HHS entitlement benefits due and payable.

Entitlement Benefits Due and Payable at September 30, 2003 and 2002 are summarized below.

	2003			Restated 2002		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Medicare	$ -	$ 30,339	$ 30,339	$ -	$ 28,236	$ 28,236
Medicaid	8,797	8,987	17,784	5,050	11,290	16,340
Other	-	-	-	-	-	-
Totals	$ 8,797	$ 39,326	$ 48,123	$ 5,050	$ 39,526	$ 44,576

(in millions)

Note 14. Federal Employee and Veterans' Benefits

HHS's Federal Employee and Veterans' Benefits at September 30, 2003 and 2002 are summarized below. These liabilities are not covered by budgetary resources.

	2003	2002
With the Public		
Liabilities Not Covered by Budgetary Resources		
PHS Commissioned Corp Pension Liability	$ 6,107	$ 5,913
PHS Commissioned Corp Post-retirement Health Benefits	495	1,984
Workers' Compensation Benefits (Actuarial FECA Liability)	301	277
Total, Federal Employee and Veterans' Benefits	$ 6,903	$ 8,174

PHS Commissioned Corps: HHS administers the Public Health Service (PHS) Commissioned Corps Retirement System for approximately 5,882 active duty officers and 4,739 retiree annuitants or survivors. Authorized by Public Law 78-410, it is a defined noncontributory benefit plan. The plan does not have accumulated assets; funding is provided entirely on a pay as you go basis by Congressional appropriations. Administrative costs are borne by the plan. The plan provides pension payments and medical benefits to eligible retirees. At September 30, 2003, the actuarial present value of accumulated plan pension benefits was $ 6,107 million of which $ 577 million was not vested, and the liability for medical benefits was actuarially determined to be $ 495 million.

Significant assumptions used by the actuary in its reports on the pension and medical programs as of September 30, 2003, were as follows: interest on Federal securities of 6.25 percent, annual basic pay scale increase of 3.5 percent, and annual inflation of 3.0 percent. Withdrawal and retirement rates are based on the historical trends of officers in the PHS retirement system. HHS bases aggregate entry age normal actuarial cost method to both programs to determine their liabilities.

The following shows key valuation results as of September 30, 2002, in conformance with the actuarial reporting standards set forth in the Statement of Federal Financial Accounting Standards No. 5 (SFFAS 5):

SSFAS 5 Expense	2003	2002
(a) Normal Cost	$ 176	$ 173
(b) Interest Cost	485	425
(c) Ongoing Cost (a & b)	661	598
(d) Prior Service Cost & (Gains)/Losses	(340)	284
(e) Total Expense	$ 321	$ 882

Workers' Compensation Benefits: The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases.

(in millions)

Note 14. Federal Employee and Veterans' Benefits (continued)

The liability utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting in FY 2003 and 2002 appear below.

FY 2003	FY 2002
3.84% in Year 1	5.20% in Year 1
4.85% in Year 2 and thereafter	5.20% in Year 2 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 calculations projected future benefits. These factors are also used to adjust historical payments to current year dollars. The compensation COLAs and CPIMs used in projections are as follows:

FY	COLA	CPIM
2004	2.30%	3.21%
2005	2.00%	3.54%
2006	1.83%	3.64%
2007	1.97%	3.80%
2008+	2.17%	3.92%

Note 15. Environmental and Disposal Costs

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

Following is a summary of HHS's Environmental and Disposal Costs at September 30, 2003 and 2002.

	With The Public		
At September 30, 2003:	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
CDC	$ -	$ 3	$ 3
FDA	2	3	5
IHS	-	23	23
NIH	-	8	8
Consolidated HHS Totals	$ 2	$ 37	$ 39

(in millions)

Restated At September 30, 2002:	With The Public: Liabilities Covered by Budgetary Resources	With The Public: Liabilities Not Covered by Budgetary Resources	Total
CDC	$ -	$ 3	$ 3
FDA	1	3	4
IHS	-	23	23
NIH	-	8	8
Consolidated HHS Totals	$ 1	$ 37	$ 38

Note 16. Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, HHS receives these reports several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed Department wide procedures to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through September 30, 2003 and 2002.

At fiscal year-end, the OPDIVs record the estimated accrual for amounts due to grantees for their unreported grantee expenses. If the amount of the collective OPDIV advances outstanding exceeds the amount of the collective OPDIV accrual, HHS reports an asset for "Advances to Grantees." Otherwise, HHS reports a liability called "Accrued Grant Liability", equal to the amount that the accrual exceeds the outstanding advances. For additional information on this subject see Note 1 under "Advances to Grantees/Accrued Grant Liability".

	2003	Restated 2002
Grant Advances Outstanding (before year-end grant accrual)	$ 14,699	$ 14,861
Less: Estimated Accrual for Amounts Due to Grantees	(18,451)	(18,363)
Net Grant Advances (Liability)	$ (3,752)	$ (3,502)

All advances other than grant advances are reported in Note 11, "Other Assets."

(in millions)

Note 17. Other Liabilities

At September 30, 2003:	Intragovernmental			With the Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Advances from Others	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Revenue	558	-	558	547	-	547
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	-	-	-	3	-	3
Contingent Liabilities	-	-	-	-	320	320
Capital Lease Liability	-	91	91	-	6	6
Custodial Liabilities	-	60	60	-	-	-
Vaccine Injury Compensation Program	-	-	-	-	365	365
Other	250	-	250	84	14	98
Combined OPDIV Totals	$ 808	$ 151	$ 959	$ 634	$ 705	$ 1,339
Less: Intra-OPDIV Eliminations	(326)	-	(326)	-	-	-
Consolidated OPDIV Totals	$ 482	$ 151	$ 633	$ 634	$ 705	$ 1,339
Less: Inter-OPDIV Eliminations	(39)	-	(39)	-	-	-
Consolidated HHS Totals	$ 443	$ 151	$ 594	$ 634	$ 705	$ 1,339

Restated At September 30, 2002:	Intragovernmental			With the Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Advances from Others	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Revenue	535	-	535	384	-	384
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	2	-	2	67	-	67
Contingent Liabilities	-	269	269	-	134	134
Capital Lease Liability	-	96	96	-	6	6
Custodial Liabilities	-	383	383	-	-	-
Vaccine Injury Compensation Program	-	-	-	-	251	251
Other	59	-	59	43	4	47
Combined OPDIV Totals	$ 596	$ 748	$ 1,344	$ 494	$ 395	$ 889
Less: Intra-OPDIV Eliminations	(277)	-	(277)	-	-	-
Consolidated OPDIV Totals	$ 319	$ 748	$ 1,067	$ 494	$ 395	$ 889
Less: Inter-OPDIV Eliminations	(54)	-	(54)	-	-	-
Consolidated HHS Totals	$ 265	$ 748	$ 1,013	$ 494	$ 395	$ 889

(in millions)

Note 17. Other Liabilities (continued)
Deferred Revenue of $558 million is for the provision of goods and services. The Vaccine Injury Compensation Program (VICP), administered by HRSA, provides compensation for vaccine-related injury or death. The $365 million VICP liability represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 2003.

Most of the other liabilities are made up of amounts due to Treasury from CMS. The amount CMS owes to Treasury is $233 million.

Through the issuance of grants, HRSA supports the operation of certain health centers under the Health Centers Consolidation Act of 1996. These grantees, and many of their health professionals, are provided malpractice insurance under the Federally Supported Health Centers Assistance Act. Settlements and awards are paid from a separate Fund in the Treasury (Appropriation 75x0365). Accordingly, there are numerous malpractice legal actions pending against these grantees, which, if settled, will be paid by HRSA. For FY 2003, HRSA's actuarial contractor estimated the preliminary contingent liability to be $318 million ($132 million in FY 2002 restated). This increase of $186 million is an actuarial estimate for ultimate liabilities as of FY 2003, including the incurred but not reported (IBNR) of $147 million and expected payouts for fiscal years 2003 to 2005 for the Community Health Center program.

Note 18. Leases
Capital Leases: HHS and its OPDIVS have entered into various capital leases with Indian tribes and the General Services Administrations (GSA) for office and warehouse space. Lease terms vary from one to twenty years. Capitalized assets acquired under capital lease agreements and the related liabilities are reported at the present value of the minimum lease payments.

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

A Summary of Net Assets under Capital Lease and Future Minimum Lease Payments at September 30, 2003 and 2002 follows.

Table 1. Summary of Assets Under Capital Lease	2003	Restated 2002
Land and Building	$ 105	$ 105
Machinery and Equipment	1	1
Other	1	-
Subtotal	$ 107	$ 106
less: Accumulated Amortization	(15)	(9)
Assets Under Capital Lease	$ 92	$ 97

(in millions)

Table 2. Future Minimum Lease Payments	2003 Capital Leases	2003 Operating Lease	2002 Capital Leases	2002 Operating Lease
Year 1	$ 9	$ 253	$ 9	$ 214
Year 2	9	264	9	231
Year 3	9	271	9	244
Year 4	9	287	9	256
Year 5	9	300	9	270
Later Years	128	665	145	629
Total Minimum Lease Payments	$ 173	$ 2,040	$ 190	$ 1,844
Less: Imputed Interest	(76)		(88)	
Total Capital Lease Liability	$ 97		$ 102	

Note 19. Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

HHS's consolidated gross cost and exchange revenue by budget functional classification for the fiscal year ended September 30, 2003 and 2002 are summarized below.

	2003									Restated 2002
	Education Training and Social Services	Health	Medicare	Income Security	Admin. of Justice	Natural Resources/ Environment	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals	HHS Consolidated Totals
Intragovernmental										
Gross Cost	$ 113	$ 3,521	$ 443	$ 34	$ -	$ 1	$ 4,112	$ (1,119)	$ 2,993	$ 3,623
Less: Exchange Revenue	(9)	(1,609)	(6)	(4)	-	-	(1,628)	977	(651)	(481)
Net Cost, Intragovernmental	$ 104	$ 1,912	$437	$30	$ -	$ 1	$ 2,484	$ (142)	$ 2,342	$ 3,142
With the Public										
Gross Cost	$ 11,808	$210,525	$278,071	$36,991	$ (1)	$ -	$ 537,394	$ -	$ 537,394	$ 493,224
Less: Exchange Revenue	-	(1,140)	(28,434)	-	-	-	(29,574)	-	(29,574)	(24,224)
Net Cost, With the Public	$ 11,808	$209,385	$249,637	$36,991	$ (1)	$ -	$ 507,820	$ -	$ 507,820	$ 469,000
Totals										
Gross Cost	$ 11,921	$214,046	$278,514	$37,025	$ (1)	$ 1	$ 541,506	$ (1,119)	$ 540,387	$ 496,847
Less: Exchange Revenue	(9)	(2,749)	(28,440)	(4)	-	-	(31,202)	977	(30,225)	(24,705)
Net Cost of Operations	$ 11,912	$211,297	$250,074	$37,021	$ (1)	$ 1	$ 510,304	$ (142)	$ 510,162	$ 472,142

(in millions)

Note 20. Prior Period Adjustments

HHS included prior period adjustments in the calculation of the net change in cumulative results of operations to correct errors and accounting changes with retroactive effect. Following is a summary of the prior period adjustments as of September 30, 2003 and 2002.

Increases (Decreases) to Equity	2003	Restated 2002
Correction of Errors	$ 383	$ 6
Change in Accounting Principles	-	(37)
Departmental Adjustments to Beginning Net Position	(17)	(72)
Total	$ 366	$ (103)

Departmental Adjustments to Beginning Net Position represent audit adjustments booked by OPDIVs after the HHS audit deadlines, as well as an additional net position adjustment related to prior year intra-HHS eliminations. These adjustments are not included in the OPDIVs' statement figures used to compile the department-wide statement figures. Therefore, the Department must enter an adjustment to Beginning Net Position to reflect the Department's true beginning net position balance, on a consolidated basis.

OS transferred Stockpile Material to DHS, as noted in Note 9 Inventory and Related Property, Net. The value of the inventory, which OS transferred, was understated as of the end of FY 2002. After a reevaluation, using historical cost, the inventory stated as $93 million in the FY 2002 HHS statement had a value of $469 million (an increase of $376). This is shown as a prior period correction for FY 2003.

Note 21. Custodial Activity

ACF receives monies from the Internal Revenue Service for outlay to the states for Child Support. These monies represent delinquent child support payments withheld from Internal Revenue tax refunds. Receipts are transferred to appropriation 75X6234 to cover outlays. During FY 2003, receipts amounted to $1,532 million ($1,466 million for FY 2002) and outlays amounted to $1,516 million ($1,494 million for FY 2002).

FDA's custodial activity involves collections for civil monetary penalties (CMP) assessed by the Department of Justice on behalf of FDA. Penalties are assessed for violations in areas such as illegally manufactured, marketed, and distributed animal feeds and drug products. Total CMP collections in FY 2003 were $398.5 million ($373.7 million for FY 2002). CMP collections are immediately forwarded to the Department of the Treasury and cannot be used for FDA operations.

(in millions)

Note 22. Federal Matching Contribution

Supplemental Medical Insurance program (SMI) benefits and administrative expenses are financed by monthly premiums paid by Medicare beneficiaries and are matched by the federal government through the general fund appropriation, Payments to the Health Care Trust Funds. Section 1844 of the Social Security Act authorizes appropriated funds to match SMI premiums collected, and outlines the ratio for the match as well as the method to make the trust funds whole if insufficient funds are available in the appropriation to match all premiums received in the fiscal year. The monthly SMI premium per beneficiary was $54.00 from October 2002 through December 2002 and $58.70 from January 2003 through September 2003. Premiums collected from beneficiaries totaled $26.80 billion in FY 2003 ($24.4 billion in FY 2002) and were matched by an $84.3 billion ($76.7 billion in FY 2002) contribution from the Federal government.

Note 23. Contingencies

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

Obligations Related to Cancelled Appropriations Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been cancelled. The total payments related to cancelled appropriations are estimated at $ 1,477 million and $ 2,156 million as of September 30, 2003 and 2002, respectively.

Note 24. Apportionment Categories of Obligations Incurred

Obligations incurred by apportionment categories are as follows:

September 30, 2003	Direct	Reimbursable	Totals
Category A	$ 103,721	$ 4,909	$ 108,630
Category B	533,545	245	533,790
Exempt from apportionment	3,997	-	3,997
Total Obligations Incurred	$ 641,263	$ 5,154	$ 646,417

Restated September 30, 2002	Direct	Reimbursable	Totals
Category A	$ 99,457	$ 3,614	$ 103,071
Category B	495,318	310	495,628
Exempt from apportionment	3,895	-	3,895
Total Obligations Incurred	$ 598,670	$ 3,924	$ 602,594

Note 25. Legal Arrangements Affecting Use of Unobligated Balances

Unobligated balances consist of appropriated funds, revolving funds, management funds, trust funds, NIH's Cooperative Research and Development Agreement (CRADA) funds and royalty funds. Annual appropriations are available for new obligations in the year of appropriation and for adjustments to valid obligations for five subsequent years. Revolving funds are no year funds without any time limit. The NIH Management fund is available for two fiscal years. The trust funds are also no year funds without time limits. NIH's CRADA funds are available for the performance of the contractual agreement.

FDA has a Contingency Fund that was established in FY 1983 whereby funds are to be used for unusual direct costs of product emergencies (i.e., Tylenol incident, Breast Implant Hotline, etc.). Two rules were set for this fund: (1) only for emergency costs exceeding $100 thousand over the normal budget and (2) any use has to be specifically apportioned and approved by OMB. During FY 2003, FDA requested and was approved by OMB to utilize the balance of this account ($1.2 million) in support of food safety and security activities, including testing methodologies, reagents and chemical supplies. FDA is not requesting additional resources for this account. FDA received $151.1 million in funding in FY 2002, to remain available until expended, to support counter-terrorism projects. FDA's focus is in three key areas: food safety, safe and effective medical products, and physical security. The amount obligated for counter terrorism projects through FY 2003 was approximately $150 million.

Note 26. Exchange Revenue

The pricing policy for exchange revenue at HHS is to establish prices at full cost and to incur no profit or loss. Most OPDIVs either charge full cost, or are implementing procedures to do so. Several Operating Divisions at HHS collect revenue related to reimbursable agreements and recognize the revenue when expenses are incurred. In addition to reimbursable agreements, OPDIVs recognize exchange revenue related to collection of various user fees and recognize the exchange revenue when expenses are incurred.

Note 27. Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the United States Government

Statement of Federal Financial Accounting Standard (SFFAS) No. 7, "Accounting for Revenue and Other Financing Sources" calls for explanations of any material differences between the information required by paragraph 77 [of SFFAS 7] and the amounts described as 'actual' in the "*Budget of the United States Government"* (also called the "President's Budget"). Paragraph 77 of SFFAS 7 calls for presentation of total budgetary resources available to a reporting entity, the status of those resources, and outlays of the reporting entity. This information is provided in the Department's SBR (see page III.4).

Chapter 11, Title 31, U.S. Code requires: "On or after the first Monday in January but not later than the first Monday in February of each year, the President shall submit a budget of the United States Government for the following fiscal year." The FY 2005 President's Budget, with actual numbers for FY 2003, has not yet been published, and therefore no comparisons can be made between FY 2003 amounts presented in the SBR with amounts reported in the 'actual' column of

(in millions)

Note 27. Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the United States Government (continued)

the President's Budget. The FY 2005 President's Budget is expected to be released on February 3, 2004, and may be obtained from the Office of Management and Budget or the U.S. Government Printing Office at that time.

Differences between the SBR and President's Budget for FY 2002 are disclosed in the following table:

	FY 2002	
	Budgetary Resources	Net Outlays (Less Offsetting Collections)
Statement of Budgetary Resources	613,370	583,651
Adjustments for Expired Accounts	(5,252)	-
Other Adjustments	417	-
Budget of the U.S. Government	608,535	583,651

Note 28. Explanation of Differences Between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components requiring budgetary resources in the future are increases in certain liability accounts also included in the category "not covered by budgetary resources" such as accrued annual leave. In this instance the expense is recorded for the period when the leave is earned and is included as a current period cost on the Statement of Net Cost.

The Balance Sheet uses proprietary accounts to present the balances for "liabilities not covered by budgetary resources". An increase in the annual leave liability increases the unfunded liability on the Balance Sheet and the expenses on the Statement of Net Cost. The increase is not included in the Statement of Budgetary Resources since the liability will be paid from future resources. As a result, the Statement of Financing includes "components requiring resources in future periods" such as accrued annual leave to reconcile budgetary resources to net cost.

Note 29. Permanent and Indefinite Appropriations

The HHS permanent and indefinite appropriations have both budget authority available without current action by Congress and indefinite authority, meaning there is no specific amount at the time the authority is granted. The list below includes the Treasury Fund Symbols, the period of availability (fiscal year or no year), and the titles of the accounts.

75 0340 – (fiscal year) Health Education Assistance Loans Program
75X0513 – (no year) Payments for Credits Against Health Care Contributions
75X0585 – (no year) Taxation on OASDI Benefits
75 1552 – (fiscal year) Temporary Assistance for Needy Families
75X1553 – (no year) Children's Research and Technical Assistance
75X4305 – (no year) Health Professions Graduate Student Loan Insurance Fund, Liquidating Account
75X8250 – (no year) Gifts and Donations
7520X8004 – (no year) Federal Supplementary Medical Insurance Trust Fund
7520X8005 – (no year) Federal Hospital Insurance Trust Fund

Note 30. Adjustments to Beginning Balance of Budgetary Resources

FDA accelerated the FY 2003 billing and collection of advanced fees from the drug industry during FY 2002. The fees collected in advance were unavailable in FY 2002 and did not become available until the beginning of FY 2003 after the passage of the FDA appropriation. The authorization for these advances is The Prescription Drug User Fee Act of 1992 (PDUFA) re-authorized by the Prescription Drug User Fee Amendments of 2002 (Title 5 of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, P.L. 107-188).

As a result of collecting the fees in advance, FDA adjusted the beginning of the year budgetary resources available balance in their Statement of Budgetary Resources for FY 2003, resulting in a $127 million difference in the ending balance for FY 2002 and the beginning balance for FY 2003.

U.S. Department of Health and Human Services
Stewardship Property, Plant, and Equipment
For the Fiscal Year Ended September 30, 2003

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

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

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

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

IHS Stewardship Classes

Asset Descriptions	Number of Sites	Total Square Footage	Federal Hectares	Total Hectares
Heritage Assets	2	2,295	1 (4+/- acres)	1 (4+/- acres)
Indian Trust Lands	81	N/A	432.7 (1,069 acres)	432.7 (1,069acres)

Distribution of Stewardship Assets by Type and Area

	Heritage Assets			Indian Trust Lands	
	Number of Sites	Square Footage	Total Hectares	Number Of Sites	Total Hectares
Aberdeen				9	75
Alaska	1		< 1.82		
Albuquerque				4	4
Bemidji				2	9
Billings				7	48
Navajo				34	254
Oklahoma City				2	10
Phoenix	1	2,295		13	19
Portland				5	2
Tucson				5	12
Total-IHS	2	2,295	< 1.82	81	433

U.S. Department of Health and Human Services
Investment in Human Capital
For the Fiscal Year Ended September 30, 2003

RESPONSIBILITY SEGMENT PROGRAM	2003	2002	2001	2000	1999
ACF					
Administration on Developmental Disabilities	$10	$6	$6	$8	$6
NIH					
Research Training and Career Development	1,405	1,248	1,118	871	820
Totals	**$1,415**	**$1,254**	**$1,124**	**$879**	**$826**

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

Administration for Children and Families (ACF)

ACF is able to estimate investment in human capital for the Administration for Developmental Disabilities (ADD) using existing data collection activities. Under ADD, 55 grants were awarded for Projects of National Significance (PNS). PNS grants are awarded to public or private, non-profit institutions to enhance the independence, productivity, integration and inclusion into the community of people with developmental disabilities. Monies also support the development of national and state policy to serve this community. Grants awarded totaled $10 million in FY 2003 and $6 million in FY 2002.

National Institutes of Health (NIH)

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

U.S. Department of Health and Human Services
Investment in Research and Development
For the Fiscal Year Ended September 30, 2003

Responsibility Segments	2003 Basic	2003 Applied	2003 Develop-Mental	2003 Total	2002 Total	2001 Total	2000 Total	1999 Total	Grand Total
ACF		$24		$24	$29	$32	$30	$19	$134
AHRQ		163		163	150	127	95	97	632
CDC		557		557	533	557	505	433	2,585
FDA		25	6	31	29	26	26	19	131
HRSA		16		16	16	16	15	18	81
NIH	12,815	8,544		21,359	19,058	16,007	14,690	13,580	84,694
Totals	**$12,815**	**$9,329**	**$6**	**$22,150**	**$19,815**	**$16,765**	**$15,361**	**$14,166**	**$88,257**

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

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

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

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

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

ACF, HRSA and AHRQ oversee research and development programs that contribute to a better understanding of how to improve the economic and social well being of families and children so that they lead more healthy and productive lives.

U.S. Department of Health and Human Services
Social Insurance
For the Fiscal Year Ended September 30, 2003

Medicare, the largest health insurance program in the country, has helped fund medical care for the nation's aged and disabled for almost four decades. The required supplementary stewardship information (RSSI) contained in this section is presented in accordance with the requirements of the Federal Accounting Standards Advisory Board (FASAB). Included are a description of the long-term sustainability and financial condition of the program and a discussion of trends revealed in the data.

RSSI material is generally drawn from the *2003 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, which represents the official government evaluation of the financial and actuarial status of the Medicare trust funds. Unless otherwise noted, all data are for calendar years, and all projections are based on the Trustees' intermediate set of assumptions.

Printed copies of the Trustees Report may be obtained from CMS' Office of the Actuary (410-786-6386). The report is also available online at www.cms.hhs.gov/publications/ trusteesreport/default.asp.

Please note that the 2003 Trustees Report for Medicare (issued March 17, 2003) was used as the source document for this report. We anticipate that the Government-wide financial statement report for FY 2003 (expected to be issued March 31, 2004) will contain updated information from the 2004 Trustees Report (which is expected to be issued on or near March 15, 2004). Thus, some data related to the Medicare trust funds contained in this report may differ from that contained in the FY 2003 *Financial Report of the United States Government*.

Actuarial Projections

Cashflow in Nominal Dollars

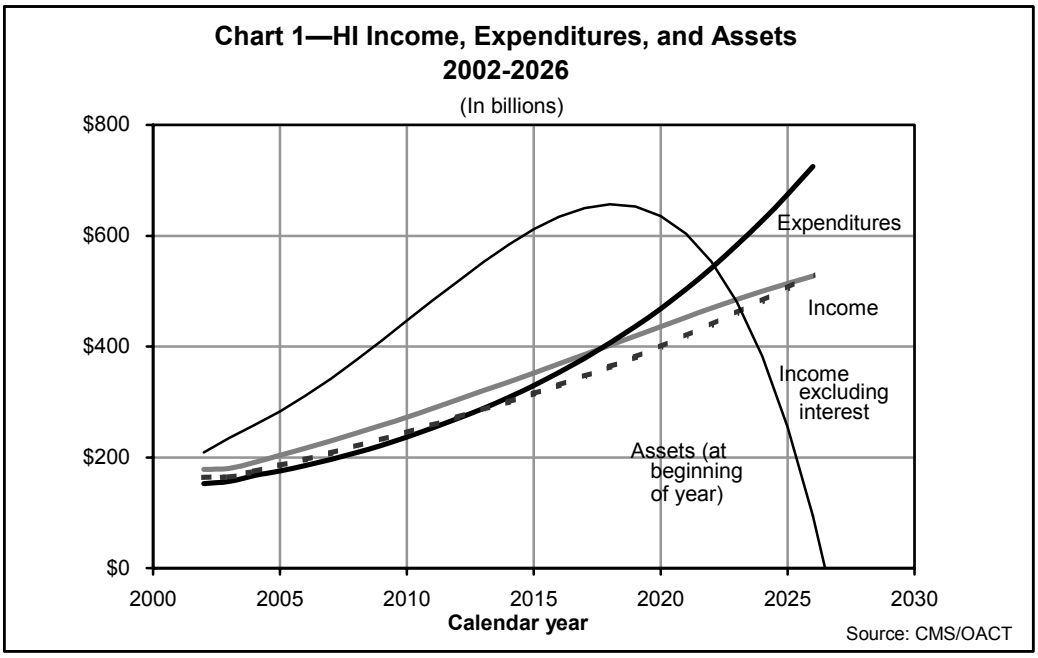
Using nominal dollars[1] for short-term projections paints a reasonably clear picture of expected performance with particular attention on cashflow and trust fund balances. Over longer periods, however, the changing value of the dollar can complicate efforts to compare dollar amounts in different periods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

For this reason, long-range (75-year) Medicare projections in nominal dollars are seldom used and are not presented here. Instead, nominal-dollar estimates for the HI trust fund are displayed only through the projected date of depletion, currently the year 2026. Estimates for SMI are presented only for the next 10 years, primarily due to the fact that under present law, the SMI trust fund is automatically in financial balance every year.

HI

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

Chart 1 shows the actuarial estimates of HI income, expenditures, and assets for each of the next 24 years, in nominal dollars. Income includes payroll taxes, income from the taxation of Social Security benefits, interest earned on the U.S. Treasury securities held by the trust fund, and other miscellaneous revenue. Expenditures include benefit payments and administrative expenses. The estimates are for the "open group" population—all persons who will participate during the period as either taxpayers or beneficiaries, or both—and consist of payments from, and on behalf of, employees now in the workforce, as well as those who will enter the workforce over the next 24 years. The estimates also include expenditures attributable to these current and future workers, in addition to current beneficiaries.



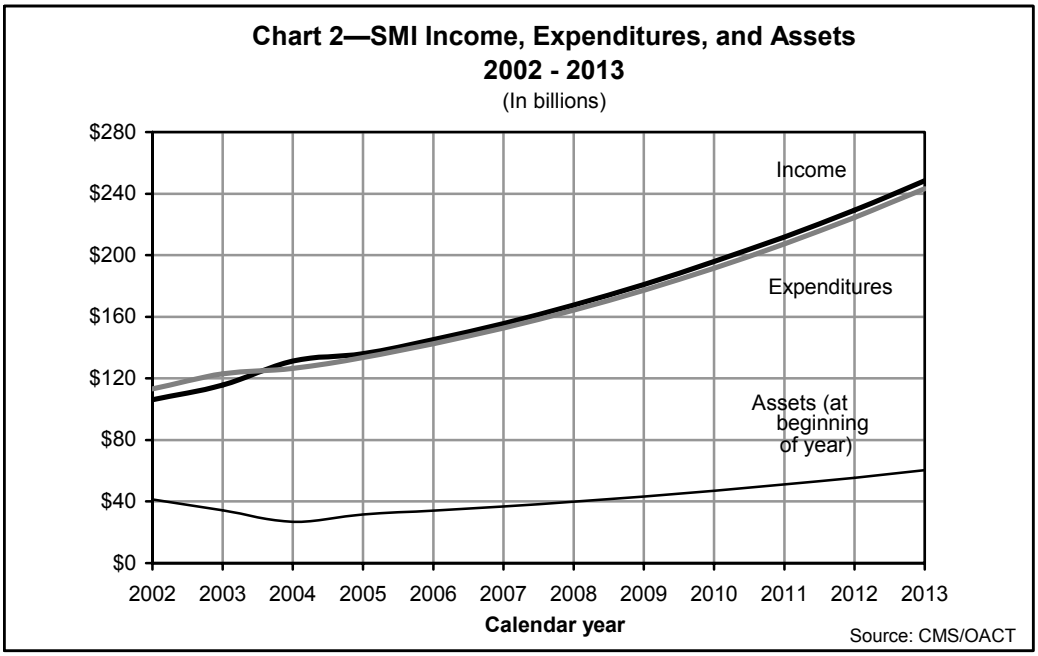
As chart 1 shows, under the intermediate assumptions HI expenditures would begin to exceed income including interest in 2018 and income excluding interest in 2013. This situation is due in part to the attainment of Medicare eligibility, starting in 2011, of those born during the 1946-1964 baby boom. It also arises as a result of health cost increases that are expected to continue to grow faster than workers' earnings. Beginning in 2018, the trust fund would start redeeming trust fund assets; in 2026, the assets would be depleted.

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

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

SMI

Chart 2 shows the actuarial estimates of SMI income, expenditures, and assets for each of the next 10 years, in nominal dollars. Whereas HI estimates are displayed through the year 2026, SMI estimates cover only the next 10 years, as SMI differs fundamentally from HI in regard to the way it is financed. In particular, SMI financing is not at all based on payroll taxes but instead on monthly beneficiary premiums and income from the general fund of the U.S. Treasury—both of which are established annually to cover the following year's expenditures. Estimates of SMI income and expenditures, therefore, are virtually the same, as illustrated in chart 2, and so are not shown in nominal dollars separately beyond 10 years.



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

As chart 2 indicates, SMI income is very close to expenditures. As noted earlier, this is due to SMI's financing mechanism. Under present law, SMI is automatically in financial balance every year, regardless of future economic and other conditions.

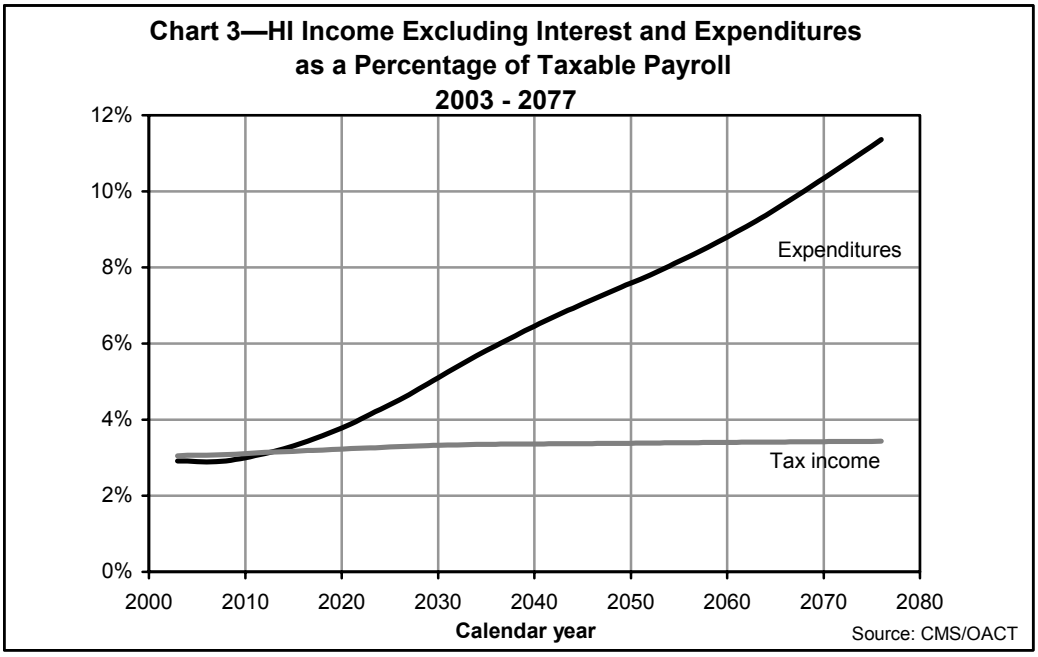
[2] In the financial statements for CMS, Medicare income and expenditures are shown from a "trust fund perspective." All sources of income to the trust funds are reflected, and the actuarial projections can be used to assess the financial status of each trust fund. Corresponding estimates for Medicare and other Federal social insurance programs are also shown in the annual *Financial Report of the United States Government*, also known as the consolidated financial statement. On a consolidated basis, the estimates are shown from a "Federal budget perspective." In particular, certain categories of trust fund income—primarily interest payments and SMI general revenues—are excluded because they represent intragovernmental transfers, rather than revenues received from the public. Thus, the consolidated financial statement focuses not on the financial status of individual trust funds, but on the overall balance between revenues and outlays for the Federal budget. Each perspective is appropriate and useful for its intended purpose.

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

HI Cashflow as a Percentage of Taxable Payroll

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

Chart 3 illustrates income excluding interest and expenditures as a percentage of taxable payroll over the next 75 years. As it was in the 2001 and 2002 reports, the per beneficiary long-range growth in the 2003 report is assumed to be the level of per capita gross domestic product (GDP) growth plus 1 percentage point—reflecting an expectation that the impact of advances in medical technology on health care costs will continue, both in Medicare and in the health sector as a whole.



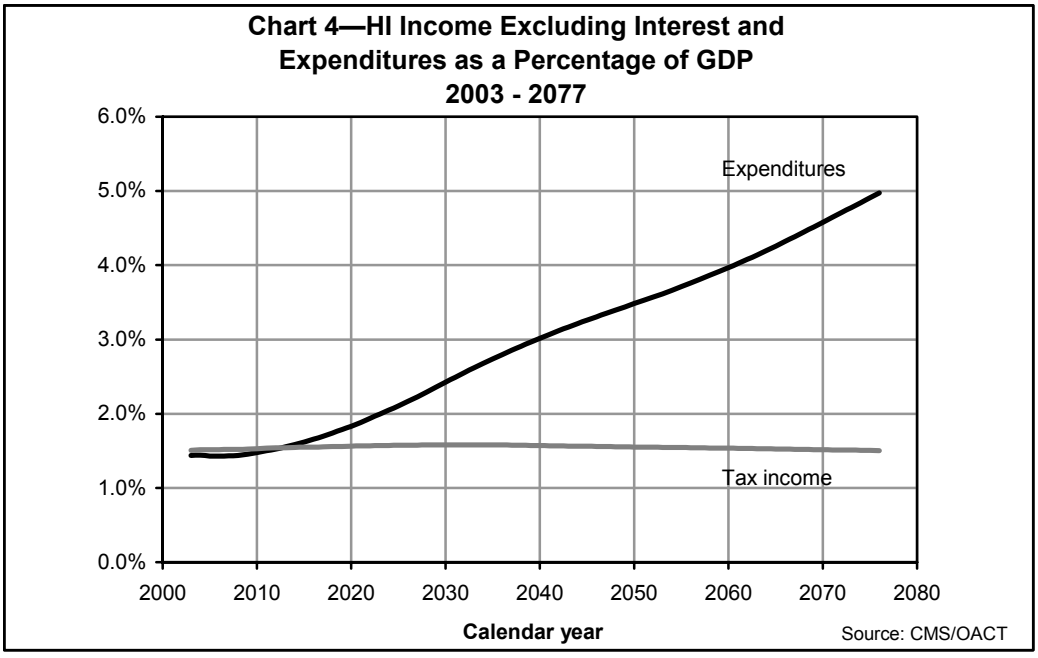
Since HI payroll tax rates are not scheduled to change in the future under present law, payroll tax income as a percentage of taxable payroll will remain constant at 2.90 percent. Income from taxation of benefits will increase only gradually as a greater proportion of Social Security beneficiaries become subject to such taxation over time. Thus, as chart 3 shows, the income rate is not expected to increase significantly over current levels. On the other hand, expenditures as a percentage of taxable payroll sharply escalate—in part due to health care cost increases that exceed wage growth, but also due to the attainment of Medicare eligibility of those born during the 1946-1964 baby boom.

HI and SMI Cashflow as a Percentage of GDP

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

HI

Chart 4 shows HI income excluding interest and expenditures over the next 75 years expressed as a percentage of GDP. In 2002, the expenditures were $152.5 billion, which was 1.5 percent of GDP. Following slight reductions over the next 5 years, this percentage is projected to increase steadily throughout the remainder of the 75-year period.

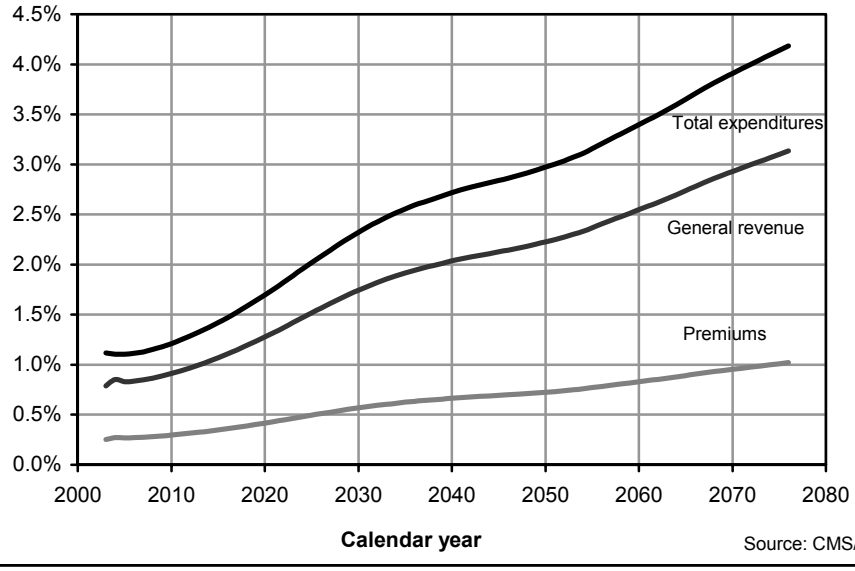


SMI

Because of the SMI financing mechanism in which income mirrors expenditures, it is not necessary to test for long-range imbalances between income and expenditures. Rather, it is more important to examine the projected rise in expenditures and the implications for beneficiary premiums and Federal general revenue payments.

Chart 5 shows SMI expenditures over the next 75 years expressed as a percentage of GDP. In 2002, SMI expenditures were $113.2 billion, which was 1.1 percent of GDP. After 2005, this percentage is projected to increase steadily, reflecting growth in the volume and intensity of services provided per beneficiary throughout the projection period, together with the effects of the baby boom eligibility for retirement.

Chart 5—SMI Expenditures and Sources of Income as a Percentage of GDP 2003 - 2077



Source: CMS/OACT

In the SMI expenditure projections, as in those for HI, the per beneficiary long-range growth rate is assumed to equal per capita GDP growth plus 1 percentage point. The growth rates are estimated year by year for the next 12 years, reflecting the impact of specific statutory provisions. Expenditure growth for years 13 to 25 is assumed to grade smoothly into the long-range assumptions.

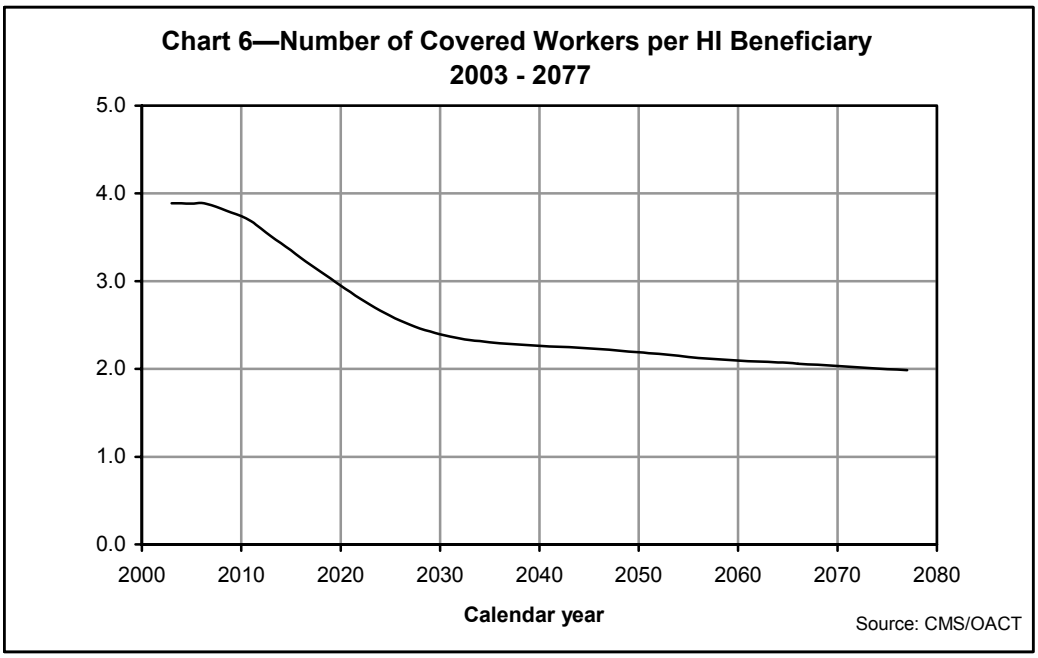
Also shown in chart 5 are SMI general revenue transfers and premium income expressed as a percentage of GDP.[4] Under present law, premiums will cover roughly 25 percent of total expenditures. As indicated, both sources of revenue would increase more rapidly than the GDP over time, to match the faster growth rates for SMI expenditures.

[4] See footnote 2 regarding the treatment of SMI general revenue income in the consolidated financial statement of the U.S. Government.

Worker-to-Beneficiary Ratio

HI

Another way to evaluate the long-range outlook of the HI trust fund is to examine the projected number of workers per HI beneficiary. Chart 6 illustrates this ratio over the next 75 years. For the most part, current benefits are paid for by current workers. The retirement of the baby boom generation will therefore be financed by the relatively smaller number of persons born after the baby boom. In 2002, every beneficiary had almost 4.0 workers to pay for his or her benefit. In 2030, however, after the last baby boomer turns 65, there will be only about 2.4 workers per beneficiary. The projected ratio continues to decline until there are just 2.0 workers per beneficiary in 2077.



Actuarial Present Values

Projected future expenditures can be summarized by computing an "actuarial present value." This value represents the lump-sum amount that, if invested today in trust fund securities, would be just sufficient to pay each year's expenditures over the next 75 years, with the fund being drawn down to zero at the end of the period. Similarly, future revenues (excluding interest) can be summarized as a single, equivalent amount as of the current year.

Actuarial present values are calculated by discounting the future annual amounts of non-interest income and expenditures at the assumed rates of interest credited to the HI and SMI trust funds. Present values are computed as of the beginning of the 75-year projection period for three different groups of participants: current workers and other individuals who have not yet attained eligibility age; current beneficiaries who have attained eligibility age; and new entrants, or those who are expected to become participants in the future.

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

Table 1—Actuarial Present Values of Hospital Insurance and Supplementary Medical Insurance Revenues and Expenditures: 75-year Projection as of January 1, 2003

(In billions)

	HI				SMI[2]			
	2003	2002	2001	2000	2003	2002	2001	2000
Actuarial present value[1] of estimated future income (excluding interest) received from or on behalf of:								
Current participants[3] who, at start of projection period:								
Have not yet attained eligibility age (ages 15-64)	$4,510	$4,408	$4,136	$3,757	$8,796	$7,423	$7,378	$6,109
Have attained eligibility age (age 65 and over)	128	125	113	97	1,160	1,008	1,032	934
Those expected to become participants (under age 15)	3,773	3,753	3,507	3,179	2,817	2,402	2,370	1,616
All current and future participants	8,411	8,286	7,757	7,033	12,773	10,833	10,780	8,659
Actuarial present value[1] of estimated future expenditures[4] paid to or on behalf of:								
Current participants[3] who, at start of projection period:								
Have not yet attained eligibility age (ages 15-64)	10,028	9,195	8,568	6,702	8,845	7,463	7,415	6,094
Have attained eligibility age (age 65 and over)	1,897	1,747	1,693	1,681	1,306	1,132	1,159	1,051
Those expected to become participants (under age 15)	2,653	2,470	2,225	1,349	2,622	2,238	2,206	1,514
All current and future participants	14,577	13,412	12,487	9,732	12,773	10,833	10,780	8,659
Actuarial present value[1] of estimated future income (excluding interest) less expenditures	-6,166	-5,126	-4,730	-2,700	-	-	-	-
Trust fund assets at start of period	235	209	177	141	34	41	44	45
Assets at start of period plus actuarial present value[1] of estimated future income (excluding interest) less expenditures	-5,931	-4,917	-4,553	-2,558	34	41	44	45

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

[2] SMI income includes premiums paid by beneficiaries and general revenue contributions made on behalf of beneficiaries. See footnote 2 of CMS's FY 2003 CFO financial report concerning treatment of SMI general revenues in the consolidated financial statement of the U.S. Government.

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

[4]Expenditures include benefit payments and administrative expenses.

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

As shown in table 1, the HI trust fund has an actuarial deficit of more than $5.9 trillion over the 75-year projection period, as compared to more than $4.9 trillion in the 2002 financial report. SMI, on the other hand, does not have similar problems because it is automatically in financial balance every year due to its financing mechanism.[5] The existence of a large actuarial deficit for the HI trust fund indicates that, under reasonable assumptions as to economic, demographic, and health cost trends for the future, HI income is expected to fall substantially short of

[5] As noted in footnote 2 of CMS's FY 2003 CFO financial report, the actuarial deficit is calculated from a *trust fund perspective*, reflecting all sources of income and expenditures to or from the HI and SMI trust funds. If, instead, a *budget perspective* is considered, as used in the consolidated financial statement, one would compare Medicare outlays to the public with revenues received directly from the public. On this basis, transfers to the SMI trust fund from the general fund of the Treasury would be excluded, with the result that the present value of projected SMI expenditures through 2077 would exceed the present value of projected SMI premium revenue alone by $9.6 trillion. When added to the corresponding differential for HI, the present value of expenditures for the Medicare program overall is projected to exceed receipts from the public by $15.8 trillion. This *budget impact* reflects both (i) the cost to the Federal budget of SMI general revenues provided under current law and (ii) the amount that HI revenues would have to be increased to enable HI benefits to be paid at their currently scheduled level—for which there is no provision in current law.

expenditures in the long range. Although the deficits are not anticipated in the immediate future, as indicated by the preceding cashflow projections, they nonetheless pose a serious financial problem for the HI trust fund.

A figure as large as $5.9 trillion can be difficult to interpret without some relative basis of comparison. To put this number in perspective, it is helpful to consider that the present value of future taxable payroll over the same 75-year period is estimated to be $256 trillion in the 2003 Trustees Report. Thus, the $5.9-trillion deficit represents approximately 2.3 percent of future taxable payroll.

It is important to note that no liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the existing "incurred but not reported" Medicare claim amounts as of September 30, 2003. This is because Medicare is accounted for as a social insurance program rather than a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and, unlike employer-sponsored pension benefits for employees, are not considered deferred compensation. Accrual accounting for a pension program, by contrast, recognizes retirement benefit expenses as they are earned so that the full actuarial present value of the worker's expected retirement benefits has been recognized by the time the worker retires.

Actuarial Assumptions and Sensitivity Analysis

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

Table 2 shows some of the underlying assumptions used in the projections of Medicare spending displayed in this section. Further details on these assumptions are available in the Social Security and Medicare Trustees Reports for 2003. In practice, a number of specific assumptions are made for each of the different types of service provided by the Medicare program (for example, hospital care and physician services). These assumptions include changes in the utilization, volume, and intensity of each type of service. The per beneficiary cost increases displayed in table 2 reflect the overall impact of these more detailed assumptions.

Table 2—Medicare Assumptions									
				Annual percentage change in:					Real-interest rate[4]
	Fertility rate[1]	Net immigration	Real-wage differential[2]	Wages	CPI	Real GDP	Per beneficiary cost[3] HI	Per beneficiary cost[3] SMI	
2003	2.04	1,200,000	1.6	3.9	2.3	2.9	2.0	5.5	2.8
2005	2.03	1,150,000	1.6	4.3	2.7	3.5	3.3	4.2	3.5
2010	2.01	1,025,000	1.2	4.2	3.0	2.5	4.2	5.7	2.9
2020	1.98	950,000	1.1	4.1	3.0	1.9	4.3	5.4	2.9
2030	1.95	900,000	1.1	4.1	3.0	1.9	5.9	5.5	2.9
2040	1.95	900,000	1.1	4.1	3.0	1.9	5.9	5.2	2.9
2050	1.95	900,000	1.1	4.1	3.0	1.8	5.2	4.9	2.9
2060	1.95	900,000	1.1	4.1	3.0	1.8	5.4	5.4	2.9
2070	1.95	900,000	1.1	4.1	3.0	1.8	5.5	5.2	2.9
2077	1.95	900,000	1.1	4.1	3.0	1.8	5.3	5.1	2.9

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

Estimates made in prior years have sometimes changed substantially because of revisions to the assumptions, which are due either to changed conditions or to more recent experience. Furthermore, it is important to recognize that actual conditions are very likely to differ from the projections presented here, since the future cannot be anticipated with certainty. In order to illustrate the magnitude of the sensitivity of the long-range projections, six of the key assumptions were varied individually to determine the impact on the HI actuarial present values and net cashflows.[6] The assumptions varied are the fertility rate, net immigration, real-wage differential, CPI, real-interest rate, and health care cost factors.[7]

For this analysis, the intermediate economic and demographic assumptions in the *2003 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Fund*s are used as the reference point. Each selected assumption is varied individually to produce three scenarios. All present values are calculated as of January 1, 2003 and are based on estimates of income and expenditures during the 75-year projection period.

Charts 7 through 12 show the net annual HI cashflow in nominal dollars and the present value of this net cashflow for each assumption varied. In most instances, the charts depicting the estimated net cashflow indicate that, after increasing in the early years, net cashflow decreases steadily through 2026 under all three scenarios displayed. On the present value charts, the same pattern is evident, though the magnitudes are lower because of the discounting process used for computing present values.

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

[7] The sensitivity of the projected HI net cash flow to variations in future mortality rates is also of interest. At this time, however, relatively little is known about the relationship between improvements in life expectancy and the associated changes in health status and per beneficiary health expenditures. As a result, it is not possible at present to prepare meaningful estimates of the HI mortality sensitivity.

Fertility Rate

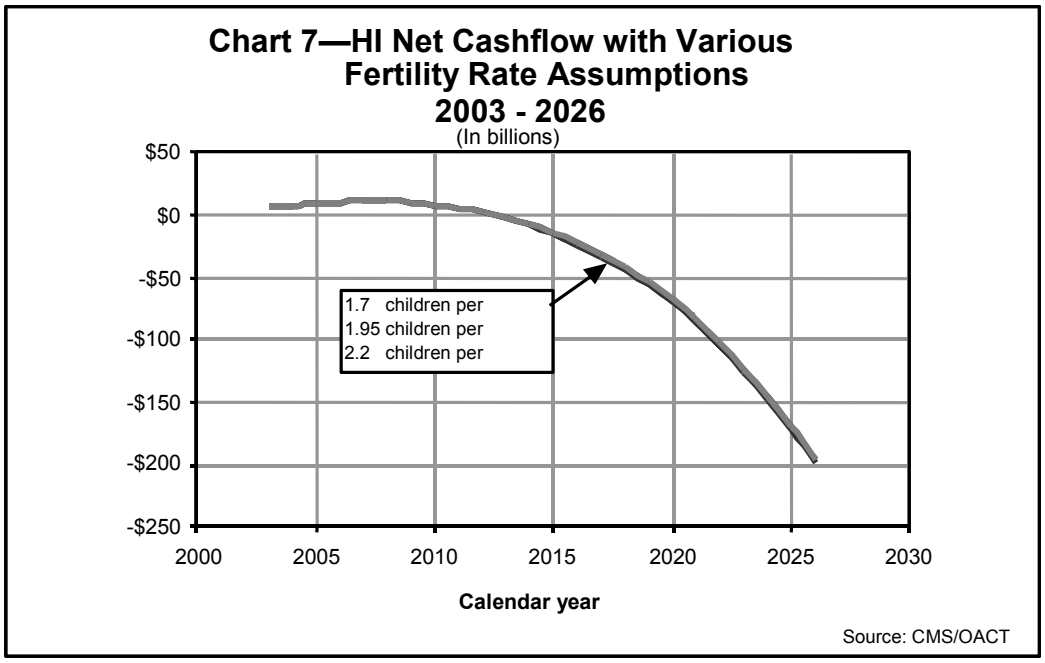
Table 3 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate fertility rate assumptions: 1.7, 1.95, and 2.2 children per woman.

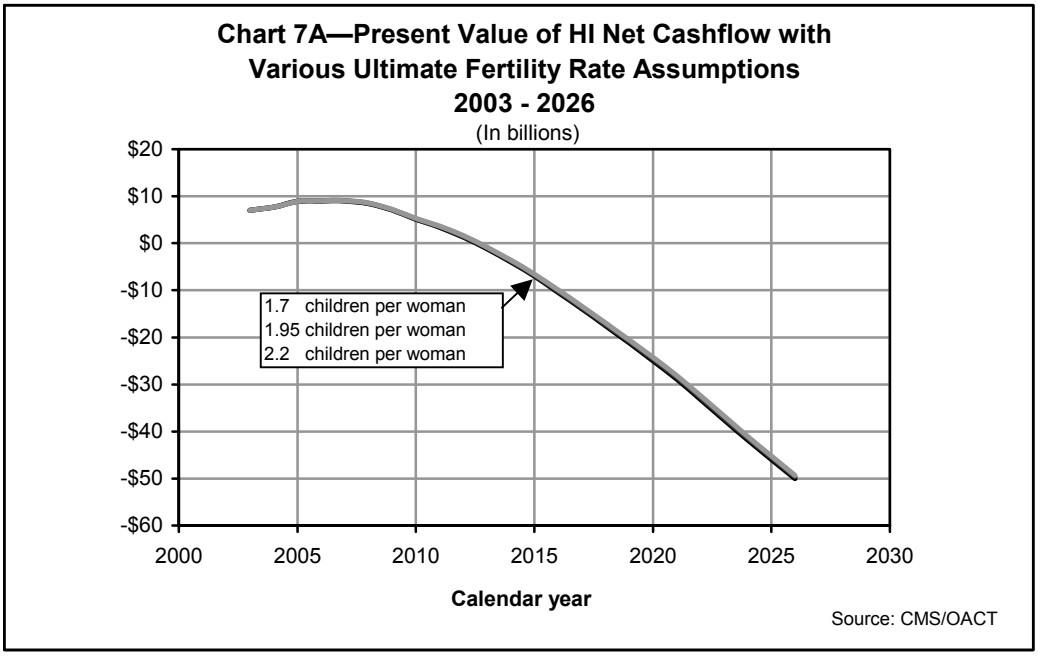
Table 3—Present Value of Estimated HI Income Less Expenditures under Various Fertility Rate Assumptions			
Ultimate fertility rate[1]	1.7	1.95	2.2
Income minus expenditures (in billions)	-$6,323	-$6,166	-$6,014

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

As table 3 demonstrates, for every increase of 0.25 in the assumed ultimate fertility rate, the projected deficit of income over expenditures decreases by approximately $150 billion.

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





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

Net Immigration

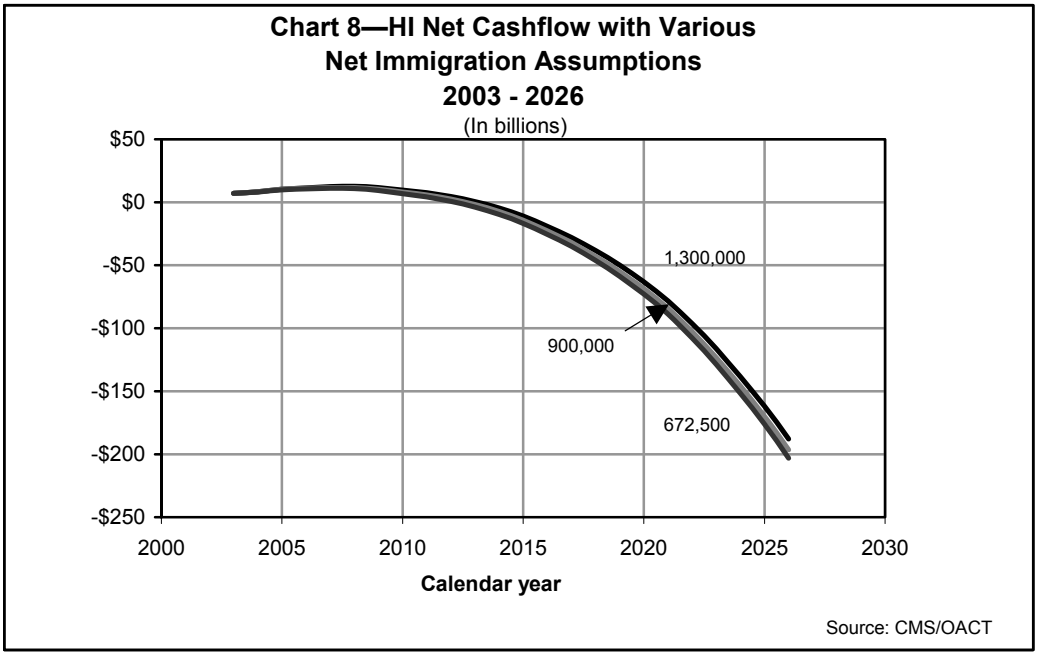
Table 4 shows the net present value of cashflow during the 75-year projection period under three alternative net immigration assumptions: 672,500 persons, 900,000 persons, and 1,300,000 persons per year.

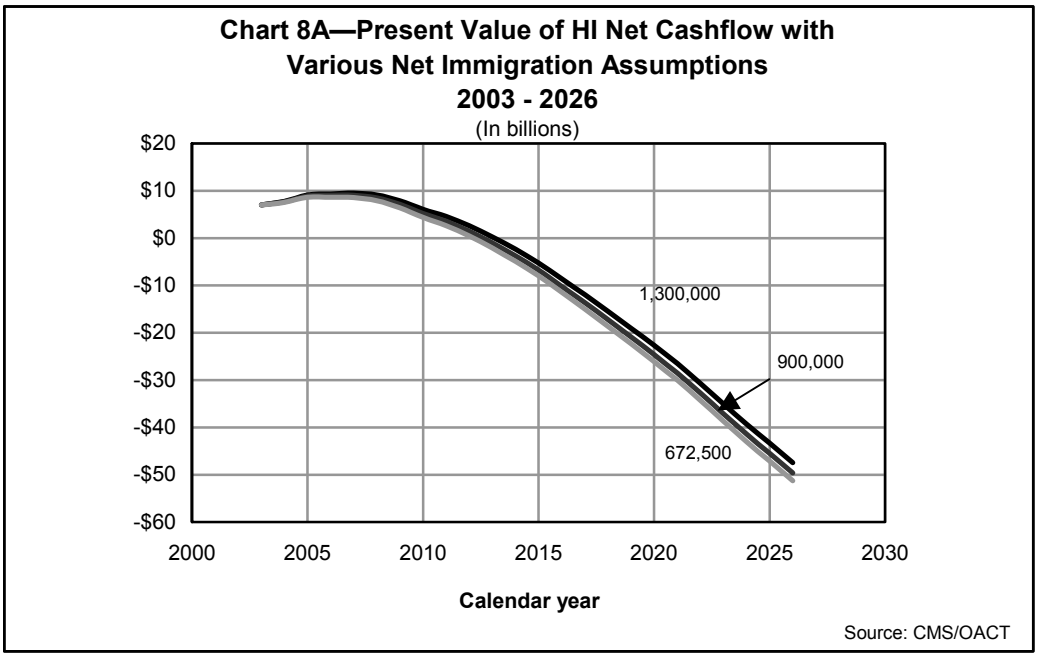
Table 4—Present Value of Estimated HI Income Less Expenditures under Various Net Immigration Assumptions

Ultimate net immigration	672,500	900,000	1,300,000
Income minus expenditures (in billions)	-$6,379	-$6,166	-$5,849

As shown in table 4, for every increase of 100,000 persons on the ultimate net immigration assumption, the deficit of income over expenditures decreases by nearly $100 billion.

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





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

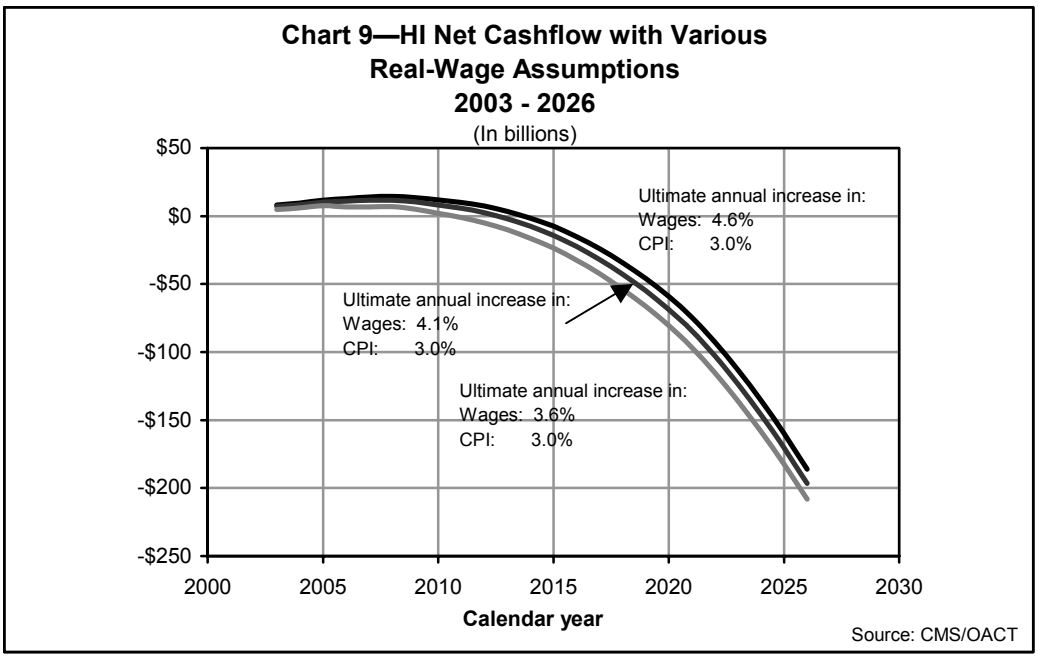
Real-Wage Differential

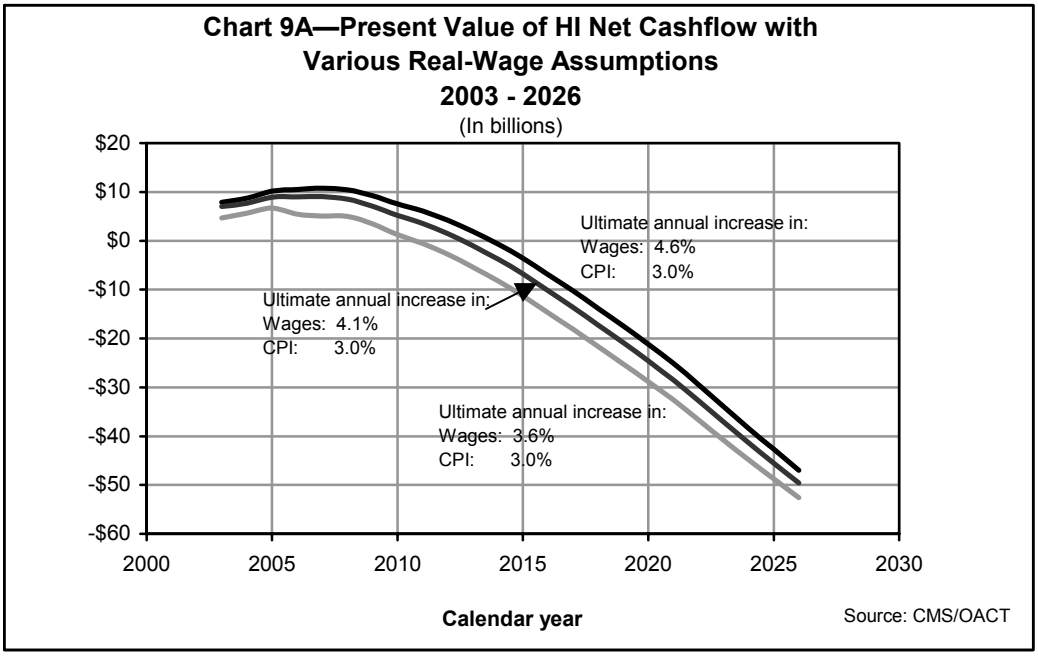
Table 5 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-wage differential assumptions: 0.6, 1.1, and 1.6 percentage points. In each case, the CPI is assumed to be 3.0 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.6, 4.1, and 4.6 percent, respectively.

Table 5—Present Value of Estimated HI Income Less Expenditures under Various Real-Wage Assumptions			
Ultimate percentage increase in wages - CPI	3.6 - 3.0	4.1 - 3.0	4.6 - 3.0
Ultimate percentage increase in real-wage differential	0.6	1.1	1.6
Income minus expenditures (in billions)	-$6,538	-$6,166	-$5,816

As indicated in table 5, for every half-point increase in the ultimate real-wage differential assumption, the deficit of income over expenditures decreases by approximately $360 billion.

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





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

Consumer Price Index

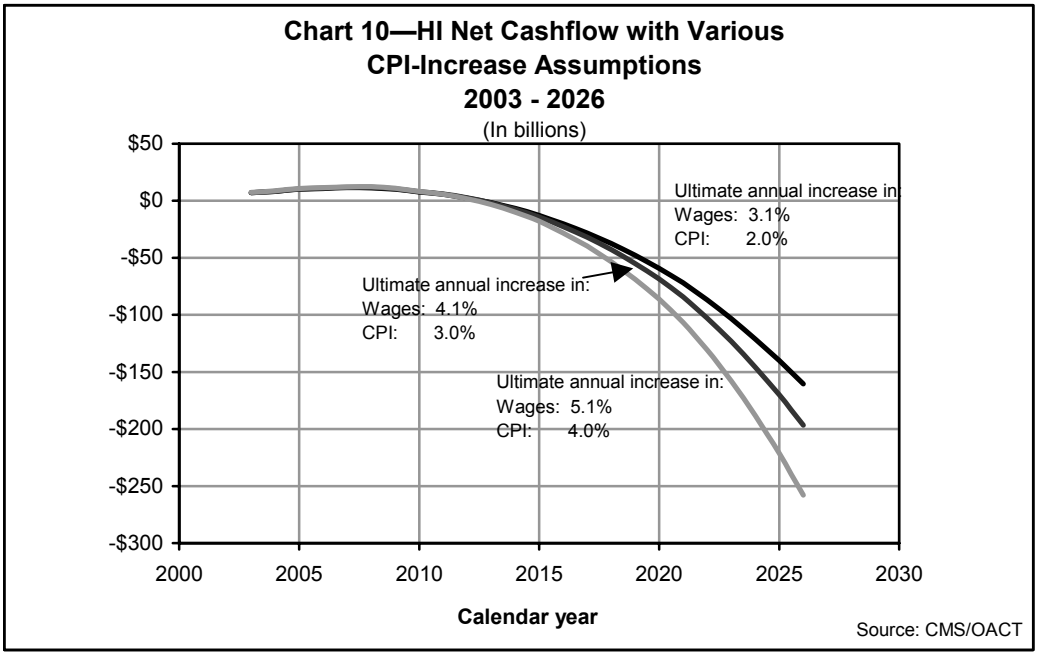
Table 6 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate CPI rate-of-increase assumptions: 2.0, 3.0, and 4.0 percent. In each case, the ultimate real-wage differential is assumed to be 1.1 percent, yielding ultimate percentage increases in average annual wages in covered employment of 3.1, 4.1, and 5.1 percent, respectively.

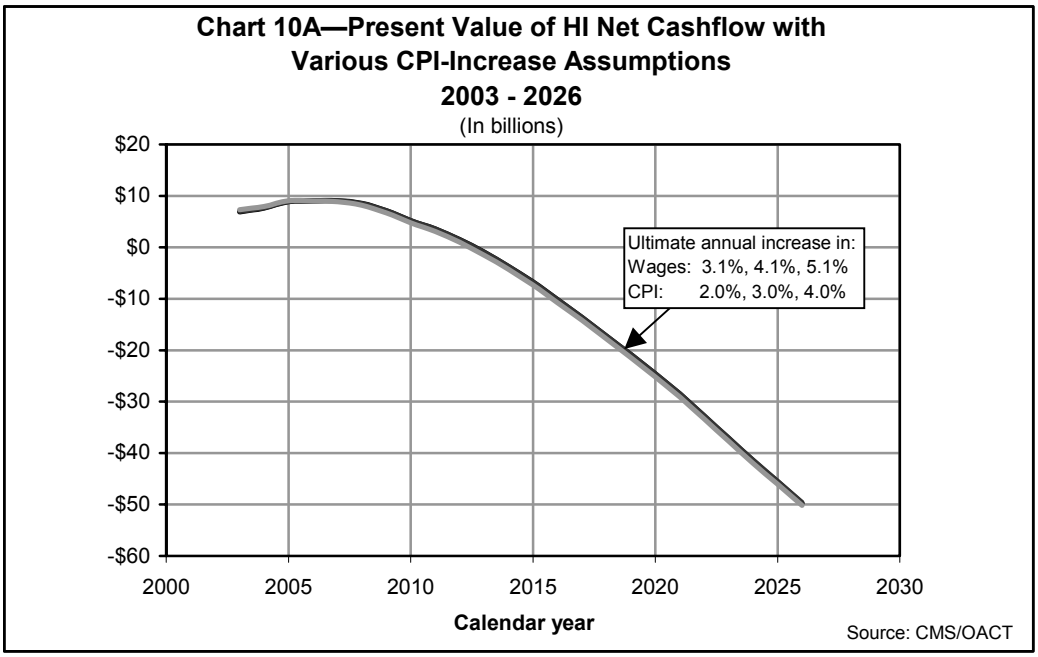
Table 6—Present Value of Estimated HI Income Less Expenditures under Various CPI-Increase Assumptions

Ultimate percentage increase in wages - CPI	3.1 - 2.0	4.1 - 3.0	5.1 - 4.0
Income minus expenditures (in billions)	-$6,189	-$6,166	-$6,182

Table 6 demonstrates that for every 1-point change in the ultimate CPI-increase assumption, the deficit of income over expenditures changes by approximately $20 billion.

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





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

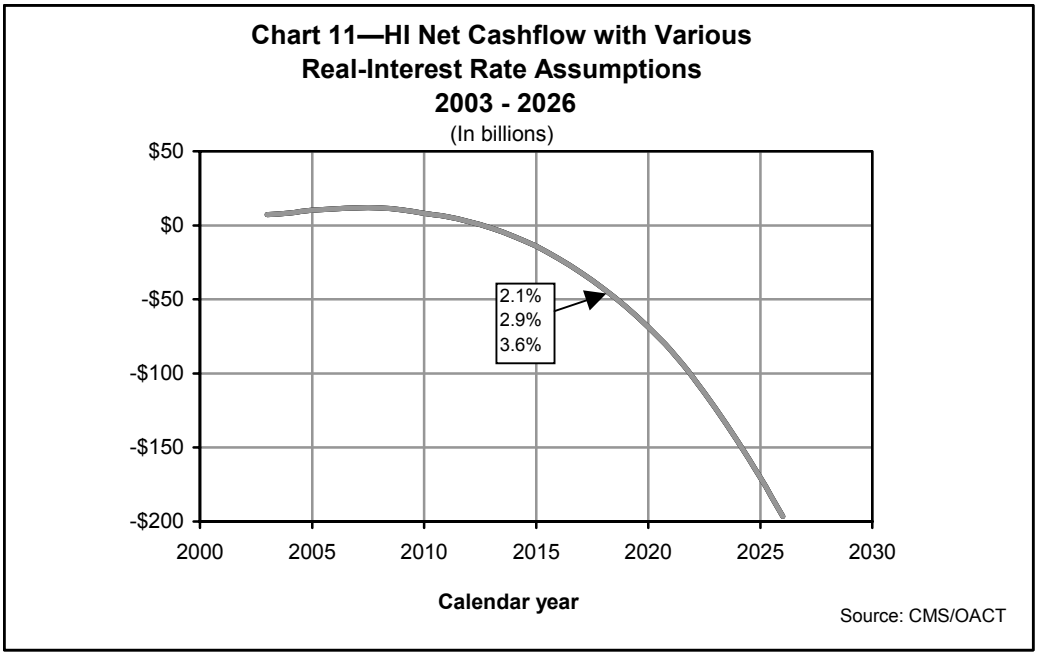
Real-Interest Rate

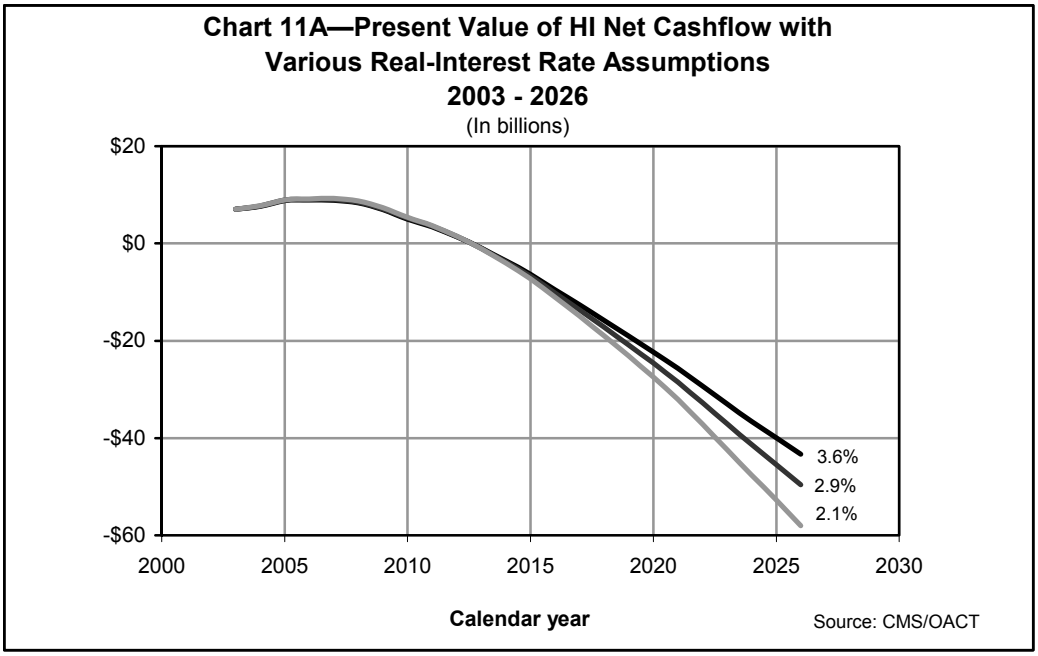
Table 7 shows the net present value of cashflow during the 75-year projection period under three alternative ultimate real-interest assumptions: 2.1, 2.9, and 3.6 percent. In each case, the ultimate annual increase in the CPI is assumed to be 3.0 percent, resulting in ultimate annual yields of 5.1, 5.9, and 6.6 percent, respectively.

Table 7—Present Value of Estimated HI Income Less Expenditures under Various Real-Interest Assumptions			
Ultimate real-interest rate	2.1 percent	2.9 percent	3.6 percent
Income minus expenditures (in billions)	-$8,962	-$6,166	-$4,501

As illustrated in table 7, for every increase of 0.1 in the ultimate real-interest rate percentage, the deficit of income over expenditures decreases by approximately $300 billion.

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





As shown in charts 11 and 11A, the present values of the net cashflow are more sensitive to the interest assumption than is the nominal net cashflow. This is not an indication of the actual role that interest plays in HI financing. In actuality, interest finances very little of the cost of the HI trust fund because, under the intermediate assumptions, the fund is projected to be relatively low and exhausted by 2026. These results illustrate the substantial sensitivity of present value measures to different interest rate assumptions. With higher assumed interest, the very large deficits in the more distant future are discounted more heavily (that is, are given less weight), and the overall net present value is smaller.

Health Care Cost Factors

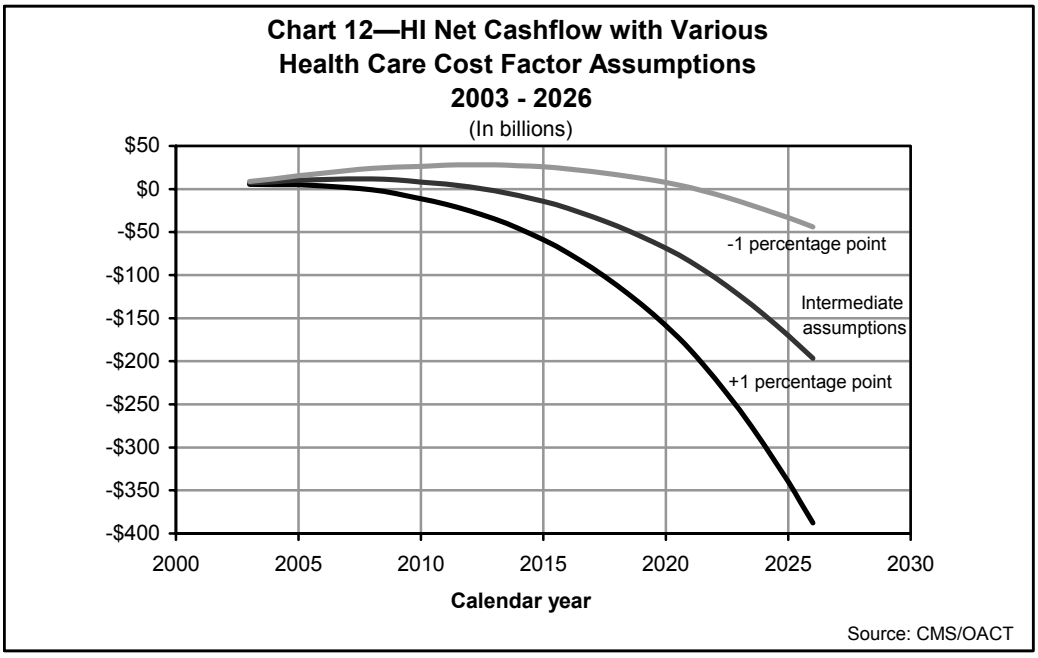
Table 8 shows the net present value of cashflow during the 75-year projection period under three alternative assumptions of the annual growth rate in the aggregate cost of providing covered health care services to beneficiaries. These assumptions are that the ultimate annual growth rate in such costs,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

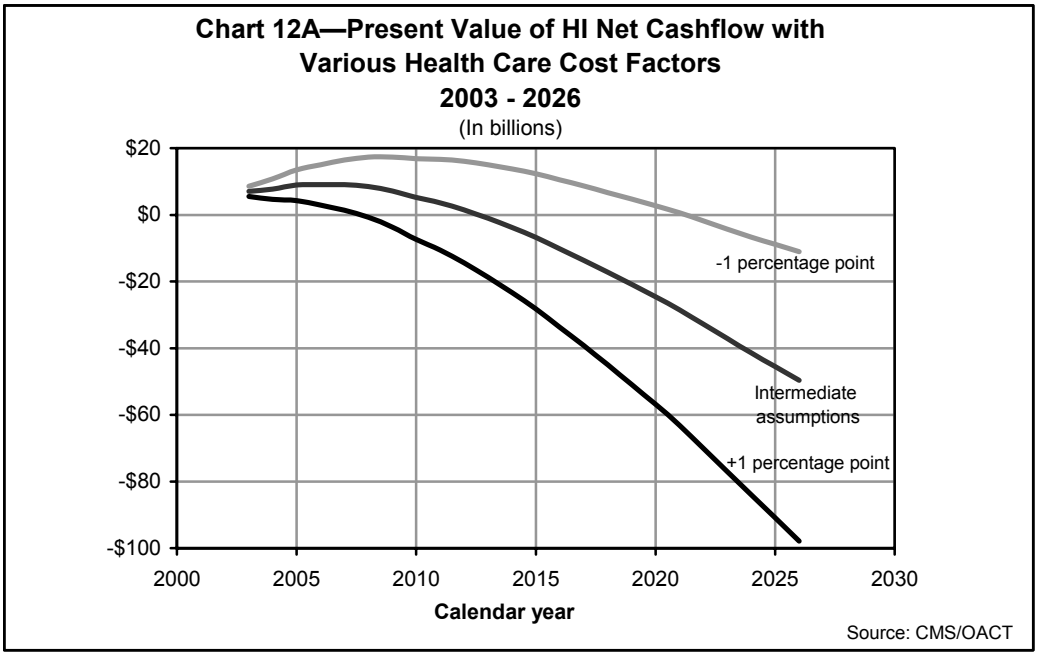
Table 8—Present Value of Estimated HI Income Less Expenditures under Various Health Care Cost Growth Rate Assumptions

Annual cost/payroll relative growth rate	-1 percentage point	Intermediate assumptions	+1 percentage point
Income minus expenditures (in billions)	-$1,583	-$6,166	-$13,684

Table 8 demonstrates that if the ultimate growth rate assumption is 1 percentage point lower than the intermediate assumptions, the deficit of income over expenditures decreases by $4,583 billion. On the other hand, if the ultimate growth rate assumption is 1 percentage point higher than the intermediate assumptions, the deficit increases more substantially, by $7,518 billion.

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





This assumption has a dramatic impact on projected HI cashflow. The assumptions analyzed thus far have affected HI income and costs simultaneously. However, several factors, such as the utilization of services by beneficiaries or the relative complexity of services provided, can affect costs without affecting tax income. As charts 12 and 12A indicate, the financial status of the HI trust fund is extremely sensitive to the relative growth rates for health care service costs versus taxable payroll.

Trust Fund Finances and Sustainability

HI

The HI trust fund is substantially out of financial balance in the long range. Under the Medicare Trustees' intermediate assumptions, income from all sources is projected to continue to exceed expenditures for the next 15 years but to fall short by steadily increasing amounts in 2018 and later. These shortfalls can be met by increasingly drawing on interest payments on invested assets and the redemption of those assets, but only until 2026 when assets would be exhausted. In the absence of corrective legislation, a depleted trust fund would intitially produce payment delays, but very quickly lead to a curtailment of health care services to beneficiaries.

Bringing the HI trust fund into actuarial balance over the next 75 years under the intermediate assumptions would require very substantial increases in revenues and/or reductions in benefits. These changes are needed in part as a result of the impending retirement of the baby boom generation.

SMI

The financing established for the SMI trust fund for calendar year 2003, along with a portion of trust fund assets, is estimated to be sufficient to cover expenditures for that year and to still preserve an adequate contingency reserve in the fund. Moreover, for all future years, trust fund income is projected to equal expenditures—but only because beneficiary premiums and government general revenue contributions are set to meet expected costs each year. However, a critical issue for the SMI trust fund is the impact of the past and expected rapid growth of SMI costs, which place steadily increasing demands on beneficiaries and society at large.

The SMI trust fund's automatic financing provisions prevent crises such as those faced in the mid-1990s by the HI trust fund, the assets of which were projected to be exhausted in the near future. As a result, there has been substantially less attention directed toward the financial status of the SMI trust fund than to the HI trust fund—even though SMI expenditures have increased faster than HI expenditures in most years and are expected to continue to do so for a number of years in the future.

Medicare Overall

The projections shown in this section continue to demonstrate the need for the Administration and the Congress to address the financial challenges facing Medicare—both the long-range financial imbalance facing the HI trust fund and the continuing problem of rapid growth in SMI expenditures. In their 2003 annual report to Congress, the Medicare Boards of Trustees emphasize the seriousness of these concerns and urge the nation's policy makers to take "effective and decisive action…to build upon the strong steps taken in recent reforms." They also state: "Consideration of further reforms should occur in the relatively near future."

U.S. Department of Health and Human Services
Combining Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2003
(in millions)

	CMS			Other OPDIV Budgetary Accounts[1]	OPDIV Combined Totals
	Medicare HI	Medicare SMI	Medicaid		
Budgetary Resources:					
1. Budget Authority	$ 174,752	$110,180	$ 164,731	$ 195,195	$ 644,858
2. Unobligated Balances – Beginning of Period	-	-	-	10,898	10,898
3. Spending Authority from Offsetting Collections	-	-	112	8,281	8,393
4. Recoveries of prior year obligations	-	-	4,445	3,231	7,676
5. Temporarily not available pursuant to Public Law	(21,699)	14,025	-	(270)	(7,944)
6. Permanently not available (-)	-	-	(1,347)	(8,127)	(9,474)
7. Total Budgetary Resources	$ 153,053	$ 124,205	$ 167,941	$ 209,208	$ 654,407
Status of Budgetary Resources:					
8. Obligations Incurred	$ 153,053	$ 124,205	$ 167,941	$ 201,218	$ 646,417
9. Unobligated Balances - Available	-	-	-	2,864	2,864
10. Unobligated Balances - Not Available	-	-	-	5,126	5,126
11. Total Status of Budgetary Resources	$ 153,053	$ 124,205	$ 167,941	$ 209,208	$ 654,407
Relationship of Obligations to Outlays:					
12. Obligated Balance, Net – Beginning of Period	$ 968	$ 922	$ 5,049	$ 69,467	$ 76,406
13. Obligated Balance Transferred, Net (+/-)	-	-	-	-	-
14. Obligated Balance, Net – End of Period	1,228	1,072	8,797	70,749	81,846
15. Outlays	152,793	124,055	159,636	188,424	624,908
16. Less: Offsetting receipts	1,598	26,834	-	11	28,443
17. Net Outlays	$ 151,195	$ 97,221	$ 159,636	$ 188,413	$ 596,465

Summary of Other OPDIV Budgetary Accounts

	Budgetary Resources	Status of Budgetary Resources	Net Outlays
ACF	$ 50,387	$ 50,387	$ 47,527
AoA	1,318	1,318	1,312
AHRQ	355	355	202
CDC	6,485	6,485	5,656
CMS	99,976	99,976	95,195
FDA	1,911	1,911	1,396
HRSA	7,634	7,634	6,354
IHS	4,403	4,403	2,870
NIH	29,705	29,705	22,825
OS	2,825	2,825	1,727
PSC	835	835	302
SAMHSA	3,374	3,374	3,047
	$ 209,208	$ 209,208	$ 188,413

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

U.S. Department of Health and Human Services
Condensed Balance Sheet
Franchise and Intra-Governmental Support Revolving Funds
As of September 30, 2003
(in millions)

	HHS Service and Supply Fund	NIH Service and Supply Fund	Combined Totals
Assets			
Fund Balance with Treasury	$ 34	$ 272	$ 306
Accounts Receivable, Net	161	3	164
Property, Plant and Equip, Net	15	119	134
Other Assets	21	14	35
Total Assets	$ 231	$ 408	$ 639
Liabilities			
Accounts Payable	$ 50	$ 42	$ 92
Other Liabilities	20	231	251
Total Liabilities	$ 70	$ 273	$ 343
Net Position			
Cumulative Results of Operations	$ 161	$ 135	$ 296
Total Liabilities and Net Position	$ 231	$ 408	$ 639

U.S. Department of Health and Human Services
Condensed Statement of Net Cost
Franchise and Intra-Governmental Support Revolving Funds
For the Fiscal Year Ended September 30, 2003
(in millions)

Program/Business Line	Gross Costs	Less: Earned Revenue	Net Costs
HHS Service and Supply Fund			
Administrative Operations Services	$ 203	$ (189)	$ 14
Financial Management Service	48	(59)	(11)
Human Resources Service	59	(68)	(9)
Federal Occupational Health	153	(160)	(7)
Total	$ 463	$ (476)	$ (13)
NIH Service and Supply Fund			
Administrative Services	$ 472	$ (490)	$ (18)
Information Technology	220	(233)	(13)
Instrumentation Services	11	(11)	-
Animal Services	47	(48)	(1)
Total	$ 750	$ (782)	$ (32)

The Program Support Center (PSC), a component of the Office of the Secretary, manages the HHS Service and Supply Fund. The PSC provides support services to federal agencies on a competitive, "service-for-fee" basis. Services and products are available in the areas of Acquisitions, Finance, Medical Supply Operation, Health Services, Personnel and Payroll and Support Services. Major customers are other HHS Operating Divisions and components of many federal agencies including Departments of Defense, Education, Housing and Urban Development, Interior, Energy, Labor, State, Transportation, Treasury and other independent federal organizations.

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

U.S. Department of Health and Human Services
Deferred Maintenance
For the Fiscal Years Ended September 30, 2003 and 2002

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

Category of Asset	Condition	Cost to Return to Acceptable Condition 2003	2002
General PP&E			
Buildings	3 – 4	$ 618	$ 718
Equipment	4	8	0
Other Structures	4	37	16
Total		$ 663	$ 734

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

U.S. Department of Health and Human Services
Intragovernmental Transactions - Assets
For the Fiscal Year Ended September 30, 2003
(in millions)

Agency	TFM Dept Code	Fund Bal. w/ Treasury	Investments	Accounts Receivable	Other[1]
Dept of Agriculture	12			2	4
Dept of Commerce	13			6	20
Dept of Defense	17,215,797			200	20
Dept of Education	91			8	-
Dept of Energy	89			14	-
Dept of Housing & Urban Development	86			14	-
Dept of the Interior	14			1	-
Dept of Justice	15			5	-
Dept of Labor	16			1	-
Dept of State	19			2	-
Dept of Transportation	69			1	-
Dept of the Treasury	20	86,289	282,350	149	11,853
Dept of Veterans Affairs	36			5	283
Agency for International Development	72			7	-
Environmental Protection Agency	68			51	-
Dept of Homeland Security	70			10	-
General Services Admin	47			2	-
National Aeronautics & Space Admin	80			1	-
National Science Foundation	49			1	-
Nuclear Regulatory Commission	31			-	-
Office of Personnel Mgmt	24			-	-
Small Business Admin	73			-	-
Social Security Admin	28			2	-
RRB	60			406	-
All other Federal agencies		-	-	11	-
Total		$ 86,289	$ 282,350	$ 899	$ 12,180

[1] Includes Anticipated Congressional Appropriation of $11,830

U.S. Department of Health and Human Services
Intragovernmental Transactions - Liabilities
For the Fiscal Year Ended September 30, 2003
(in millions)

Agency	TFM Dept Code	Accounts Payable	Accrued Payroll & Benefits	Other
Dept of Agriculture	12	-	-	-
Dept of Commerce	13	-	-	-
Dept of Defense	17,215,797	6	-	48
Dept of Education	91	-	-	-
Dept of Energy	89	-	-	2
Dept of Housing & Urban Development	86	-	-	29
Dept of the Interior	14	-	-	-
Dept of Justice	15	-	-	10
Dept of Labor	16	-	19	-
Dept of State	19	-	-	-
Dept of Transportation	69	-	-	-
Dept of the Treasury	20	-	5	244
Dept of Veterans Affairs	36	-	-	1
Agency for International Development	72	-	-	-
Environmental Protection Agency	68	-	-	26
Dept of Homeland Security	70	-	-	82
General Services Admin	47	15	-	112
National Aeronautics & Space Admin	80	-	-	-
National Science Foundation	49	-	-	-
Nuclear Regulatory Commission	31	-	-	-
Office of Personnel Mgmt	24	-	46	-
Small Business Admin	73	-	-	-
Social Security Admin	28	246	-	-
RRB	60	-	-	-
All other Federal agencies		4	-	40
Total		$ 271	$ 70	$ 594

U.S. Department of Health and Human Services
Intragovernmental Transactions - Revenues & Expenses
For the Fiscal Year Ended September 30, 2003
(in millions)

Agency	TFM Dept Code	Earned Revenue	Gross Cost	Non-exchange Revenue	
				Transfers-In	Transfers-Out
Dept of Agriculture	12	8	(10)	-	-
Dept of Commerce	13	10	(36)	-	-
Dept of Defense	17,215,797	132	(77)	32	-
Dept of Education	91	6	(67)	-	-
Dept of Energy	89	26	(54)	-	-
Dept of Housing & Urban Development	86	32	-	-	-
Dept of the Interior	14	5	(156)	-	-
Dept of Justice	15	43	(148)	-	-
Dept of Labor	16	22	(31)	-	-
Dept of State	19	4	(66)	-	-
Dept of Transportation	69	4	(15)	-	-
Dept of the Treasury	20	16	(293)	-	-
Dept of Veterans Affairs	36	36	(62)	-	-
Agency for International Development	72	31	(2)	-	-
Environmental Protection Agency	68	42	(4)	82	-
Dept of Homeland Security	70	177	(38)	-	-
General Services Admin	47	6	(645)	-	-
National Aeronautics & Space Admin	80	3	-	-	-
National Science Foundation	49	2	(3)	-	-
Nuclear Regulatory Commission	31	2	-	-	-
Office of Personnel Mgmt	24	-	(1,204)	-	-
Small Business Admin	73	1	-	-	-
Social Security Admin	28	9	(3)	2	(1,236)
RRB	60	-	-	389	(5)
All other Federal agencies		34	(79)	-	(9)
Total		$ 651	$ (2,993)	$ 505	$ (1,250)

U.S. Department of Health and Human Services
Consolidating Balance Sheet by Budget Function
As of September 30, 2003
(in millions)

	Education, Training & Social Services	Health	Medicare	Income Security	Admin. of Justice	Natural Resources & Environ	OPDIV Combined Totals	Intra-HHS Eliminations	HHS Consolidated Totals
Assets (Note 2)									
Intragovernmental									
Fund Balance with Treasury (Note 3)	$ 6,541	$ 64,034	$ (384)	$ 16,074	$ 7	$ 17	$ 86,289	$ -	$ 86,289
Investments, Net (Note 5)	-	2,050	280,300	-	-	-	282,350	-	282,350
Accounts Receivable, Net (Note 6)	4	436	6,699	1	-	-	7,140	(6,241)	899
Anticipated Congressional Appropriation (Note 7)	-	8,449	3,381	-	-	-	11,830	-	11,830
Other (Note 11)	-	674	3	-	-	-	677	(327)	350
Total Intragovernmental	$ 6,545	$ 75,643	$ 289,999	$ 16,075	$ 7	$ 17	$ 388,286	$ (6,568)	$ 381,718
Accounts Receivable, Net (Note 6)	-	764	2,053	-	-	-	2,817	-	2,817
Loans Receivable and Foreclosed Property (Note 8)	-	387	-	-	-	-	387	-	387
Cash and Other Monetary Assets (Note 4)	-	-	843	-	-	-	843	-	843
Inventory and Related Property, Net (Note 9)	-	93	-	-	-	-	93	-	93
General Property, Plant & Equipment, Net (Note 10)	-	3,236	12	-	-	1	3,249	-	3,249
Other (Note 11)	-	23	62	-	-	-	85	-	85
Total Assets	**$ 6,545**	**$ 80,146**	**$ 292,969**	**$ 16,075**	**$ 7**	**$ 18**	**$ 395,760**	**$ (6,568)**	**$ 389,192**
Liabilities (Note 12)									
Intragovernmental									
Accounts Payable	$ 13	$ 105	$ 6,355	$ 1	$ -	$ -	$ 6,474	$ (6,203)	$ 271
Accrued Payroll and Benefits	2	65	3	-	-	-	70	-	70
Other (Note 17)	-	760	199	-	-	-	959	(365)	594
Total Intragovernmental	$ 15	$ 930	$ 6,557	$ 1	$ -	$ -	$ 7,503	$ (6,568)	$ 935
Accounts Payable	16	866	-	6	-	-	888	-	888
Entitlement Benefits Due and Payable (Note 13)	-	17,784	30,339	-	-	-	48,123	-	48,123
Environmental and Disposal Costs (Note 15)	-	39	-	-	-	-	39	-	39
Accrued Grant Liability (Note 16)	501	1,996	-	1,253	-	2	3,752	-	3,752
Loan Guarantees Liability (Note 8)	-	362	-	-	-	-	362	-	362
Federal Employee and Veterans Benefits (Note 14)	5	6,887	10	-	-	1	6,903	-	6,903
Accrued Payroll and Benefits	14	661	43	-	-	-	718	-	718
Other (Note 17)	(2)	1,072	250	17	1	1	1,339	-	1,339
Total Liabilities	**$ 549**	**$ 30,597**	**$ 37,199**	**$ 1,277**	**$ 1**	**$ 4**	**$ 69,627**	**$ (6,568)**	**$ 63,059**
Net Position									
Unexpended Appropriations	6,022	51,139	3,425	14,799	-	-	75,385	-	75,385
Cumulative Results of Operations	(26)	(1,590)	252,345	(1)	6	14	250,748	-	250,748
Total Net Position	$ 5,996	$ 49,549	$ 255,770	$ 14,798	$ 6	$ 14	$ 326,133	$ -	$ 326,133
Total Liabilities and Net Position	**$ 6,545**	**$ 80,146**	**$ 292,969**	**$ 16,075**	**$ 7**	**$ 18**	**$ 395,760**	**$ (6,568)**	**$ 389,192**

U.S. Department of Health and Human Services
Consolidating Balance Sheet by Operating Division
As of September 30, 2003
(in millions)

	ACF	AoA	AHRQ	CDC	CMS	FDA	HRSA	IHS	NIH	OS	PSC	SAMHSA	OPDIV Consolidated Totals	Inter-OPDIV Eliminations	HHS Consolidated Totals
Assets (Note 2)															
Intragovernmental															
Fund Balance with Treasury (Note 3)	$ 22,073	$ 549	$ 154	$ 4,463	$ 18,536	$ 688	$ 5,945	$ 1,428	$ 26,581	$ 3,264	$ 92	$ 2,516	$ 86,289	$ -	$ 86,289
Investments, Net (Note 5)	-	-	-	-	280,300	-	2,030	-	20	-	-	-	282,350	-	282,350
Accounts Receivable, Net (Note 6)	5	-	5	50	700	27	3	28	19	22	149	4	1,012	(113)	899
Anticipated Congressional Appropriation (Note 7)	-	-	-	-	11,830	-	-	-	-	-	-	-	11,830	-	11,830
Other (Note 11)	-	-	-	305	3	-	23	-	20	-	-	-	351	(1)	350
Total Intragovernmental	22,078	549	159	4,818	311,369	715	8,001	1,456	26,640	3,286	241	2,520	381,832	(114)	381,718
Accounts Receivable, Net (Note 6)	-	-	-	3	2,620	58	4	115	6	-	7	4	2,817	-	2,817
Loans Receivable and Foreclosed Property (Note 8)	-	-	-	-	-	-	387	-	-	-	-	-	387	-	387
Cash and Other Monetary Assets (Note 4)	-	-	-	-	843	-	-	-	-	-	-	-	843	-	843
Inventory and Related Property, Net (Note 9)	-	-	-	51	-	-	-	9	12	-	21	-	93	-	93
General Property, Plant & Equipment, Net (Note 10)	-	-	-	486	13	292	1	795	1,618	29	15	-	3,249	-	3,249
Other (Note 11)	-	-	-	2	72	-	-	-	4	7	-	-	85	-	85
Total Assets	**$ 22,078**	**$ 549**	**$ 159**	**$ 5,360**	**$ 314,917**	**$ 1,065**	**$ 8,393**	**$ 2,375**	**$ 28,280**	**$ 3,322**	**$ 284**	**$ 2,524**	**$ 389,306**	**$ (114)**	**$ 389,192**
Liabilities (Note 12)															
Intragovernmental															
Accounts Payable	$ 12	$ 1	$ 3	$ -	$ 246	$ 11	$ 18	$ 3	$ 6	$ 36	$ 2	$ 8	$ 346	$ (75)	$ 271
Accrued Payroll and Benefits	2	-	-	6	3	8	3	16	20	5	6	1	70	-	70
Other (Note 17)	-	-	11	113	233	50	43	52	49	-	-	82	633	(39)	594
Total Intragovernmental	$ 14	$ 1	$ 14	$ 119	$ 482	$ 69	$ 64	$ 71	$ 75	$ 41	$ 8	$ 91	$ 1,049	$ (114)	$ 935
Accounts Payable	21	1	11	296	-	67	23	45	304	46	48	26	888	-	888
Entitlement Benefits Due and Payable (Note 13)	-	-	-	-	48,123	-	-	-	-	-	-	-	48,123	-	48,123
Environmental and Disposal Costs (Note 15)	-	-	-	3	-	5	-	23	8	-	-	-	39	-	39
Accrued Grant Liability (Note 16)	1,669	86	15	170	-	1	384	14	1,280	146	-	(13)	3,752	-	3,752
Loan Guarantees Liability (Note 8)	-	-	-	-	-	-	362	-	-	-	-	-	362	-	362
Federal Employee and Veterans Benefits (Note 14)	5	-	1	20	11	22	36	86	65	26	6,605	26	6,903	-	6,903
Accrued Payroll and Benefits	13	1	3	90	46	94	30	114	258	34	29	6	718	-	718
Other (Note 17)	16	(1)	(1)	31	256	149	688	129	72	1	-	(1)	1,339	-	1,339
Total Liabilities	**$ 1,738**	**$ 88**	**$ 43**	**$ 729**	**$ 48,918**	**$ 407**	**$ 1,587**	**$ 482**	**$ 2,062**	**$ 294**	**$ 6,690**	**$ 135**	**$ 63,173**	**$ (114)**	**$ 63,059**
Net Position															
Unexpended Appropriations	20,359	462	10	4,203	13,441	407	5,063	1,297	24,635	3,049	40	2,419	75,385	-	75,385
Cumulative Results of Operations	(19)	(1)	106	428	252,558	251	1,743	596	1,583	(21)	(6,446)	(30)	250,748	-	250,748
Total Net Position	$ 20,340	$ 461	$ 116	$ 4,631	$ 265,999	$ 658	$ 6,806	$ 1,893	$ 26,218	$ 3,028	$ (6,406)	$ 2,389	$ 326,133	$ -	$ 326,133
Total Liabilities and Net Position	**$ 22,078**	**$ 549**	**$ 159**	**$ 5,360**	**$ 314,917**	**$ 1,065**	**$ 8,393**	**$ 2,375**	**$ 28,280**	**$ 3,322**	**$ 284**	**$ 2,524**	**$ 389,306**	**$ (114)**	**$ 389,192**

U. S. Department of Health and Human Services
Supplemental Statement of Net Cost
For the Fiscal Years Ended September 30, 2003 and 2002
(in millions)

	2003			
	OPDIV	Inter-OPDIV Eliminations		HHS
Responsibility Segments	Consolidated Totals	Costs (-)	Earned/Exchange Revenues (+) [1]	Consolidated Totals
ACF	$ 47,615	$ (31)	$ 9	$ 47,593
AoA	1,317	(2)	-	1,315
AHRQ	217	(9)	103	311
CDC	5,279	(92)	219	5,406
CMS	416,198	(193)	4	416,009
FDA	1,409	(83)	35	1,361
HRSA	6,707	(87)	28	6,648
IHS	3,109	(88)	27	3,048
NIH	23,051	(423)	95	22,723
OS	2,023	(64)	207	2,166
PSC	345	(17)	225	553
SAMHSA	3,034	(30)	25	3,029
Net Cost of Operations	$ 510,304	$ (1,119)	$ 977	$ 510,162

	2002 Restated			
	OPDIV	Inter-OPDIV Eliminations		HHS
Responsibility Segments	Consolidated Totals	Costs (-)	Earned/Exchange Revenues (+) [1]	Consolidated Totals
ACF	$ 45,959	$ (27)	$ 4	$ 45,936
AoA	1,104	(2)	-	1,102
AHRQ	276	(5)	-	271
CDC	4,553	(113)	93	4,533
CMS	384,924	(46)	1	384,879
FDA	1,298	(78)	19	1,239
HRSA	5,825	(102)	27	5,750
IHS	2,882	(29)	20	2,873
NIH	20,575	(438)	93	20,230
OS	1,285	(73)	115	1,327
PSC	936	(22)	208	1,122
SAMHSA	2,905	(34)	9	2,880
Net Cost of Operations	$ 472,522	$ (969)	$ 589	$ 472,142

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

U.S. Department of Health and Human Services
Consolidating Statement of Net Cost By Budget Function
For the Fiscal Year Ended September 30, 2003
(in millions)

Responsibility Segments:	Education, Training, & Social Services	Health	Medicare	Income Security	Admin of Justice	Natural Resources & Environment	OPDIV Combined Totals	Intra-HHS Eliminations		HHS Consolidated Totals
								Cost (-)	Revenue	
ACF	$ 10,595	$ -	$ -	$ 37,021	$ (1)	$ -	$ 47,615	$ (31)	$ 9	$ 47,593
AoA	1,317	-	-	-	-	-	1,317	(2)	-	1,315
AHRQ	-	217	-	-	-	-	217	(9)	103	311
CDC	-	5,278	-	-	-	1	5,279	(92)	219	5,406
CMS	-	166,124	250,074	-	-	-	416,198	(193)	4	416,009
FDA	-	1,409	-	-	-	-	1,409	(83)	35	1,361
HRSA	-	6,707	-	-	-	-	6,707	(87)	28	6,648
IHS	-	3,109	-	-	-	-	3,109	(88)	27	3,048
NIH	-	23,051	-	-	-	-	23,051	(423)	95	22,723
OS	-	2,023	-	-	-	-	2,023	(64)	207	2,166
PSC	-	345	-	-	-	-	345	(17)	225	553
SAMHSA	-	3,034	-	-	-	-	3,034	(30)	25	3,029
Net Cost of Operations	**$ 11,912**	**$ 211,297**	**$ 250,074**	**$ 37,021**	**$ (1)**	**$ 1**	**$ 510,304**	**$ (1,119)**	**$ 977**	**$ 510,162**

U.S. Department of Health and Human Services
Gross Cost and Exchange Revenue
For the Fiscal Year Ended September 30, 2003
(in millions)

Responsibility Segments	Intragovernmental						With the Public		HHS Consolidated Net Cost of Operations
	Gross Cost			Less: Exchange Revenue					
	Combined	Eliminations	Consolidated	Combined	Eliminations	Consolidated	Gross Cost	Less: Exchange Revenue	
ACF	$ 153	$ (48)	$ 105	$ 30	$ (26)	$ 4	$ 47,492	$ -	$ 47,593
AoA	12	(2)	10	-	-	-	1,305	-	1,315
AHRQ	31	(9)	22	103	(103)	-	289	-	311
CDC	549	(100)	449	355	(227)	128	5,086	1	5,406
CMS	479	(193)	286	6	(4)	2	444,216	28,491	416,009
FDA	471	(83)	388	42	(35)	7	1,226	246	1,361
HRSA	408	(94)	314	90	(35)	55	6,517	128	6,648
IHS	396	(90)	306	80	(29)	51	3,437	644	3,048
NIH	2,616	(1,926)	690	1,652	(1,598)	54	22,136	49	22,723
OS	310	(71)	239	241	(214)	27	1,952	(2)	2,166
PSC	99	(26)	73	475	(234)	241	738	17	553
SAMHSA	141	(30)	111	107	(25)	82	3,000	-	3,029
Totals	**$ 5,665**	**$ (2,672)**	**$ 2,993**	**$ 3,181**	**$ (2,530)**	**$ 651**	**$ 537,394**	**$ 29,574**	**$ 510,162**