



# The United States Government A Report To Our Citizens

## CONSTITUTION OF THE UNITED STATES

WE THE PEOPLE of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

## President Thomas Jefferson to Treasury Secretary Albert Gallatin, 1802

"We might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress and every man of any mind in the Union should be able to comprehend them, to investigate abuses, and consequently to control them."

### The United States Government Organization and Financial Management

The [U.S. Constitution](#), which was ratified on September 17, 1787, is the legal cornerstone of the United States of America. It provides the framework for the organization of the [United States Government](#). The Constitution outlines the three main branches of the government. The executive branch is headed by the [President](#). The legislative branch is embodied in the [bicameral Congress](#). The judicial branch is headed by the nine-member [Supreme Court](#). Besides providing for the organization of these branches, the Constitution carefully outlines which powers each branch may exercise. It also reserves numerous rights for the individual [states](#), and thus establishes the United States' [federal system](#) of government.

To obtain the funds necessary to carry out the federal government's mission, Article 1, Section 9, Clause 7 of the Constitution states that; "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time." Determining how these funds will be distributed is a long and complicated process that begins with the creation and submission to Congress of the President's Budget.

Once Congress receives the President's Budget, the House of Representatives enacts a budget resolution that sets the government's base line level of spending. Once this bottom line is established, Congress mandates how this level of funding will be authorized and appropriated among federal activities.

The Department of the Treasury then creates appropriation warrants to record and distribute funds to legislative, executive, judicial branch departments and agencies according to the amounts appropriated by Congress.

The Department of the Treasury, Financial Management Service, through its Government-wide Accounting System

collects financial information from all Government legislative, executive and judicial branch agencies and reports the financial results of the Government in three principal reports.

1. The Monthly Treasury Statement reports financial results in terms of summarized receipt and outlays and the means of financing such transactions.
2. To meet the requirements of Article 1, Section 9, Clause 7 of the Constitution, the Financial Management Service issues an annual Combined Statement of Receipts, Outlays and Balances of the United States Government. Both the Monthly Treasury Statement and Combined Statement are accounted for and reported on a modified cash and accrual accounting basis. Accounting for receipts is on the basis of collections received, accounting for outlays is on the basis of checks issued and cash payments made (cash basis). However, the interest on the public debt, public issues, is on the accrual basis while the interest on special issues is on the cash basis.
3. The third Financial Management Services report is the Annual Financial Report of the United States Government. This report is a broad, comprehensive overview of the government's financial position and activities presented on the accrual accounting basis.

The following pages of this Citizen-Centric Report summarize the Financial Report by answering the following questions:

- **How Are We Doing?**
- **What Are The Costs?**
- **Challenges Moving Forward**
  - **What's Next? Future Issues?**

### Selected Financial Data

	2006	2007
<b>Population (in thousands)</b>	<b>300,184</b>	<b>303,135</b>
<b>Total Household Net Worth (in billions)</b>	<b>\$53,300</b>	<b>\$58,600</b>
<b>Each Household's Share of Government's Fiscal Burden</b>	<b>\$464,000</b>	<b>\$498,748</b>
<b>Government's Net Debt &amp; Responsibilities (in billions)</b>	<b>\$53,858</b>	<b>\$55,202</b>



# How Are We Doing A Performance Report

The U.S. government is the largest, most diverse, complex, and arguably the most important financial entity on earth today. The Department of the Treasury, in coordination with the Office of Management and Budget, annually prepares the Financial Report of the United States Government. Included in this report is the Government's balance sheet, liabilities, operating statements, notes to the financial statements, management discussion, and analysis information. The data within this Report to Our Citizens is derived from information within the Financial Report. The Financial Report follows the requirements established by the Federal Accounting Standards Advisory Board (FASAB). FASAB promulgates Federal accounting and reporting standards after considering the financial and budgetary information needs of citizens, congressional oversight groups, executive agencies, and the needs of other users of federal financial information. FASAB standards and concepts may be accessed at Internet URLs <http://www.fasab.gov/standards.html> and <http://www.fasab.gov/concepts.html>.

The Government Accountability Office (GAO) is the [audit](#), [evaluation](#), and investigative arm of the [United States Congress](#). It is located in the Legislative branch of the [United States Government](#). For the 11th consecutive year the GAO has been prevented from expressing an opinion on the Federal Government's financial statements based upon material weaknesses in financial reporting and other limitations on the scope of work. For the first time however, GAO issued an unqualified or "clean" opinion on the Statement of Social Insurance for 2007. The GAO report can be accessed at the following Internet URL <http://fms.treas.gov/fr/07frusg/07gao1.pdf>. While the U.S. Comptroller General cautions the readers of the Financial Report that amounts reported in the Consolidated Financial Statements and related notes may not be reliable, this Financial Report remains the best information available on the nation's financial condition.

Although the Report to Our Citizen is based upon the Financial Report, variances have been made in the presentation related to: 1) terminology i.e., the use of the term responsibilities rather than liabilities and 2) the inclusion of social insurance, commitments, and undelivered orders as Federal Government responsibilities. These changes have been based upon the interpretation presented in FASAB Statement of Federal Financial Accounting Concept 5 – Footnote 6:

“The term obligation is used in this Statement with its general meaning of a duty or responsibility to act in a certain way. It does not mean that an obligation of budgetary resources is required for a liability to exist in accounting or financial reporting or that a liability in accounting or financial reporting is required to exist for budgetary resources to be obligated.

[http://www.fasab.gov/pdf/files/sf\\_fac5.pdf](http://www.fasab.gov/pdf/files/sf_fac5.pdf)

The financial reports upon which this document is based maybe accessed at the following Internet sites:

<b>What We Own</b>			
In billions	2006	2007	Difference
<b>Assets</b>	<b>\$1,497</b>	<b>\$1,581</b>	<b>\$139</b>
<b>What We Owe - Responsibilities</b>			
In billions	2006	2007	Difference
Social Security responsibilities	\$14,976	\$16,265	\$1,289
Medicare responsibilities Part A	\$12,153	\$12,044	-\$109
Medicare responsibilities Part B	\$10,630	\$10,347	-\$284
Medicare responsibilities Part D	\$6,257	\$6,273	-\$16
Other Social Responsibilities	\$131	\$133	\$2
Commitments (Long Term Lease & Undelivered Orders)	\$795	\$934	\$139
Subtotal Social Insurance & Commitments	\$44,942	\$45,996	\$1,021
Military & civilian pension & retiree health	\$4,679	\$4,769	\$920
Public held debt	\$4,868	\$5,078	\$210
Other responsibilities	\$866	\$940	\$64
<b>Total responsibilities</b>	<b>\$55,355</b>	<b>\$56,783</b>	<b>\$2,215</b>
<b>Where We Stand</b>			
In billions	2006	2007	Difference
<b>Excess Responsibilities Over Assets</b>	<b>\$53,858</b>	<b>\$55,202</b>	<b>\$2,076</b>

Outlays By Congressional Objective	Fiscal Year 2007	
	(in billions)	(percent)
To establish justice	\$39.8	1%
To ensure domestic tranquility	\$30.4	1%
To provide for the common defense	\$674.5	23%
To promote the general welfare	\$1,795.7	62%
To secure the blessings of liberty	369.6	13%
<b>Total Outlays – Accrual Basis <sup>1/</sup></b>	<b>\$2,910.0</b>	<b>100%</b>



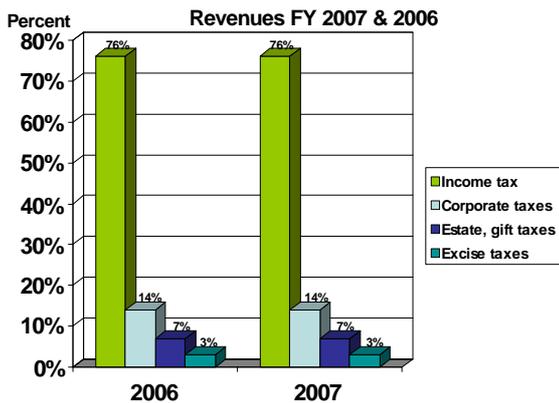
- US Government Financial Report <http://fms.treas.gov/fr/07frusg/07frusg.pdf>
- US Government Combined Statement <http://fms.treas.gov/annualreport/index.html>
- Monthly Treasury Statement <http://fms.treas.gov/mts/mts0907.pdf>
- OMB Performance Reporting <http://www.whitehouse.gov/omb/expectmore/>

<sup>1/</sup> Federal Government Financial Report, accrual basis.

# What Are The Costs How Were The Cost Paid For?

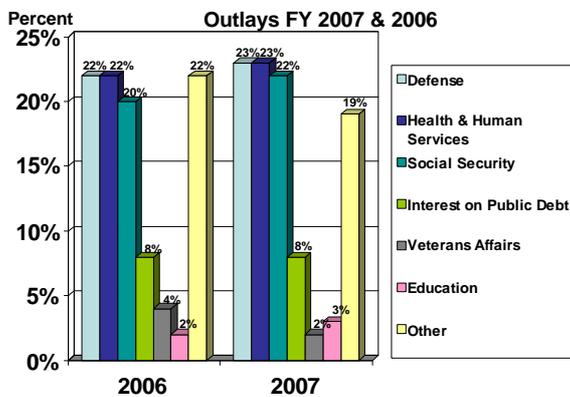


In fiscal year 2007 government revenues totaled \$2.6 trillion representing: 7.6% increase over fiscal year 2006. Individual income and withholding taxes increased 8.3%, corporate taxes increased 4.9%, Excise taxes decreased 9.5%, and Estate, gift & other taxes increase 12.9%.



What Came In?		
Revenues	2006 (in billions)	2007 (in billions)
Individual income tax and withholding taxes	\$1,846	\$2,000
Corporate taxes	\$350	\$367
Estate, gift taxes and other revenue	\$74	\$67
Excise taxes	\$171	\$193
<b>Total Revenue</b> <sup>1/</sup>	<b>\$2,441</b>	<b>\$2,627</b>

In fiscal year 2007 government expenses totaled \$2.9 trillion representing: increases in the following activities: Defense 4.9%, Health & Human Services 6.4%, Social Security 5.6%, Interest on the Public Debt 7.7% Education 50%, and decreases in the following activities: Veterans Affairs 48.2% and Other Expenses 13.6%.



What Went Out?		
Governmental Activities	Expenses	
	2006 (in billions)	2007 (in billions)
Defense	\$634	\$665
Health & Human Services	627	667
Social Security	593	626
Interest on Public Debt	222	239
Veterans Affairs	114	59
Education	62	93
Other	649	561
<b>Total Expenses</b> <sup>1/</sup>	<b>\$2,901</b>	<b>\$2,910</b>

Overall the Federal Government's fiscal year 2007 financial operations improved over the fiscal year 2006. The fiscal year 2007 cash basis deficit of \$162.8 billion was reduced by 34.4% from the fiscal year 2006 level of \$248.2 billion. Although the fiscal year 2007 accrual deficit including social insurance and other commitments of \$1,296 billion was reduced by 71.8% from the fiscal year 2006 level of \$4,598 billion, the Federal Social Insurance programs, i.e., Social

Shortfall	2006 (in billions)	2007 (in billions)
Net Operating Loss	\$460	\$283
Less Unmatched Transactions	\$11	\$7
Net Operating Loss - Adjusted	\$449	\$275
Increase in Social Security, Medicare and commitments	\$4,149	\$1,021
<b>Deterioration of Net Position</b>	<b>\$4,598</b>	<b>\$1,296</b>

Security, Medicare, and Medicaid continue to present critical financial problems in terms of growth at an unsustainable rate. Social Security and Medicare combined, cash basis net cost represent approximately 35.9% of the Federal Government's spending. See the Social Security Office of the Chief Actuary Annual Report for 2007 for more detail. <http://www.ssa.gov/OACT/TRSUM/tr07summary.pdf>

<sup>1/</sup> Federal Government Financial Report, accrual basis.



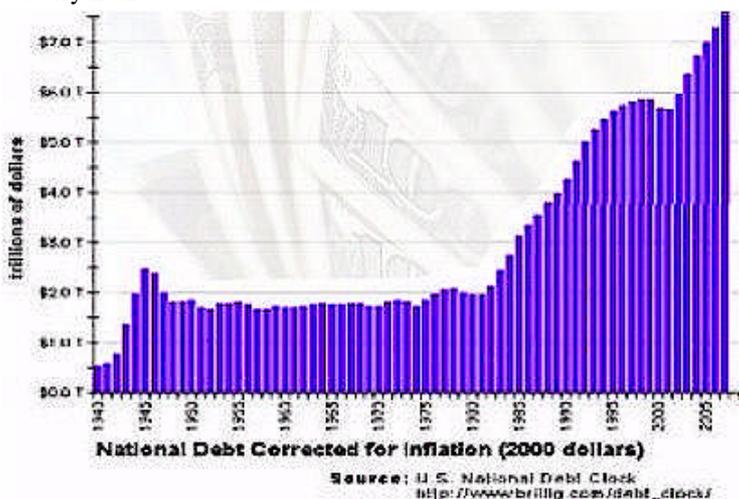
# Challenges Moving Forward What's Next? Future Issues?

## Comparing Financial Reporting to the Budget Deficit

As of October 2007, a strong economy and the recent surge in tax revenues have driven the budget deficit down to \$344 billion. The budget results are calculated using cash basis accounting, similar to keeping a checkbook. Consistent with the improved budget results, the Financial Report shows a lower accrual-based net operating cost of \$283 billion, down from \$460 billion for 2006. However, due to continued under funding of Medicare and Social Security promises, the federal governments economic financial condition improved to \$2,286 billion and \$3,216 billion over the last two fiscal years. The Financial Report provides the President, Congress, and the American people a broad, comprehensive overview of the cost of the Government's operations, the sources used to finance them, its balance sheet, and the outlook for its social insurance programs. The Financial Report is prepared on the accrual basis, which recognizes revenue when it is earned and recognizes expenses in the period incurred, without regard to when cash is received or disbursed.

## Growing Economy

Although the U.S. economy is growing, the long-term debt and other responsibilities of the nation are also growing. The below chart presents a long-term view of the impact of Federal operations on the National Debt. The graph represents the period 1940 \$500 billion debt balance to an estimated 2007 \$9 trillion debt balance as adjusted for inflation. On January 1, 1791, the National Debt was just \$75 million. Today, it rises by that amount every hour.



## Looking Forward

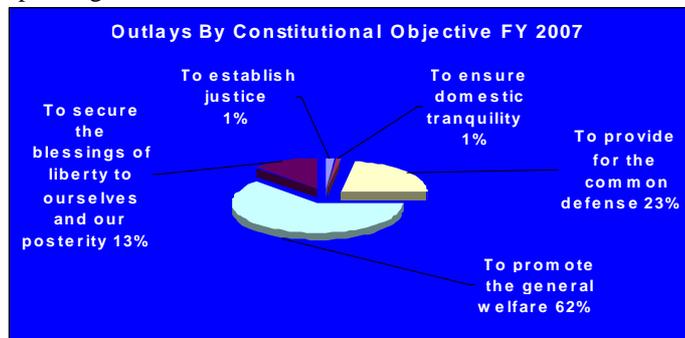
Compared to the National Debt, the Nation's future responsibility for

major entitlement programs, Medicare and Social Security are staggering. Combined these programs account for approximately 5 times the future liability of the National Debt, i.e., approximately \$45 trillion. Absent reform, Social Security and Medicare together will more than double as a percentage of the U.S. economy, from nearly 6 percent in 2007 to over 18 percent, by 2080. The Social Security program and, especially Medicare program are on an unsustainable fiscal path and difficult choices will be necessary in order to address their large and growing long-term fiscal imbalance.



Combined the National Debt, social entitlement programs, and other responsibilities account for a fiscal exposure of approximately \$57 trillion in FY 2007. This amount represents approximately four times the nation's total output (GDP) in fiscal year 2007, up from about \$20 trillion, or two times GDP in fiscal year 2000.

When comparing the escalating increase in the Social entitlement programs to the 2007 Government Outlays By Constitutional Objective to the 2080 rate of growth, the Social entitlement programs will double in size thereby causing a required corresponding increase in revenues to support the increase while holding all other objectives to the current spending level.



This document was prepared by Financial Management Services, Inc. Your suggestions for improvement of the documents content and format will be appreciated. Please contact Irvin Faunce at 301-929-3002 or email to [ifaunce@fmsi.biz](mailto:ifaunce@fmsi.biz) with any questions or suggestions.

Financial Management Services, Inc. (FMSI) is a private sector financial management consulting organization founded in January 1997. FMSI is supported by a cadre of former Federal Government Senior Executive Service (SES) associates that have established financial management policy, maintained operations, and implemented new core accounting and other ancillary financial systems for many Federal Agencies. FMSI associates were responsible for the management, development, and publication of the first Federal [Treasury Prototype Consolidated Financial Statement for Fiscal Year 1975](#). They also assisted Arthur Andersen & Company with the publication of the initial [Consolidated Financial Statements for Fiscal Year 1974](#).