



The United States Government A Report to Our Citizens

The Institute for Truth in Accounting is publishing this report to provide general and financial information about the federal government to citizens in a comprehensive and easy to understand format.

Mission Statement

As outlined in the United States Constitution, the federal government exists:



- To establish justice,
- To ensure domestic tranquility,
- To provide for the common defense,
- To secure the blessings of liberty to ourselves and our posterity
- To promote the general welfare, and
- To secure the blessings of liberty to ourselves and our posterity

Federal Government Organization and Information

The U.S. Constitution, which was ratified in 1788, is the cornerstone of our American Government and describes ways that its mission is accomplished. This document also established the structure or plan of the government and the rights of the American people. The Constitution divides the government into three branches, which are designed to check and balance one another's powers. The three branches are executive, legislative and judicial. The President is the head of the executive branch. The highest court in the judicial branch is the Supreme Court. The lawmaking body of the legislative branch is known as Congress, which includes the House of Representatives and Senate.

To obtain the funds necessary to carry out the federal government's mission, the Treasury Department, within the executive branch, collects trillions of dollars of taxes and other revenues each year. 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.

Reporting on Taxing and Spending Policies

Once the President's Budget is received by Congress, the House of Representatives works to create a budget resolution, which sets the government's base line level of spending. Once this bottom line is established, Congress mandates how this level of funding will be disbursed among federal activities.

The Treasury Department then distributes funds to various executive branch departments and programs according to the plan authorized by Congress. The Treasury Department reports its spending and taxing activities by issuing two reports. The Monthly Treasury Statement reports budget results to inform the public how the government spent taxpayer money in accordance with applicable laws. The Financial Report is a broad, comprehensive overview of the government's financial position and activities. The following pages summarize the Financial Report by answering the following questions:

- Where Do We Stand?
- Are We Better Off?
- What's Next?

Selected Financial Data

	2007
Population	300,184,000
Median Household Income	\$48,201
Total Household Net Worth	\$58,250,900,000,000
Government's Net Debt & Responsibilities	\$54,267,800,000,000
Each Household's Share of Government's Fiscal Burden	\$455,000
Deterioration in Net Position	\$ 1,204,400,000,000

Where Do We Stand?

Our Country's Financial Condition

The U.S. government is the largest, most diverse, most 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 are the Government's balance sheet, liabilities, notes to the financial statements and, management discussion and analysis. The data within this *Report to Our Citizens* is derived from information within the Financial Report.

Certain material weaknesses in financial reporting and other limitations on the scope of the auditors' work resulted in conditions that, for the 11th consecutive year, prevented the U.S. Comptroller General from expressing an opinion on the federal government's financial statements. 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.



What We Own

In billions	2006	2007	Difference
Assets	\$ 1,497	\$ 1,581	\$ 84

What We Owe

In billions	2006	2007	Difference
Social Security responsibilities	\$14,976	\$16,265	\$1,289
Medicare benefits responsibilities	\$29,041	\$28,664	\$(377)
Military & civilian pension & retiree health	\$ 4,679	\$ 4,769	\$ 90
Publicly held debt	\$ 4,868	\$ 5,077	\$ 209
Other liabilities and responsibilities	\$ 996	\$ 1,073	\$ 77
Total debt and responsibilities	\$54,560	\$55,848	\$1,288

Where We Are

In billions	2006	2007	Deterioration in Net Position
Net Debt & Responsibilities	\$53,063	\$54,267	\$1,204



This document is prepared and published by the Institute for Truth in Accounting. Your suggestions for improvements would be welcomed. Please contact Sheila Weinberg at 847-835-5200 or sweinberg@truthinaccounting.org.

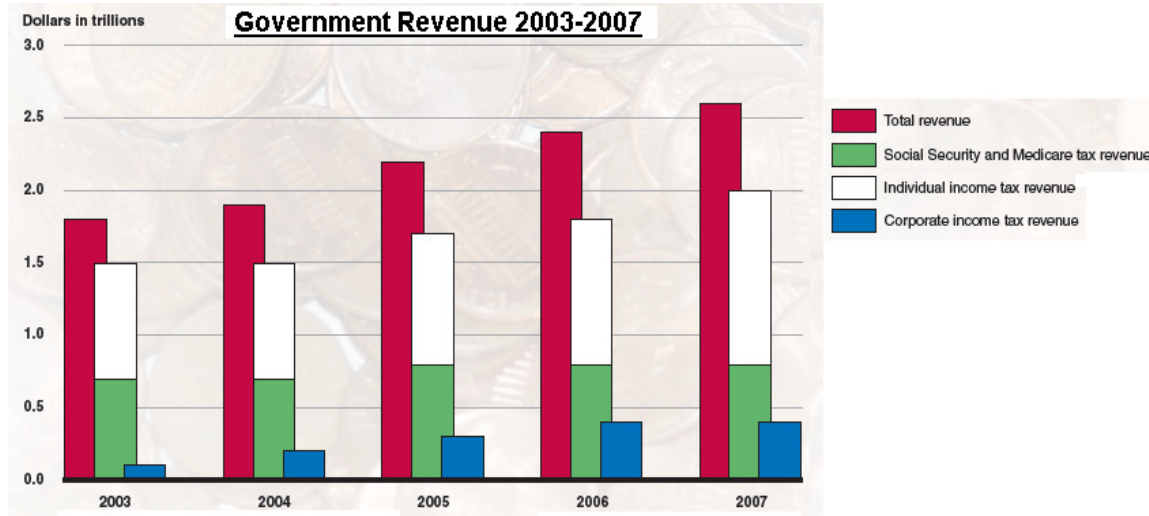
It is the mission of the Institute for Truth in Accounting (IFTA) to encourage private and public entities to produce financial reports that are comprehensive, understandable and transparent as well as to inform the public of the importance of truthful accounting. The IFTA believes decision makers need to understand an entity's current position and the likely consequences of decisions already made and of those to be made. The Institute is a non-profit, public interest group that does not advocate public policy beyond better and more truthful accounting. We welcome your support through ideas and donations. For more information visit www.truthinaccounting.org.

Are We Better Off?

Revenues and Expenses

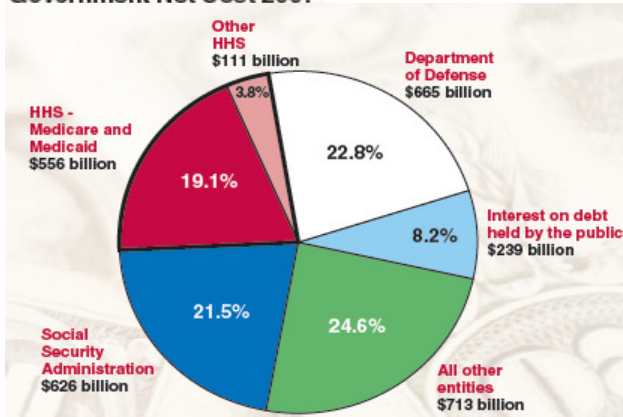
What Came In?

In 2007 a growing U.S. economy led to record revenue of \$2.6 trillion. The chart on the right shows that government revenue increased steadily from 2003 through 2007, largely because of taxes on increasing individual incomes and corporate profits. Social Security tax revenue of \$648 billion and Medicare tax revenue of \$200 billion accounted for almost a third of total revenue. The recent slowing of U.S. economic growth will have an effect on 2008 revenue.



What Went Out?

Government Net Cost 2007



At \$2.9 trillion the government's net cost in 2007 was relatively constant compared to 2006. The chart to the left shows that in 2007 the Department of Health and Human Services (HHS), Department of Defense and Social Security Administration, plus interest on debt held by the public, accounted for approximately three-fourths of the government's total net cost. Medicare cost of \$368 billion and Medicaid cost of \$188 billion accounted for more than 80 percent of HHS' total net cost in 2007.

Shortfall

	2007
Revenue	\$2,627,300,000,000
Less Net Costs*	2,902,800,000,000
Net Operating Loss	\$ 275,500,000,000
Increase in Social Security, Medicare and other responsibilities*	\$ 928,900,000,000
Deterioration of Net Position	\$1,204,400,000,000

*Includes other miscellaneous adjustments

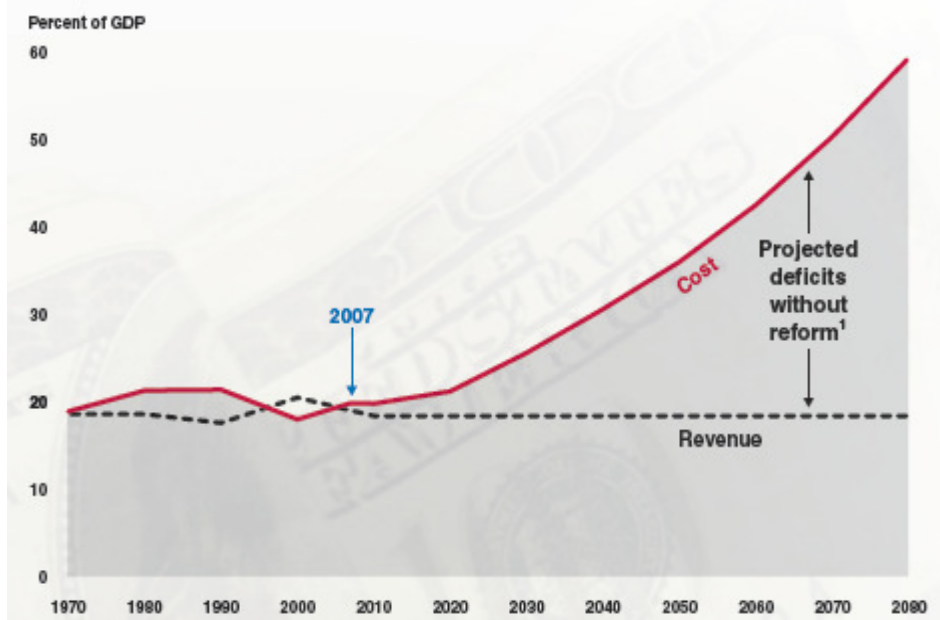
What's Next?

Future Challenges and Economic Outlook

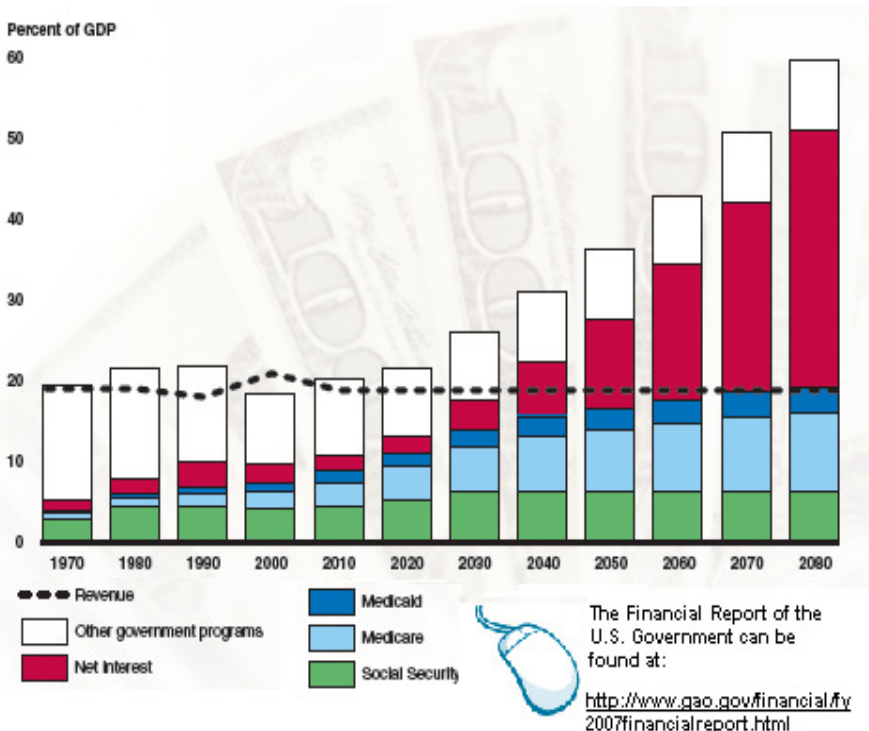
The Government Is On An Unsustainable Fiscal Path

As you can see in the chart to the right, the government faces a huge fiscal challenge in the years ahead. In 2008 the first of the approximately 80 million baby boomers---those born between 1946 and 1964---will become eligible to draw Social Security benefits.

Scheduled Social Security and Medicare benefits together with other federal programs' projected long-term cost are much greater than the resources (revenue and borrowings) available to pay for them. Unless action is taken to bring program cost in line with available resources, the coming surge of entitlement spending will end in a fiscal train wreck that will have an adverse effect on the U.S. economy and on virtually every American.



Fundamental Reforms Are Needed Now



The chart to the left shows government revenue and spending as a percent of GDP from 1970 through 2080. Since World War II, federal revenue as a share of GDP has been roughly constant at around 18 percent. Whenever taxes rose, policy actions tended to pull them back.

If revenue is held constant at about 18 percent of GDP (the historical average level), government spending will eventually exceed its ability to pay. By 2070 total government cost is projected to be 50 percent of GDP mainly because of mounting interest cost. Cost-to-GDP ratios have not been this high since World War II, when cost briefly reached 44 percent of GDP. By 2080 cost reaches nearly 60 percent of GDP. This is more than three times the average historical level of revenue as a percent of GDP. The dates and numbers would change with different forecasting assumptions, but under a wide range of reasonable projections, the increases in budget deficits will be dramatic.