

## US Statement of Operations or Income Statement

You dig a hole one shovelful at a time. So has the federal government dug the hole of national debt, spending more than it receives, one year at a time. This spending pattern was repeated 40 of the 46 years since 1960 when the federal government started accumulating debt.<sup>1</sup> To see what's really happening now, let's examine the U.S. Government's financial results for 2005. And see who the world will demand to be responsible for spending approved by the U.S. Congress.

**Figure 1 US Statement of Operations, % of Total Revenue & Chg Added**

Amounts in Billions

*Author's Analysis in Italics*

Source: 2005 US Treasury Report, page 37

<http://www.gao.gov/financial/fy2005financialreport.html>

Description	2005	% Tot	\$ Chg	% Chg	2004	% Tot
<b>Revenue:</b>						
Individual Income Taxes	1,690.1	77%	177.8	12%	1,512.3	79%
Corporation Income Taxes	271.8	12%	88.0	48%	183.8	10%
Unemployment Taxes	40.0	2%	3.2	9%	36.8	2%
Excise Taxes	71.0	3%	-1.5	-2%	72.5	4%
Estate Taxes & Gifts	24.7	1%	-0.1	0%	24.8	1%
Custom Duties	22.0	1%	1.0	5%	21.0	1%
Other Taxes & Receipts	46.7	2%	-1.0	-2%	47.7	2%
Misc Earned Revenues	19.2	1%	5.4	39%	13.8	1%
<b>Total Revenue</b>	<b>2,185.5</b>	<b>100%</b>	<b>272.8</b>	<b>14%</b>	<b>1,912.7</b>	<b>100%</b>
<b>Expenses:</b>						
Cost of Operations	2,949.8	135%	424.9	17%	2,524.9	132%
Unreconciled Transactions	-4.3	0%	-7.7	-226%	3.4	0%
<i>Total Cost</i>	<i>2,945.5</i>	<i>135%</i>	<i>417.2</i>	<i>17%</i>	<i>2,528.3</i>	<i>132%</i>
<b>Net Operating Cost</b>	<b>-760.0</b>	<b>-35%</b>	<b>-144.4</b>	<b>23%</b>	<b>-615.6</b>	<b>-32%</b>
<b>Net Position, Beg of Year (BOY)</b>	<b>-7,709.8</b>		<b>-615.6</b>		<b>-7,094.2</b>	
Change in Accounting Principle	3.6		3.6			
Prior Period Adjustments	7.5		7.5			
Net Operating Cost	-760.0		-144.4		-615.6	
<b>Net Position, End Of Year (EOY)</b>	<b>-8,458.7</b>	<b>10%</b>	<b>-760.0</b>		<b>-7,709.8</b>	<b>9%</b>

<sup>1</sup> Bureau of Economic Analysis, Table 3.2. Federal Government Current Receipts and Expenditures, at <http://www.bea.gov/bea/dn/nipaweb/TableView.asp#Mid> on May 21, 2006

Since the columns added throughout this manuscript to analyze the federal government's financial results are basically the same, let's take a minute and study them on the first figure in detail. First, to ascertain which items in a list are the most important, or "material" in accounting lingo, I list them in descending order by dollar value. It was not necessary to change the order of the items on this report. Then I add a column for "percent of total" and divide each line item by its subtotal. So the first line item for "2005 Individual Income Taxes," is divided by its subtotal, "2005 Total Revenue," to calculate that it is 77% of total revenues.

Second, I subtract the prior period's line item value from the current year's line item value to calculate the net change between them. If the current period is greater, the net change is positive; if lesser, the net change is negative. To see how different the two numbers are relative to the prior period, I divide the dollar change by the dollar value for the prior period. On the first line item, we see that the "Individual Income Taxes" increased 12% by \$177.8 billion from 2004 to 2005.

And finally, I add a column to calculate the "percent of total" for the prior period and divide each line item in that column by its subtotal. And with those simple tools, we can see more clearly what the numbers on the report actually reveal. Reread these few paragraphs until you are comfortable with these techniques to grasp the keys to the basic analysis of financial statements. And, as they say, the rest should be easy.

There is a standard style or "script" to use when translating the numbers on an income statement to the written word. If you were writing a newspaper column to describe the statement shown above, it would read something like this:

"In fiscal year 2005 ending on September 30<sup>th</sup>, US Government revenues totaled 2,185.5 billion dollars, a 14% increase from 2004. Individual taxpayers contributed 77% or 1,690.1 billion, a 12% increase from 2004. Corporations contributed 12% or 271.8 billion, a 48% increase from 2004. Individuals and corporations provided 89% of total revenue, the same percent as 2004.

Total expenses of 2,945.5 billion dollars exceeded revenues by 760 billion dollars or 35% of total revenues, a 17% increase from 2004. This loss increased \$144.4 billion from 2004 to 2005, a 23% increase. This loss decreased the US Federal Government's Net Position or Worth at year-end to a deficit of 8,458.7 billion, a 10% increase of the deficit since the beginning of the fiscal year 2005.

During the prior fiscal year of 2004, revenues totaled 1,912.7 billion dollars, of which individual taxpayers contributed 79% and corporations contributed 10%. Total expenses of 2,528.3 billion dollars exceeded revenues by 615.6 billion dollars, a 9%

increase from the beginning of the fiscal year 2004. This deficit decreased the US Federal Government's Net Worth at the end of 2004 to a deficit of 7,698.7 billion."

These statistics reveal additional trends and raise more questions:

- Individual taxpayers pay the largest share of revenues, but that share as a percent of total revenue is decreasing
- Individual taxpayers paid 12% more in 2005 than 2004. So where are those highly acclaimed tax reductions? Or did we have more taxpayers?
- Corporate taxpayers contribute the next largest share which is increasing.
- Corporations paid 48% more in 2005. Wonder why Congress faces 30,000 lobbyists every day? What would you do if your tax bill increased 48%?
- The federal government spent 35 cents more than every dollar it received in 2005, up from 32 cents more in 2004
- Our nation's net worth declined 10% in 2005 after a 9% decline in 2004
- The cost of running the federal government increased 23% in 2005. So why does the federal government which is the nation's single largest consumer think that inflation hovers under 4%?
- The US Government needs 4.30 years of total revenues it received from individuals and corporations in 2005 to cover its negative Net Position

Also remember that individual taxpayers have assumed 89% of the burden either directly as individual taxes or indirectly as shareholders in corporations. Since Individual Income Taxes are 77% of our nation's receipts, it's important to understand the sources for this number. After researching the IRS web site, I discovered the following:

## Figure 2 IRS Summary of Internal Revenue Collections and Refunds

Amounts in Billions

*Author's Analysis in Italics*

Source: IRS Table 1: Summary of Internal Revenue Collections

<http://www.irs.gov/taxstats/article/0,,id=102174,00.html>

Individual Income Taxes	2005	%	Chg	%Chg	2004	%
<b>Per IRS Table 1 -- Summary of Internal Revenue Collections and Refunds</b>						
<b>Income Tax Payments</b>	<b>1,107.5</b>	<b>66%</b>	<b>117.3</b>	<b>12%</b>	<b>990.2</b>	<b>65%</b>
<b>Less Refunds</b>	<b>-227.6</b>	<b>-13%</b>	<b>0.0</b>	<b>0%</b>	<b>-227.6</b>	<b>-15%</b>
<b>Social Sec &amp; Medicare Taxes</b>	<b>755.0</b>	<b>45%</b>	<b>52.4</b>	<b>7%</b>	<b>702.6</b>	<b>46%</b>
<b>Unemployment insurance</b>	<b>6.8</b>	<b>0%</b>	<b>0.2</b>	<b>3%</b>	<b>6.6</b>	<b>0%</b>
<b>Railroad retirement</b>	<b>4.5</b>	<b>0%</b>	<b>0.1</b>	<b>2%</b>	<b>4.4</b>	<b>0%</b>
<i>Reconcile from IRS Table 1</i>	<i>43.9</i>	<i>3%</i>	<i>7.8</i>	<i>22%</i>	<i>36.1</i>	<i>2%</i>
<b>Per US Statement of Operations</b>	<b>1,690.1</b>	<b>100%</b>	<b>177.8</b>	<b>12%</b>	<b>1,512.3</b>	<b>100%</b>

The line item for Individual Income Taxes on Figure 1 includes individual federal income taxes; refunds to applicable taxpayers with incomes under \$30,000 to the tune of 20.6% of all taxes collected; Social Security and Medicare receipts from both employees and employers; unemployment taxes from employers; and income tax on railroad retirement benefits. Since the total on the IRS Table did not match the total on the Statement of Operations, I continued my research until I confirmed the five line item amounts on page 105 of the “IRS FY 2005 Performance and Accountability Report” and page 154 of the “IRS FY 2004 Performance and Accountability Report.”<sup>2</sup> The significance here is that the line item, Individual Income Taxes, includes all Social Security and Medicare collections which are then spent *in the same fiscal year*. And whatever remains, stays in the general fund which is then applied against the national debt.

Another real problem lies in the cost of government operations. Basically you can see that in 2005, for every dollar deposited in the US Treasury from whatever source, the federal government spent \$1.35. Alarming our federal government’s savings rate is a *negative 35%*.

### Sources of US Expenses

So who is spending what? Let’s use the single line entry, “Net Operating Cost,” to drill down to the detail for it.

“Figure 3: US Government Statement of Net Costs” focuses on which federal departments spent those coveted budget appropriations from Congress. I ignored whether or not the departments spent their allotments within the Congressional budget guidelines as beyond the scope of this effort. I wanted to see what they actually did, rather than answer the question, “did they play by the budget rules?”

There is an economic maxim that a 20% segment of the participants in any activity produce 80% of the results. The idea is to focus on the minority of sources that produce the majority of the results. To determine which 20% of the US Government departments generated more than 80% of all US Government expenditures in 2005, I transferred the numbers to a spreadsheet, sorted them in descending order by the “Net Cost” for 2005 and then added our standard additional information: percent of total and change between time periods. Note that the

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<sup>2</sup> <http://www.treas.gov/offices/management/dcfo/accountability-reports/>

“Cost of Operations” line item on the Income Statement of \$2,949.8 billion equals the total 2005 amount on the Statement of Net Costs in Figure 1.

**Figure 3 US Government Statement of Net Costs by Department**

Amounts in Billions

*Author's Analysis in Italics*

Source: 2005 US Treasury Report, page 36

<http://www.gao.gov/financial/fy2005financialreport.html>

Source of Cost	2005				2004	
	Net Cost	%	\$Chg	%Chg	Net Cost	%
<b>Totals</b>	<b>2,949.8</b>	<b>100.0%</b>	<b>424.9</b>	<b>16.8%</b>	<b>2,524.9</b>	<b>100.0%</b>
<i>80%:</i>						
Department of Defense	677.0	23.0%	27.2	4.2%	649.8	25.7%
Department of Health & Human Services	583.8	19.8%	33.3	6.0%	550.5	21.8%
Social Security Administration	574.1	19.5%	41.8	7.9%	532.3	21.1%
Department of Veterans Affairs	273.2	9.3%	225.3	470.4%	47.9	1.9%
Interest on Public Debt	181.2	6.1%	22.9	14.5%	158.3	6.3%
Department of Agriculture	92.7	3.1%	16.2	21.2%	76.5	3.0%
<i>20%:</i>						
Department of the Treasury	79.2	2.7%	4.0	5.3%	75.2	3.0%
Department of Education	70.9	2.4%	11.8	20.0%	59.1	2.3%
Department of Homeland Security	67.9	2.3%	27.9	69.8%	40.0	1.6%
Department of Transportation	61.8	2.1%	5.7	10.2%	56.1	2.2%
Department of Labor	50.0	1.7%	-8.6	-14.7%	58.6	2.3%
Department of Energy	43.1	1.5%	20.7	92.4%	22.4	0.9%
Department of Housing & Urban Development	42.3	1.4%	1.8	4.4%	40.5	1.6%
Department of Justice	26.5	0.9%	-8.1	-23.4%	34.6	1.4%
Office of Personnel Management	18.7	0.6%	10.3	122.6%	8.4	0.3%
National Aeronautics & Space Administration	16.4	0.6%	-0.8	-4.7%	17.2	0.7%
Department of the Interior	16.3	0.6%	-0.3	-1.8%	16.6	0.7%
Department of State	13.6	0.5%	1.0	7.9%	12.6	0.5%
Agency for International Development	12.8	0.4%	2.2	20.8%	10.6	0.4%
Railroad Retirement Board	9.5	0.3%	0.2	2.2%	9.3	0.4%
Environmental Protection Agency	8.9	0.3%	-0.3	-3.3%	9.2	0.4%
Department of Commerce	7.7	0.3%	0.0	0.0%	7.7	0.3%
Federal Communications Commission	6.6	0.2%	-0.2	-2.9%	6.8	0.3%
National Science Foundation	5.5	0.2%	0.3	5.8%	5.2	0.2%
Federal Deposit Insurance Corporation	1.2	0.0%	0.6	100.0%	0.6	0.0%
Small Business Administration	1.0	0.0%	-0.6	-37.5%	1.6	0.1%
Pension Benefit Guaranty Corporation	0.8	0.0%	-12.2	-93.8%	13.0	0.5%
U.S. Nuclear Regulatory Commission	0.4	0.0%	0.1	33.3%	0.3	0.0%
Tennessee Valley Authority	-0.1	0.0%	-0.4	-133.3%	0.3	0.0%
National Credit Union Administration	-0.1	0.0%	-0.2	-200.0%	0.1	0.0%
General Services Administration	-0.2	0.0%	0.3	-60.0%	-0.5	0.0%
Export-Import Bank of the United States	-2.7	-0.1%	-1.3	92.9%	-1.4	-0.1%
U.S. Postal Service	-12.9	-0.4%	1.1	-7.9%	-14.0	-0.6%
All other entities	22.7	0.8%	3.2	16.4%	19.5	0.8%

Once again, take a breath and simply read the statement to yourself. See any interesting relationships?

My stepdaughter Emily's complaint that the Iraq War and the Department of Defense caused our deficit problems in 2005 appears valid to some extent. Defense spending which is 23% of total spending increased 4.2% from 2004 to 2005. But most interesting is the fact that the largest percent change in the top six spending departments is the Department of Veteran Affairs with a whopping 470% increase.

VA's \$225.3 billion increase, 8.25 times the dollar increase for the Department of Defense, accounts for 53% of the total increase in costs for the US Government in 2005. And according to US Treasury Secretary John Snow in his cover letter for the 2005 Financial Statements, "This year, the difference of \$441 billion is due principally to a \$198 billion increase in Veterans Affairs' actuarial costs, mainly a reflection of changes in interest rate assumptions."<sup>3</sup> Wow! Someone at the VA underestimated future interest costs by \$200 billion?

The next greatest dollar increase was the Social Security Administration with a \$41.8 billion increase, 18.5% of the VA's increase. The next greatest percentage increases are won by the Office of Personnel Management (122%), FDIC (100%), the Export-Import Bank (92.9%) and the Department of Energy (92.4%).

Still awake?

And, as important as which departments controlled the expenditures, is what they purchased.

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<sup>3</sup> 2005 US Financial Statements, page 5

**Figure 4 US Government Outlays by Function**

Amounts in Billions

*Author's Analysis in Italics*

Source: 2005 US Treasury Report: Outlays by Function

<http://www.fms.treas.gov/annualreport/index.html>

Outlays by Function	2005	%	2004	%	Change	% Chg
<i>85%</i>						
<b>Social security</b>	<b>523,333</b>	<i>21.2%</i>	<b>495,548</b>	<i>21.6%</i>	<b>27,785</b>	<b>5.6%</b>
<b>National defense</b>	<b>493,863</b>	<i>20.0%</i>	<b>455,908</b>	<i>19.9%</i>	<b>37,955</b>	<b>8.3%</b>
<b>Income security</b>	<b>346,785</b>	<i>14.0%</i>	<b>333,070</b>	<i>14.5%</i>	<b>13,715</b>	<b>4.1%</b>
<b>Medicare</b>	<b>298,638</b>	<i>12.1%</i>	<b>269,360</b>	<i>11.7%</i>	<b>29,278</b>	<b>10.9%</b>
<b>Health</b>	<b>250,378</b>	<i>10.1%</i>	<b>240,007</b>	<i>10.5%</i>	<b>10,371</b>	<b>4.3%</b>
<b>Net interest</b>	<b>183,916</b>	<i>7.4%</i>	<b>160,245</b>	<i>7.0%</i>	<b>23,671</b>	<b>14.8%</b>
<i>15%</i>						
<b>Education, training, employment and social services</b>	<b>97,880</b>	<i>4.0%</i>	<b>87,945</b>	<i>3.8%</i>	<b>9,935</b>	<b>11.3%</b>
<b>Veterans benefits and services</b>	<b>70,150</b>	<i>2.8%</i>	<b>59,779</b>	<i>2.6%</i>	<b>10,371</b>	<b>17.3%</b>
<b>Transportation</b>	<b>68,102</b>	<i>2.8%</i>	<b>64,627</b>	<i>2.8%</i>	<b>3,475</b>	<b>5.4%</b>
<b>Administration of Justice</b>	<b>39,718</b>	<i>1.6%</i>	<b>45,535</b>	<i>2.0%</i>	<b>-5,817</b>	<b>-12.8%</b>
<b>International affairs</b>	<b>34,492</b>	<i>1.4%</i>	<b>26,751</b>	<i>1.2%</i>	<b>7,741</b>	<b>28.9%</b>
<b>Agriculture</b>	<b>28,407</b>	<i>1.1%</i>	<b>15,440</b>	<i>0.7%</i>	<b>12,967</b>	<b>84.0%</b>
<b>Natural resources and environment</b>	<b>26,185</b>	<i>1.1%</i>	<b>30,725</b>	<i>1.3%</i>	<b>-4,540</b>	<b>-14.8%</b>
<b>Community and regional development</b>	<b>25,074</b>	<i>1.0%</i>	<b>15,819</b>	<i>0.7%</i>	<b>9,255</b>	<b>58.5%</b>
<b>General science, space, and technology</b>	<b>24,528</b>	<i>1.0%</i>	<b>23,053</b>	<i>1.0%</i>	<b>1,475</b>	<b>6.4%</b>
<b>General Government</b>	<b>17,551</b>	<i>0.7%</i>	<b>22,411</b>	<i>1.0%</i>	<b>-4,860</b>	<b>-21.7%</b>
<b>Commerce and housing credit</b>	<b>7,419</b>	<i>0.3%</i>	<b>5,164</b>	<i>0.2%</i>	<b>2,255</b>	<b>43.7%</b>
<b>Energy</b>	<b>600</b>	<i>0.0%</i>	<b>-214</b>	<i>0.0%</i>	<b>814</b>	<b>-380.4%</b>
<b>Undistributed offsetting receipts</b>	<b>-65,223</b>	<i>-2.6%</i>	<b>-58,537</b>	<i>-2.6%</i>	<b>-6,686</b>	<b>11.4%</b>
<b>Total</b>	<b>2,471,796</b>	<i>100.0%</i>	<b>2,292,636</b>	<i>100.0%</i>	<b>179,160</b>	<b>7.8%</b>

And now for the definition of the functions listed above:

**Social security**      Income security of aged and disabled Americans. (Check on the fact that this is for non-government workers only)

**National defense**      The defense and security of the United States. This amount encompasses Government spending for conventional forces, strategic forces, atomic energy defense activities and other defense related activities.

**Income security**      Benefits paid to the aged, the disabled, the unemployed and low-income families. Included within this classification are programs such as general retirement and disability, public assistance and unemployment compensation. (For federal government employees only)

Medicare	Payments for the health and well being of aged and disabled Americans.
Health	Financing and providing health care services, aiding disease prevention, and supporting research and training.
Interest	Interest paid by the Federal Government offset by interest collections from the public and interest received by Government trust funds.

As we seek to further understand these numbers, let's examine their value for each American taxpayer and resident. According to the IRS, the agency received 133 million tax returns in 2005 and issued 19 million refunds for a net of 114 million taxpayers who actually paid taxes. The US Population in 2005 was 296 million persons

**Figure 5 US Government Outlays by Function Per Capita***Author's Analysis in Italics*

Source: 2005 US Treasury Report, pages 36 and 130

<http://www.gao.gov/financial/fy2005financialreport.html>

<b>Outlays by Function</b>		<b>Fiscal</b>		<i>Per</i>	<i>Per</i>
<i>Dollars, Taxpayers, and Population in Millions</i>		<b>2005</b>	<b>% Total</b>	<i>Taxpayer</i>	<i>Person</i>
				114	296
<b>85%:</b>					
<b>Social security</b>	<i>E</i>	<b>523,333</b>	<i>21.2%</i>	<i>4,591</i>	<i>1,768</i>
<b>National defense</b>		<b>493,863</b>	<i>20.0%</i>	<i>4,332</i>	<i>1,668</i>
<b>Income security</b>	<i>E</i>	<b>346,785</b>	<i>14.0%</i>	<i>3,042</i>	<i>1,172</i>
<b>Medicare</b>	<i>E</i>	<b>298,638</b>	<i>12.1%</i>	<i>2,620</i>	<i>1,009</i>
<b>Health</b>	<i>E</i>	<b>250,378</b>	<i>10.1%</i>	<i>2,196</i>	<i>846</i>
<b>Net interest on Public Debt</b>		<b>183,916</b>	<i>7.4%</i>	<i>1,613</i>	<i>621</i>
<b>15%:</b>					
<b>Education, training, employment, social services</b>	<i>E</i>	<b>97,880</b>	<i>4.0%</i>	<i>859</i>	<i>331</i>
<b>Veterans benefits and services</b>	<i>E</i>	<b>70,150</b>	<i>2.8%</i>	<i>615</i>	<i>237</i>
<b>Transportation</b>		<b>68,102</b>	<i>2.8%</i>	<i>597</i>	<i>230</i>
<b>Administration of Justice</b>		<b>39,718</b>	<i>1.6%</i>	<i>348</i>	<i>134</i>
<b>International affairs</b>		<b>34,492</b>	<i>1.4%</i>	<i>303</i>	<i>117</i>
<b>Agriculture</b>		<b>28,407</b>	<i>1.1%</i>	<i>249</i>	<i>96</i>
<b>Natural Resources and Environment</b>		<b>26,185</b>	<i>1.1%</i>	<i>230</i>	<i>88</i>
<b>Community and regional development</b>		<b>25,074</b>	<i>1.0%</i>	<i>220</i>	<i>85</i>
<b>General science, space, and technology</b>		<b>24,528</b>	<i>1.0%</i>	<i>215</i>	<i>83</i>
<b>General Government</b>		<b>17,551</b>	<i>0.7%</i>	<i>154</i>	<i>59</i>
<b>Commerce and housing credit</b>		<b>7,419</b>	<i>0.3%</i>	<i>65</i>	<i>25</i>
<b>Energy</b>		<b>600</b>	<i>0.0%</i>	<i>5</i>	<i>2</i>
<b>Undistributed offsetting receipts</b>		<b>-65,223</b>	<i>-2.6%</i>	<i>-572</i>	<i>-220</i>
		<b>Total</b>	<b>100.0%</b>	<b>\$21,682</b>	<b>\$8,351</b>

First of all, note that each taxpayer pays, on the average, the burden for 2.5 residents. The average taxpayer funded \$4,491 for Social Security, \$4,332 for defense, \$2,620 for Medicare, \$4,400 for the VA's actuarial adjustment, and \$3,000 to cover the interest on the Public Debt in 2005. If you agree that the line items tagged with "E" represent a redistribution of wealth to needy Americans, then 64% of the annual expenditures of the US Government fall into that category. And interestingly, those categories also define "mandatory" spending which, without an act of Congress, the federal government is obligated to pay forever.

How about the underwhelming expenditure of \$5/taxpayer for energy? And if the Department of Energy actually spent \$43.1 billion as stated in Figure 7, what did they purchase with the remaining \$42.5 billion?

## US Balance Sheet

### Quote

As noted earlier, the Income Statement is read in conjunction with the Balance Sheet to provide the whole picture. Remember the values for the line item, Net Position at End of Year, which is transferred to the Balance Sheet so that the two statements remain in sync, and let's exam the Balance Sheet as *originally* provided by the US Treasury Department:

### Figure 6 US Balance Sheet

Amounts in Billions

Source: 2005 US Treasury Report, page 40

<http://www.gao.gov/financial/fy2005financialreport.html>

Description	Note	2005	2004
Cash		85.8	97.0
Accounts Receivable	2	66.1	35.1
Loans Receivable	3	221.8	220.9
Taxes Receivable	4		21.3
Inventories	5	272.0	261.5
Property, Plant, Equipment	6	678.4	652.7
Securities and Investments	7	75.3	57.1
Other Assets	8	56.7	51.7
<b>Total Assets</b>		<b>1,456.1</b>	<b>1,397.3</b>
Accounts Payable	9	67.9	60.1
Federal Public Debt	10	4,624.2	4,329.4
Fed Employee/Veteran Benefits Pay	11	4,491.8	4,062.1
Environmental liabilities	12	259.8	249.2
Benefits Due and Payable	13	117.0	102.9
Insurance Program liabilities	14	93.2	62.2
Loan Guarantee Liabilities	4	47.7	43.1
Other Liabilities	15	213.2	198.1
<b>Liabilities Subtotal</b>		<b>9,914.8</b>	<b>9,107.1</b>
Net Position		-8,458.7	-7,709.8
<b>Total Liabilities and Net Position</b>		<b>1,456.1</b>	<b>1,397.3</b>

As we normally do, let's add columns for percent of total, dollar change, and percent change for the two years. Then we'll subtotal what we can identify as "due and payable" within the next twelve months as current, one subtotal for assets and one subtotal for liabilities.

The more that I reviewed the Balance Sheet, the more I worried about the large negative Net Position offsetting most of the Liability section which generated huge, confusing percentages. If the Balance Sheet truly represents a scale where the left side balances the right, how can one of the elements on either side, i.e. a weight on the scale, be negative? Physically and logically, a large negative value on either side of the scale does not compute.

And then it dawned on me: *the US Government's negative Net Position really is the result of the US Government's right to levy future taxes from the American people.* Specifically the 16<sup>th</sup> Amendment to the US Constitution ratified on February 3, 1913, states:

**Amendment 16:** Income taxes

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

Note that there is no statutory limit to Congress's right to tax the American people. The highest marginal rate levied since 1913 was 94% on married couples for any taxable income over \$200,000 in 1944 to pay for World War II.<sup>4</sup> The US Government's Net Position, the sum of all past overspending, is the amount of future tax revenue that all purchasers of US Government securities will demand *from the US taxpayer* to uphold the "Full faith and credit of the United States." It really means "Future Taxpayer Levies." So I restated the Balance Sheet by transferring the negative Net Position to the Asset side of the Balance Sheet and recalculated all the percentages as follows:

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<sup>4</sup> <http://www.truthandpolitics.org/top-rates.php>

**Figure 7 US Balance Sheet, Net Position & Current Amounts Reclassified**

Amounts in Billions

*Author's Analysis in Italics*

Source: 2005 US Treasury Report, page 40

<http://www.gao.gov/financial/fy2005financialreport.html>

Description	Note	2005	%	Chg	% Chg	2004	%
<b>Cash</b>		<b>85.8</b>	1%	-11.2	-12%	<b>97.0</b>	1%
<b>Accounts Receivable</b>	<b>2</b>	<b>66.1</b>	1%	31.0	88%	<b>35.1</b>	0%
<b>Loans Receivable</b>	<b>3</b>	<b>221.8</b>	2%	0.9	0%	<b>220.9</b>	2%
<b>Taxes Receivable</b>	<b>4</b>		0%	-21.3	-100%	<b>21.3</b>	0%
<i>Current Assets Subtotal</i>		<i>373.7</i>	<i>4%</i>	<i>-0.6</i>	<i>0%</i>	<i>374.3</i>	<i>4%</i>
<b>Inventories</b>	<b>5</b>	<b>272.0</b>	3%	10.5	4%	<b>261.5</b>	3%
<b>Property, Plant, Equipment at Cost</b>	<b>6</b>	<b>678.4</b>	7%	25.7	4%	<b>652.7</b>	7%
<b>Securities and Investments</b>	<b>7</b>	<b>75.3</b>	1%	18.2	32%	<b>57.1</b>	1%
<b>Other Assets</b>	<b>8</b>	<b>56.7</b>	1%	5.0	10%	<b>51.7</b>	1%
<i>Long-Term Assets Subtotal</i>		<i>1,082.4</i>	<i>11%</i>	<i>59.4</i>	<i>6%</i>	<i>1,023.0</i>	<i>11%</i>
<b>Overspending requiring Future Taxation</b>		<b>8,458.7</b>	85%	748.9	10%	<b>7,709.8</b>	85%
<i>Total Assets and Future Taxes</i>		<i>9,914.8</i>	<i>100%</i>	<i>807.7</i>	<i>9%</i>	<i>9,107.1</i>	<i>100%</i>
<b>Accounts Payable</b>	<b>9</b>	<b>67.9</b>	1%	7.8	13%	<b>60.1</b>	1%
<b>Benefits Due and Payable</b>	<b>13</b>	<b>117.0</b>	1%	14.1	14%	<b>102.9</b>	1%
<i>Current Liabilities Subtotal</i>		<i>184.9</i>	<i>2%</i>	<i>21.9</i>	<i>13%</i>	<i>163.0</i>	<i>2%</i>
<b>Federal Public Debt</b>	<b>10</b>	<b>4,624.2</b>	47%	294.8	7%	<b>4,329.4</b>	48%
<b>Fed Employee/Veteran Benefits Pay</b>	<b>11</b>	<b>4,491.8</b>	45%	429.7	11%	<b>4,062.1</b>	45%
<b>Environmental liabilities</b>	<b>12</b>	<b>259.8</b>	3%	10.6	4%	<b>249.2</b>	3%
<b>Insurance Program Liabilities</b>	<b>14</b>	<b>93.2</b>	1%	31.0	50%	<b>62.2</b>	1%
<b>Loan Guarantee Liabilities</b>	<b>4</b>	<b>47.7</b>	0%	4.6	11%	<b>43.1</b>	0%
<b>Other Liabilities</b>	<b>15</b>	<b>213.2</b>	2%	15.1	8%	<b>198.1</b>	2%
<i>Long-Term Liabilities Subtotal</i>		<i>9,729.9</i>	<i>98%</i>	<i>785.8</i>	<i>9%</i>	<i>8,944.1</i>	<i>98%</i>
<i>Total Liabilities</i>		<i>9,914.8</i>	<i>100%</i>	<i>807.7</i>	<i>9%</i>	<i>9,107.1</i>	<i>100%</i>

Well, we may not be pleased to see the overwhelming amount of future taxes that everyone in the world holding US Treasury securities is betting that the American taxpayer will pay, but we have succeeded in clarifying the balance sheet. Now we can better read and understand the numbers.

A second issue bothered me after I started reading the Notes listed above. The Schedule in Footnote 10 disclosed that embedded in the \$4,624.2 billion line item for "Federal Public

Debt” was “Accrued Interest Payable” of \$32.7 billion for 2005 and \$35.3 billion for 2004. A trained accountant identifies amounts with “payable” in their description as current or due with the next fiscal period. So I created a new line item on the Balance Sheet under the Current Liabilities section and reclassified the value of accrued interest to a current liability.

Later when researching the maturity dates for the Public Debt as shown in Figure ??, I discovered that \$1,100.8 billion embedded in the Public Debt amount on the Balance Sheet was actually due to mature, i.e. to be redeemed or purchased back by the US Government, within the next fiscal year. So I also reclassified that value by subtracting it from the Public Debt value in the Long-Term Liability Section and adding it as a separate line item to the Current Liability Subtotal.

These two reclassifications show a completely different financial picture.

**Figure 8 US Balance Sheet, Current Public Debt Amounts Reclassified**

Amounts in Billions

*Author's Analysis in Italics*

Source: 2005 US Treasury Report, page 40

<http://www.gao.gov/financial/fy2005financialreport.html>

Description	Note	2005	%	\$ Chg	% Chg	2004	%
<b>Cash</b>		<b>85.8</b>	1%	-11.2	-12%	<b>97.0</b>	1%
<b>Accounts Receivable</b>	<b>2</b>	<b>66.1</b>	1%	31.0	88%	<b>35.1</b>	0%
<b>Loans Receivable</b>	<b>3</b>	<b>221.8</b>	2%	0.9	0%	<b>220.9</b>	2%
<b>Taxes Receivable</b>	<b>4</b>		0%	-21.3	-100%	<b>21.3</b>	0%
<i>Current Assets Subtotal</i>		<i>373.7</i>	<i>4%</i>	<i>-0.6</i>	<i>0%</i>	<i>374.3</i>	<i>4%</i>
<b>Inventories</b>	<b>5</b>	<b>272.0</b>	3%	10.5	4%	<b>261.5</b>	3%
<b>Property, Plant, Equipment at Cost</b>	<b>6</b>	<b>678.4</b>	7%	25.7	4%	<b>652.7</b>	7%
<b>Securities and Investments</b>	<b>7</b>	<b>75.3</b>	1%	18.2	32%	<b>57.1</b>	1%
<b>Other Assets</b>	<b>8</b>	<b>56.7</b>	1%	5.0	10%	<b>51.7</b>	1%
<i>Long-Term Assets Subtotal</i>		<i>1,082.4</i>	<i>11%</i>	<i>59.4</i>	<i>6%</i>	<i>1,023.0</i>	<i>11%</i>
<i>Total Assets</i>		<i>1,456.1</i>	<i>15%</i>	<i>58.8</i>	<i>6%</i>	<i>1,397.3</i>	<i>15%</i>
<b>Overspending requiring Future Taxation</b>		<b>8,458.7</b>	85%	748.9	10%	<b>7,709.8</b>	85%
<i>Future Tax Levies</i>		<i>8,458.7</i>	<i>85%</i>	<i>748.9</i>	<i>10%</i>	<i>7,709.8</i>	<i>85%</i>
<i>Total Assets and Future Taxes</i>		<i>9,914.8</i>	<i>100%</i>	<i>807.7</i>	<i>9%</i>	<i>9,107.1</i>	<i>100%</i>
<b>Accounts Payable</b>	<b>9</b>	<b>67.9</b>	1%	7.8	0.0	<b>60.1</b>	1%
<b>Benefits Due and Payable</b>	<b>13</b>	<b>117.0</b>	1%	14.1		<b>102.9</b>	1%
<b>Public Debt Payable within One Year</b>	<b>Fig??</b>	<b>1,100.8</b>	11%	-27.0	-2%	<b>1,127.8</b>	12%
<b>Interest Payable: Federal Public Debt</b>	<b>10</b>	<b>35.3</b>	0%	2.6	0.1	<b>32.7</b>	0%
<i>Current Liabilities Subtotal</i>		<i>1,321.0</i>	<i>13%</i>	<i>-2.5</i>	<i>0%</i>	<i>1,323.5</i>	<i>15%</i>
<b>Federal Public Debt</b>	<b>10</b>	<b>3,488.1</b>	35%	319.2	10%	<b>3,168.9</b>	35%
<b>Fed Employee/Veteran Benefits Pay</b>	<b>11</b>	<b>4,491.8</b>	45%	429.7	11%	<b>4,062.1</b>	45%
<b>Environmental liabilities</b>	<b>12</b>	<b>259.8</b>	3%	10.6	4%	<b>249.2</b>	3%
<b>Insurance Program Liabilities</b>	<b>14</b>	<b>93.2</b>	1%	31.0	50%	<b>62.2</b>	1%
<b>Loan Guarantee Liabilities</b>	<b>4</b>	<b>47.7</b>	0%	4.6	11%	<b>43.1</b>	0%
<b>Other Liabilities</b>	<b>15</b>	<b>213.2</b>	2%	15.1	8%	<b>198.1</b>	2%
<i>Long-Term Liabilities</i>		<i>8,593.8</i>	<i>87%</i>	<i>810.2</i>	<i>10%</i>	<i>7,783.6</i>	<i>85%</i>
<i>Total Liabilities</i>		<i>9,914.8</i>	<i>100%</i>	<i>807.7</i>	<i>9%</i>	<i>9,107.1</i>	<i>100%</i>

A financial script explaining these numbers might read:

“At the end of fiscal year 2005, the US Federal Government reported \$1,456 billion in Assets, of which 373.7 billion were current, and \$9,914.8 billion of Liabilities, of which \$1,321 billion or 13% were current. Government operations in 2005 increased the nation’s Cumulative Deficit Net Position 10% to \$8,458.7 billion which the US Government will collect in future taxes.

Both Current Assets and Current Liabilities remained constant between 2004 and 2005, but Current Liabilities of \$1,321.0 billion reflect government obligations within the next fiscal period that are 350% of the Current Assets available to pay them.

Benefits Due and Payable which include current amounts due for Social Security, Medicaid, Federal Disability Insurance, Medicare Parts A & B, are the next greatest short-term liability of the US Government. Excluding the current portion of the Public Debt, Current Assets are 170% of the remaining Current Liabilities.

The long-term Public Debt was 35% of Total Liabilities, a 10% increase from 2004, while the Federal Employee/Veteran Benefits Program created the largest dollar increase of \$429.7 billion, an 11% increase from 2004. The largest percentage increase from 2004 to 2005 was Insurance Program Liabilities, a 50% increase during fiscal year 2005.”

The fact that Current Liabilities overwhelm Current Assets by 350% is called the “Current Ratio” and is used by financial analysts to determine the immediate health of the entity, a quick-check to see if the entity can pay its obligations through the next fiscal period. The US Government cannot. So the Federal Reserve expects to generate cash to refinance the pay its current obligations as it has always done in the past --- by selling more Public Debt. And as long as the Federal Reserve can refinance the Public Debt, the US Government is solvent, i.e. able to pay its current obligations.

As the largest value in Current Assets, Loans Receivable should be further researched to determine the default rate of these financial instruments.

The fact that “Property, Plant, and Equipment at Cost” represent “hard” assets valued on these financial statements at the lower of cost or market value but harvested at market value when sold could be very positive, depending on what hard assets we own. First of all, federal real estate should be older, and therefore its fair market value much greater than the total value shown on the Balance Sheet. Also federal property in urban environments normally resides in high profile locations so this line item may be truly undervalued.

The real problems start with the liability section of the statement.

Current Liabilities are almost equal our nation’s Total Assets. Tough. Almost half of Total Long-Term Liabilities are due to the Federal Employee and Veteran Benefits Plan, the

government's equivalent of a corporate pension plan. Listen carefully as this is important: *No future payments for Social Security or Medicare, or any other government entitlement program other than the Federal Employees and Veteran Benefits Plan are listed in the liabilities section of this financial statement.*

Starting in 2006, corporate accountants must provide all future material "promises to pay" such as pensions in the corporate long-term liability section of a corporate balance sheet. Politicians try to tell us the Social Security program operates independently, that its current revenues exceed its current expenses, that it is administered in a separate Trust Fund, and that, if necessary, future entitlements will be paid out of the "General Fund." I hope that they don't mean the Current Assets of this financial statement.

We will discuss the federal government's entitlement programs and add them to the Balance Sheet later, but suffice it to say that readers of financial statements need to be able to start in one place, *see the whole picture*, and then follow the numbers on the top-level financial statements to appropriate sub-schedules when questions arise.

To fully appreciate this situation, if the US Government ceased operations, sold its "hard assets" of "Property, plant, and equipment" at the values stated here, last September the US could pay 15 cents for each dollar it currently owes. In a panic and before it could sell all that property, plant and equipment which accounts for 47% of its assets, the US could use Current Assets to pay 4 cents on each dollar owed. Expressed another way, the federal government would have to receive 7 times the value of its Long-Term Assets of \$1,082.4 billion to cover its debts of \$9,914.8 billion. And this excludes future promises to pay the past monies collected for Social Security and Medicare.

Yikes, I hope that there is a good market for used federal property in the future.

Got your attention yet?

But to really personalize these amounts, let's examine their value for each American taxpayer and for each man, woman and child residing in the United States.

**Figure 9 US Balance Sheet: Per Capita, US Taxpayer and Resident***Author's Analysis in Italics*

Source: 2005 US Treasury Report, page 40

<http://www.gao.gov/financial/fy2005financialreport.html>

Description	Note	2005 billions	%	Taxpayers	Residents
				0.114 dollars	0.296 dollars
		<i>amounts in</i>			
<b>Cash</b>		<b>85.8</b>	1%	752.63	289.86
<b>Accounts Receivable</b>	<b>2</b>	<b>66.1</b>	1%	579.82	223.31
<b>Loans Receivable</b>	<b>3</b>	<b>221.8</b>	2%	1,945.61	749.32
<b>Taxes Receivable</b>	<b>4</b>		0%	0.00	0.00
<i>Current Assets Subtotal</i>		<i>373.7</i>	<i>4%</i>	<i>3,278.07</i>	<i>1,262.50</i>
<b>Inventories</b>	<b>5</b>	<b>272.0</b>	3%	2,385.96	918.92
<b>Property, Plant, Equipment at Cost</b>	<b>6</b>	<b>678.4</b>	7%	5,950.88	2,291.89
<b>Securities and Investments</b>	<b>7</b>	<b>75.3</b>	1%	660.53	254.39
<b>Other Assets</b>	<b>8</b>	<b>56.7</b>	1%	497.37	191.55
<i>Long-Term Assets Subtotal</i>		<i>1,082.4</i>	<i>11%</i>	<i>9,494.74</i>	<i>3,656.76</i>
<i>Total Assets</i>		<i>1,456.1</i>	<i>15%</i>	<i>12,772.81</i>	<i>4,919.26</i>
<b>Overspending requiring Future Taxation</b>		<b>8,458.7</b>	85%	74,199.12	28,576.69
<i>Net Position</i>		<i>8,458.7</i>	<i>85%</i>	<i>74,199.12</i>	<i>28,576.69</i>
<i>Total Assets and Future Taxes</i>		<i>9,914.8</i>	<i>100%</i>	<i>86,971.93</i>	<i>33,495.95</i>
<b>Accounts Payable</b>	<b>9</b>	<b>67.9</b>	1%	595.61	229.39
<b>Benefits Due and Payable</b>	<b>13</b>	<b>117.0</b>	1%	1,026.32	395.27
<b>Public Debt Payable within One Year</b>	<b>Fig 7</b>	<b>1,100.8</b>	11%	9,656.14	3,718.92
<b>Interest Payable: Federal Public Debt</b>	<b>10</b>	<b>35.3</b>	0%	309.65	119.26
<i>Current Liabilities Subtotal</i>		<i>1,321.0</i>	<i>13%</i>	<i>11,587.72</i>	<i>4,462.84</i>
<b>Federal Public Debt</b>	<b>10</b>	<b>3,488.1</b>	35%	30,597.37	11,784.12
<b>Fed Employee/Veteran Benefits Pay</b>	<b>11</b>	<b>4,491.8</b>	45%	39,401.75	15,175.00
<b>Environmental liabilities</b>	<b>12</b>	<b>259.8</b>	3%	2,278.95	877.70
<b>Insurance Program Liabilities</b>	<b>14</b>	<b>93.2</b>	1%	817.54	314.86
<b>Loan Guarantee Liabilities</b>	<b>4</b>	<b>47.7</b>	0%	418.42	161.15
<b>Other Liabilities</b>	<b>15</b>	<b>213.2</b>	2%	1,870.18	720.27
<i>Long-Term Liabilities Subtotal</i>		<i>8,593.8</i>	<i>87%</i>	<i>75,384.21</i>	<i>29,033.11</i>
<i>Total Liabilities</i>		<i>9,914.8</i>	<i>100%</i>	<i>86,971.93</i>	<i>33,495.95</i>

The question is no longer “when will it stop?” but “can we stop it?”

(Quote)

OK, that's the bad news. And now for the relatively good news (?): David Walker, the US Comptroller General whose job it is to audit or verify the US Treasury's figures, says on page 136 of the 2005 Treasury Report that these financial statements *may not truly reflect* the federal government's financial status:

“DISCLAIMER OF OPINION ON THE CONSOLIDATED FINANCIAL STATEMENT

Because of the federal government's inability to demonstrate the reliability of significant portions of the U.S. government's accompanying consolidated financial statements for fiscal years 2005 and 2004, principally resulting from the material deficiencies, and other limitations on the scope of our work, described in this report, we are unable to, and we do not, express an opinion on such financial statements.

As a result of the material deficiencies in the federal government's systems, recordkeeping, documentation, and financial reporting and scope limitations, readers are cautioned that amounts reported in the consolidated financial statements and related notes may not be reliable. These material deficiencies and scope limitations also affect the reliability of certain information contained in the accompanying Management's Discussion and Analysis and other financial management information—including information used to manage the government day to day and budget information reported by federal agencies—that is taken from the same data sources as the consolidated financial statements.”

In essence, the head of the GAO is telling us *not to rely* on the federal government's financial statements to make any financial decisions. And realizing that there is a natural tendency to issue the “best numbers possible,” it is conceivable that these numbers reflect the best situation possible. Quite a quagmire, eh?

Internal control is the mechanism to validate financial transactions. An example of an internal control procedure is balancing your bank account once a month on a timely basis to insure that you agree with the bank's accounting. The GAO issues the following adverse opinion concerning the US Federal Government's internal control procedures:

“ADVERSE OPINION ON INTERNAL CONTROL

Because of the effects of the material weaknesses discussed in this report, in our opinion, the federal government did not maintain effective internal control as of September 30, 2005, to meet the following objectives: (1) transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and stewardship information in conformity with GAAP, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with laws governing the use of budget authority and with other significant laws and regulations that could have a direct and material effect on the financial statements and stewardship information. Consequently, the federal government’s internal control did not provide reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis. Our adverse opinion on internal control over financial reporting and compliance is based upon the criteria established under FMFIA. Individual federal agency financial statement audit reports identify additional reportable conditions<sup>11</sup> in internal control, some of which were reported by agency auditors as being material weaknesses at the individual agency level. These additional reportable conditions do not represent material weaknesses at the government-wide level. Also, due to the issues noted throughout this report, additional material weaknesses may exist that have not been reported.”

And you thought ENRON and WorldCom were outrageous! It is my opinion that David Walker is trying to tell us as openly and simply as he can that our nation’s books simply don’t balance and that there are insufficient controls in place to track money floating through federal government departments. With the trillions of dollars flowing through the federal government, is it conceivable that GAO is in effect telling us that the American people are facing a real and constant danger?

And according to Dr. Behrman, the problem is universal:

“Unfortunately, individual and corporate freedom is often sought without the necessary accompanying responsibility. Responsibility involves not only ethical and law-abiding behavior but also self-regulation, accountability, transparency, and compliance with government regulations--aspects of management not insisted upon even within American business schools.”<sup>5</sup>

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<sup>5</sup> Behrman, Jack