The Federal Government's Financial Health
A Citizen's Guide to the Financial Report of the United States Government

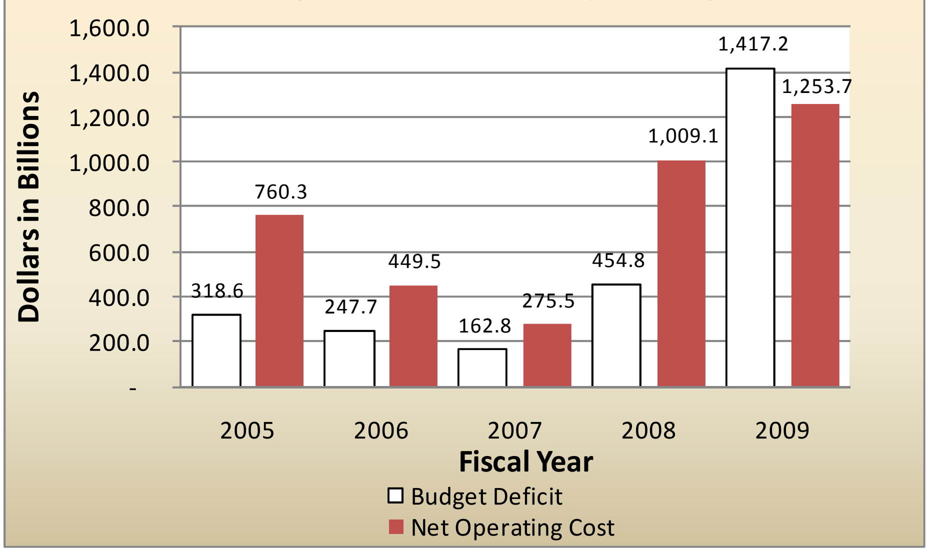
"We might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress and every man of any mind in the Union should be able to comprehend them, to investigate abuses, and consequently to control them."
President Thomas Jefferson to Treasury Secretary Albert Gallatin, 1802

OVERVIEW

Because of the severe economic downturn, instability in financial markets, and the policy measures taken to help the economy recover, Fiscal Year (FY) 2009 brought substantial changes to the financial position and condition of the U.S. Government. The budget deficit increased from $455 billion in FY 2008 to $1.4 trillion in FY 2009, while net operating cost increased from just over $1 trillion in FY 2008 to approximately $1.3 trillion. ***See 'Where We Are Now', p.* iii.**

This Citizen's Guide (Guide) discusses both the primarily cash-based U.S. Budget Deficit and the primarily accrual-based net operating cost, included in the Financial Report of the U.S. Government (see Chart 1). The differences in these two measures of financial health are discussed in more detail in this Guide.

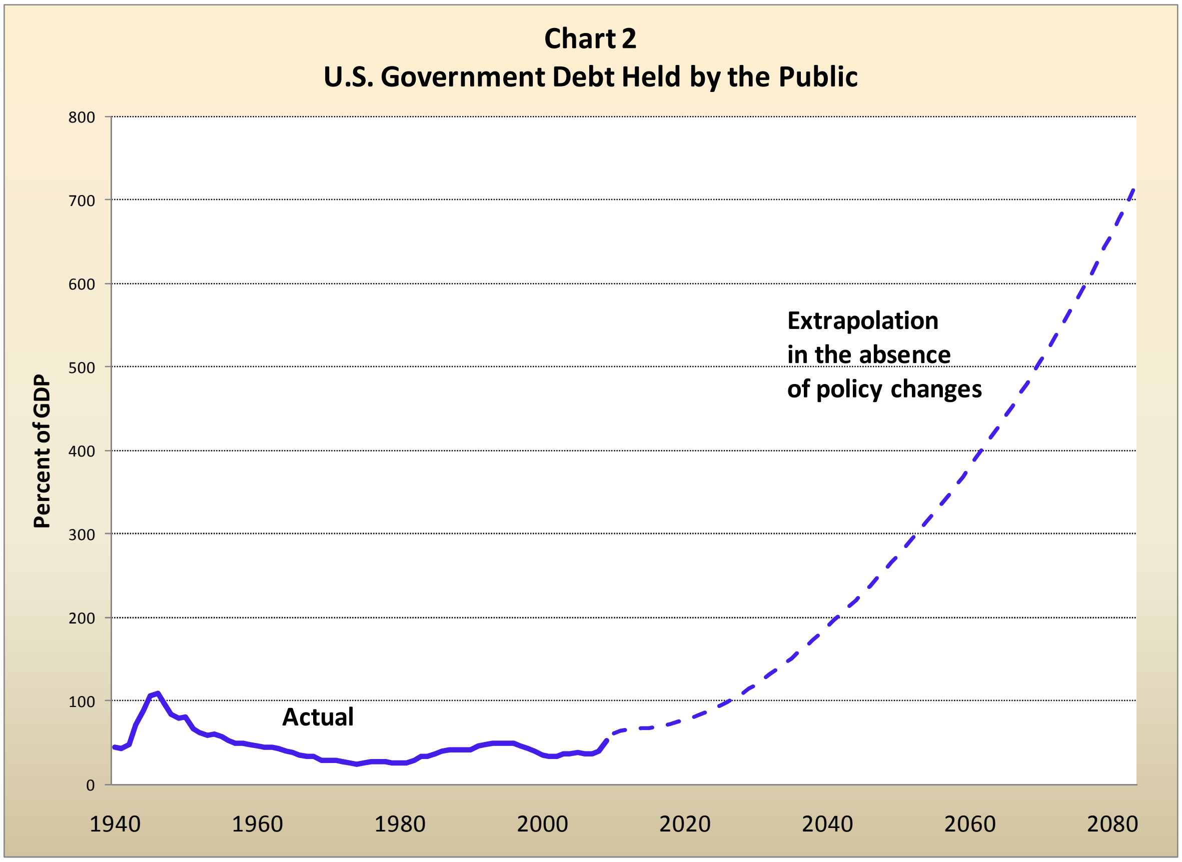
Chart 1
U.S. Budget Deficit & Net Operating Cost



Some Government programs act as "automatic stabilizers", helping to support the economy during a downturn by increasing spending and reducing tax collections. This support is "automatic" because increased spending on programs like unemployment benefits, Social Security, and Medicaid and a reduction in tax receipts happen even without any legislative changes in policies. The automatic stabilizers caused deficits and net operating costs to surge during FY 2009.

New policies were enacted that also contributed to the change in the Government's financial position. These new policies included the Housing and Economic Recovery Act of 2008 (HERA), the Emergency Economic Stabilization Act of 2008 (EESA), and the American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA). Implementation of these and other initiatives represent unprecedented efforts to stabilize the financial markets, jump-start the nation's economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so the country can thrive in the 21st century. ***See 'The Economic Recovery Effort', p. vi.***

In light of the high unemployment rate and the devastating effects that unemployment has on American families, the Government's immediate focus is on encouraging private sector job creation. But the Government must simultaneously address the medium- and long-term fiscal imbalance resulting from past budget deficits, the impact of the economic downturn, and demands on the nation's social programs, notably Medicare, Medicaid, and Social Security. As currently structured, the Government's fiscal path cannot be sustained indefinitely and would, over time, dramatically increase the Government's budget deficit and debt (see Chart 2). ***See 'Where We Are Headed' p. x.***



This Guide highlights important information contained in the *2009 Financial Report of the United States Government*. The Secretary of the Treasury, Director of the Office of Management and Budget (OMB), and Acting Comptroller General of the United States believe that the information discussed in this Guide is important to all Americans.

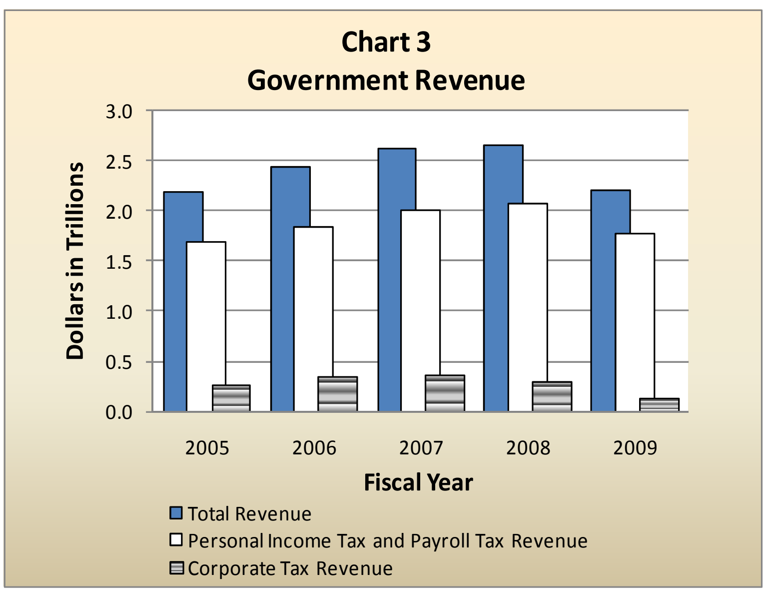
Where We Are Now

The Economy

The economic recession, which began during FY 2008, intensified in the first half of FY 2009. GDP fell at a 5.4 percent rate during the first quarter of the fiscal year and at a 6.4 percent rate in the second quarter. Unemployment increased from 6.2 percent in September 2008 to 9.8 percent in September 2009. While the economy began to grow again during the last quarter of the fiscal year, employment continued to fall. By the end of FY 2009, 8 million jobs had been lost since the beginning of the recession. Overall consumer-price inflation was negative over the course of the fiscal year, reflecting declines in energy prices from record levels in the previous fiscal year, as well as slack in the economy and, to a lesser extent, slower food price inflation. The core inflation rate (which excludes food and energy) remained positive, but also moderated. As the economy weakened, Federal tax receipts fell, and spending increased, causing the FY 2009 budget deficit to jump to $1,417 billion – roughly triple the FY 2008 budget deficit of $455 billion. Most of the deficit increase was due to the economic downturn and the automatic stabilizer features of the U.S. fiscal system, not to policy changes. The economy did, however, receive significant support during the fiscal year from a wide range of actions taken to combat the financial crisis and from the American Recovery and Reinvestment Act of 2009, which reduced taxes for businesses and working families, provided emergency relief for the unemployed and others who have borne the brunt of the recession, and made investments to create jobs, spur economic activity, and lay the foundation for future sustained growth.

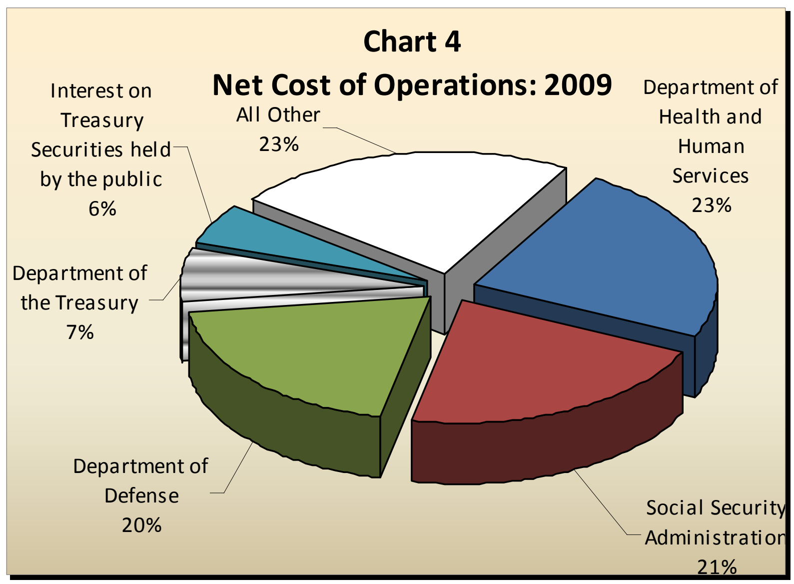
What Came In and What Went Out

What came in? Total Government revenues (calculated using a modified cash basis) decreased $463 billion to about $2.2 trillion during FY 2009, due in great part to the effects of the recession and tax changes associated with the 2009 stimulus package. As shown in Chart 3, individual income tax revenue (which decreased by almost 15 percent) and corporate tax revenue (which decreased by more than 50 percent) account for the majority (nearly 90 percent) of total revenues.



What went out? While Government budget spending increased during FY 2009, the Government's net cost, which takes into account not only current spending but also changes in liabilities, decreased by approximately $206 billion to about $3.4 trillion. Cost increases of $94 billion at the Department of Health and Human Services (HHS) for medical benefits and $73 billion at the Social Security Administration (SSA), due in part to the first wave of 'baby boomers' reaching retirement age as well as to recession-induced increases in benefit claims, were more than offset by a $488 billion decrease in costs at the Department of Veterans' Affairs (VA) stemming from VA's re-estimation of veterans' benefits liabilities. According to VA, the 2009 decrease in the actuarial liability was primarily caused by a large decrease in the cost of living adjustment (COLA) assumptions in the past year. The decrease was due in part to: (1) the decrease in inflation expectations that occurred during 2009 and (2) a change in methodology which aligned the assumption for future COLA rates with the assumption for future discount rates. VA's estimate decrease in FY 2009 followed a substantial increase in the veteran's benefit liability during FY 2008. Comparing a $339 billion liability increase in FY 2008 to the FY 2009 liability decrease of $149 billion results in a combined decrease in net cost due to VA reestimates of $488 billion. The reason the VA's estimates fluctuate so much from year to year is that VA assumes that current period interest and inflation rates will persist into the future. Thus, when current rates change, projections of the future change as well. Starting with next year's financial statement, the VA plans to switch to a methodology more similar to that used in the Social Security and Medicare Trustees' Reports – in which projections of future economic variables reflect average historical rates rather than simply the current period values.

Chart 4 shows that the largest contributors to the Government's net cost include the Departments of Health and Human Services (HHS) and Defense (DoD), the Social Security Administration (SSA), and the interest paid on debt held by the public (i.e., publicly-held debt). To derive net cost, the Government nets its costs against revenues earned from Government programs (e.g., Medicare premiums, National Park entry fees, and postal service fees). To arrive at the Government's "bottom line" net operating cost, the Government subtracts taxes and other revenues from net costs. Thus, despite the decrease in net costs, the substantial FY 2009 decline in tax revenues resulted in a total net operating cost increase of nearly $250 billion to reach a bottom line of about $1.3 trillion.



Cost vs. Deficit: What's the Difference?

The ***Budget of the United States Government*** (President's Budget) is the Government's primary financial planning and control tool. It describes how the Government spent and plans to spend the public's money, comparing *receipts*, or cash paid to the Government, with *outlays*, or payments to individuals, businesses or other parties. Outlays are measured primarily on a cash basis. The ***Financial Report of the United States Government*** (Financial Report) reports on the accrual-based cost of operations, sources used to finance the Government's costs, how much the Government owns and owes, and the outlook for fiscal sustainability. It compares the Government's *revenues*, or amounts that the Government has collected and expects to collect, but has not necessarily received, with its *costs* (recognized when owed, but not necessarily paid) to derive net operating cost. Together, the President's Budget and the Financial Report present a complementary perspective on the nation's financial health and provide a valuable management tool for the country's leaders.

The Government's net operating cost typically exceeds the deficit due largely to the inclusion of cost accruals for benefits earned by government employees that will be paid in the future. However, in FY 2009, the Government's budget deficit was approximately $1.4 trillion (budget-basis reporting), $163 billion greater than net operating cost (from the Financial Report) of about $1.3 trillion. As mentioned earlier, the VA substantially reduced its estimates of its veterans' benefit liabilities and costs. In addition, there was a $110 billion downward re-estimate of the cost of the Troubled Asset Relief Program (TARP), which was recorded as a reduction in net operating cost for FY 2009, but will not be reflected in the budget deficit until FY 2010. Table 1 shows factors that caused the budget deficit to uncharacteristically exceed net operating cost in FY 2009.

Table 1: Budget Deficit vs. Net Operating Cost

Dollars in Billions		2009		2008
Net Operating Cost	**$**	**(1,253.7)**	**$**	**(1,009.1)**
Change in:				
Liabilities for Veteran's Compensation	$	(149.2)	$	339.0
Liabilities for Military and Civilian Employee Benefits	$	114.0	$	210.8
TARP Downward Reestimate	$	(110.0)	$	-
Other	$	(18.2)	$	4.5
Budget Deficit	**$**	**(1,417.1)**	**$**	**(454.8)**

The Debt

Historically, the Government has incurred debt when it borrows from the public to finance budget deficits. The economic recovery efforts of the past year precipitated a need to dramatically increase the amount of funds borrowed from the public. However, part of this increase has financed investments that the Government expects to ultimately recover in whole or in part. The Government's debt held by the public totaled approximately $7.6 trillion at the end of FY 2009, and was held by the public in the form of Treasury securities, such as bills, notes, and bonds, and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, Federal Reserve Banks, and foreign governments.

In addition to debt held by the public, the Government has outstanding nearly $4.4 trillion of intragovernmental debt, which arises when one part of the Government borrows from another. It represents debt held by Government funds, including the Social Security ($2.5 trillion) and Medicare ($372 billion) trust funds. These Government funds are typically required to invest any excess annual receipts in Federal debt securities. Because these amounts are both liabilities of the Treasury and assets of the Government trust funds, they are eliminated in the consolidation process for the Governmentwide financial statements. When those securities are redeemed, e.g., to pay future Social Security benefits – the Government will need to obtain the resources necessary to reimburse the trust funds.

The sum of debt held by the public and intragovernmental debt equals gross Federal debt, which (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Congress raised the debt limit twice during FY 2009 – from $10.6 trillion to $11.3 trillion in October 2008 with the passage of the EESA, and again to $12.1 trillion in February 2009 with the passage of the ARRA. In December 2009, the limit was raised to $12.4 trillion and in February 2010, it was raised again to $14.3 trillion.

If overall budget deficits continue, however, the Government will have to borrow more from the public in order to finance program needs and pay interest on debt held by the public. Instances where the debt held by the public increases faster than the economy for extended periods can pose additional challenges. The remainder of this Guide examines these and other indicators of the challenges the Government will face in maintaining long-term fiscal sustainability.

The Economic Recovery Effort

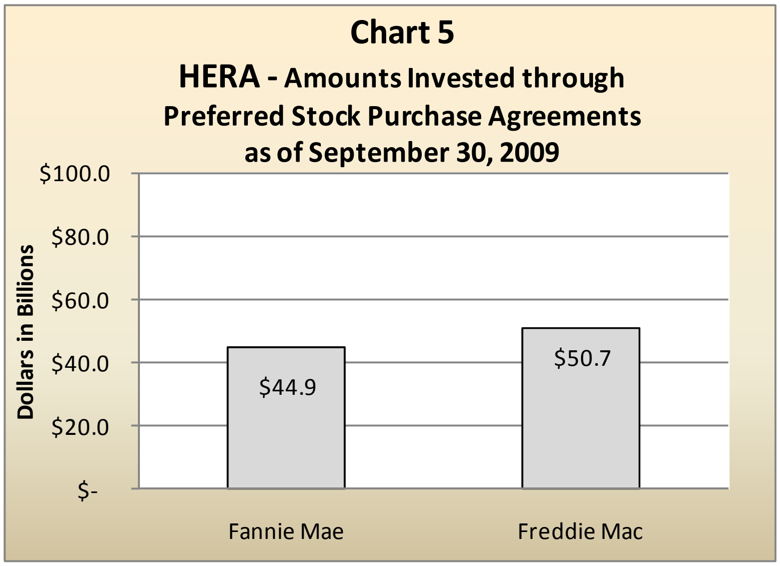
The severity of the recent financial crisis reflected long-term structural changes that had made the financial system significantly more fragile. Financial intermediation and risk taking grew rapidly in the relatively stable economic environment that preceded the crisis, while rising asset prices hid weak underwriting standards and masked growing leverage throughout the system. Further, risk management systems did not evolve at the pace of financial innovation, which was being driven in part by rapid improvements in information technology. Securitization expanded, allowing for more credit to rely on securities markets. This financial innovation made the system both more interconnected and opaque. The regulatory system was ill-prepared to handle the rapid growth of complex financial activity. In addition, unregulated markets and structures provided an increasing share of short-term credit to fund long-term assets. Such gaps and weaknesses in the supervision and regulation of financial firms presented challenges to the government's ability to monitor, prevent, or address risks as they built up in the financial system.

Starting in 2007, unanticipated mortgage-related losses weakened the balance sheets of major institutions, thereby reducing their capacity to provide credit and liquidity support to the economy and the rest of the financial system. Given the interconnections throughout the system, problems at individual institutions severely compromised confidence in the system as a whole, both in the United States and abroad. These pressures became acute as FY 2009 approached, as evidenced by the need to put Fannie Mae and Freddie Mac into conservatorship, the failure of Lehman Brothers, and significant problems at American International Group (AIG). In response, the Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corporation (FDIC), and other U.S. government bodies took decisive action to help stabilize financial markets and the nation's economy, and to pull the financial system back from the brink of systemic collapse.

Housing and Economic Recovery Act (HERA)

In July 2008, HERA was enacted. HERA established a new regulatory agency, the Federal Housing Finance Agency (FHFA), with enhanced regulatory authority over the housing Government-Sponsored Enterprises (GSEs). It also authorized the Treasury Department to provide financial support for the housing GSEs. Under HERA, the Treasury, in conjunction with the FHFA's decision to place Fannie Mae and Freddie Mac into conservatorship, agreed to: (1) provide initial capital of up to $100 billion each to Fannie Mae and Freddie Mac through a Senior Preferred Stock Purchase Agreement (SPSPA), should it be needed; (2) establish a GSE credit facility; and (3) purchase GSE-guaranteed mortgage-backed securities (MBS) to help support the availability of mortgage credit by temporarily providing additional capital to the mortgage market. On December 31, 2009, both the short-term credit facility and MBS purchase programs terminated.

The SPSPAs provide that the Government will make funding advances to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities of either GSE individually exceed its respective assets. As shown in Chart 5, as of September 30, 2009, actual payments to the GSEs totaled a combined $95.6 billion. In addition, as of September 30, 2009, Treasury accrued $91.9 billion dollars as a liability for liquidity commitments. In May 2009, Treasury's financial liquidity commitment under the SPSPAs was increased from an initial amount of $100 billion per GSE to $200 billion per GSE to provide additional security for financial markets. In December 2009, Treasury amended the SPSPAs to replace the existing fixed $200 billion per GSE cap with a formulaic cap for the next three years that will adjust upwards quarterly by the cumulative amount of any losses realized by either Fannie Mae or Freddie Mac and downwards by the cumulative amount of any gains, but not below $200 billion per GSE. The SPSPAs, together with the placement of the GSEs into conservatorship by the FHFA, helped prevent the deteriorating condition of the GSEs from causing a systemic disruption to the housing market and the financial system. This initiative has ensured that Fannie Mae and Freddie Mac can continue to fulfill their critical role in the mortgage market by providing liquidity and stabilizing the market. The success of this initiative and others has contributed to lower mortgage rates during the past fiscal year.



Under the MBS Purchase program, Treasury held about $184.5 billion in GSE MBS during FY 2009 and received back $27 billion in principal and interest on GSE MBS it had purchased.[1] This activity, combined with purchases by the Federal Reserve, have helped bring down mortgage rates to historically low levels and provide liquidity and stability to housing markets throughout the financial crisis. Additionally, the HOPE for Homeowners Program was established under HERA to help borrowers faced with foreclosure refinance through the Federal Housing Administration (FHA).

Emergency Economic Stabilization Act (EESA), the Troubled Asset Relief Program (TARP) and the Office of Financial Stability

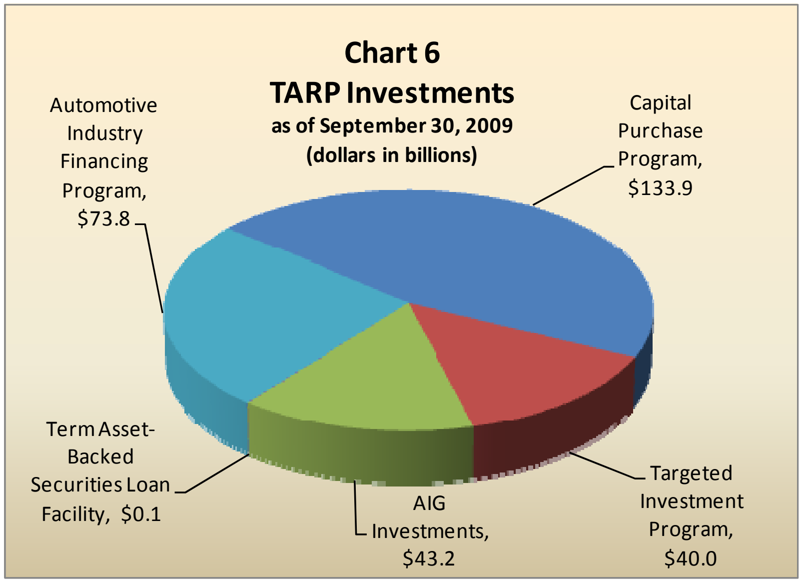
In the early days of the financial crisis, the Government's policy response was led by the Federal Reserve,[2] and, to a lesser extent, the Federal Deposit Insurance Corporation (FDIC). Before September 2008, the Federal Reserve was providing sorely needed liquidity to many financial institutions, which allowed them to meet near-term obligations. The FDIC was insuring deposits, which helped quell bank runs, and it was resolving troubled depository institutions, such as IndyMac. But when stress in the system dramatically intensified in the wake

[1] In the first three months of FY 2010, through December 31, 2009, Treasury purchased an additional $29.9 billion in MBS securities, and received back an additional $9 billion in principal and interest. No further purchases were to be made after December 31, 2009.

[2] The Federal Reserve is an independent organization and not considered a part of the Federal reporting entity. As such, their financial results are not consolidated into the Government's financial statements.

of the Lehman failure, investor confidence collapsed. In response, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted.

One of the purposes of EESA, through the creation of the TARP, is to provide the Secretary of the Treasury with the authorities and facilities necessary to help restore liquidity and stability to the U.S. financial system. In addition, the Secretary is directed to ensure that such authorities are used in a manner that protects home values, college funds, retirement accounts, and life savings; preserves homeownership; promotes jobs and economic growth; maximizes overall returns to taxpayers; and provides public accountability. It also provided specific authority to take certain actions to prevent avoidable foreclosures. Finally, it established the Office of Financial Stability in the Department of the Treasury (Treasury-OFS) to oversee and manage the many recovery initiatives and programs.



The EESA provided authority for the TARP to purchase or guarantee up to $700 billion of troubled assets.[3] Treasury-OFS used this authority to help strengthen the U.S. financial system, restore health and liquidity to credit markets to facilitate borrowing by consumers and businesses, and prevent avoidable foreclosures in the housing market. While the TARP should be evaluated primarily based on its impact on stabilizing the financial system, an important factor in the analysis is cost. While EESA provided up to $700 billion in authority, the TARP has not cost taxpayers $700 billion. Treasury-OFS used the authority to make investments to help stabilize the financial system and expects that much of the funding will be repaid. While some of the TARP investments are likely to result in a cost, others are estimated to produce net income.

As of September 30, 2009, approximately $317 billion of the $700 billion in purchase and guarantee authority remained available. During FY 2009, Treasury-OFS disbursed $364 billion, most of it in the form of investments. A total of $73 billion of those TARP funds have already been repaid during FY 2009, resulting in a total of $291 billion in investments outstanding as of September 30, 2009 (see Chart 6). In addition, for FY 2009, reported net cost of operations for TARP was approximately $41.6 billion, including administrative expenses, and, for the period ended September 30, 2009, investments generated $12.7 billion in cash received by the Treasury through interest, dividends, and the proceeds from the sale of warrants.

It is important to note that much of the discussion in this Guide regarding TARP activity is as of fiscal year-end 2009 (i.e., through September 30, 2009). Additional information pertaining to material ‘subsequent events’ is provided in summary fashion in this Guide and in greater

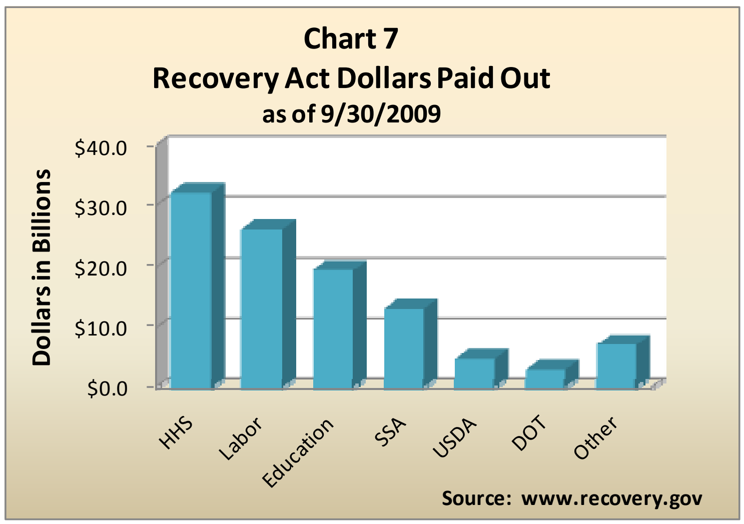
[3] The Helping Families Save Their Homes Act of 2009, Pub. L. No. 111-22, Div. A, amended the EESA and reduced the maximum allowable amount of outstanding troubled assets under the act by almost $1.3 billion, from $700 billion to $698.7 billion.

detail in the notes to the financial statements. For example, subsequent to September 30, 2009, certain TARP participants have repaid approximately $90 billion to the Treasury, and the Asset Guarantee Program was terminated.

The ultimate return on the outstanding TARP investments will depend on how the economy and financial markets evolve. Improvement in the economic and financial outlook since the spring of 2009 reflects a broad and aggressive policy response that included the financial stability policies implemented under TARP, efforts to bolster confidence in the housing and mortgage markets under HERA, other financial stability policies implemented by the FDIC and the Board of Governors of the Federal Reserve, accommodative monetary policy, and the American Recovery and Reinvestment Act of 2009.

American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA) was passed by Congress and signed into law by President Obama on February 17, 2009. The purpose of the original $787 billion Recovery package is to jump-start the economy and to create and save jobs. Approximately one-third of ARRA is dedicated to tax cuts for businesses and working families. Another third goes toward emergency relief for those who have borne the brunt of the recession. The final third of the Recovery Act is devoted to making investments to create jobs, spur economic activity, and lay the foundation for future sustained growth. ARRA provides for unprecedented levels of transparency and accountability so that the public will be able to know how, when, and where tax dollars are spent.



The website, Recovery.gov, is the centerpiece of the President's commitment to transparency and accountability. Recovery.gov features information on how the Act is working, tools to help hold the government accountable, and up-to-date data on the expenditure of funds. It is the main vehicle to provide the public with the ability to monitor the progress of ARRA payments. Chart 7 summarizes amounts paid out by Federal agencies as of September 30, 2009. It is important to note that amounts spent by the Federal, State, and Local Government agencies, as well as by the private sector is continually changing. Readers may find the most up-to-date information on where and how these funds are being used at www.recovery.gov.[4]

[4] Amounts in Chart 7 reflect reported activity as of September 30, 2009. These amounts are not reflected explicitly in agency financial statements and are not audited separately as part of the annual agency or consolidated financial statement audits. For more information, see the Recovery Act website at www.recovery.gov.

Where We Are Headed

For years it has been apparent that rising health care costs and population aging would eventually present a serious fiscal challenge. With the baby-boom generation now beginning to retire, that challenge is upon us. Total spending on Medicare, Medicaid, and Social Security is expected to rise by approximately 3 percent of GDP between 2008 and 2020. In combination with the fiscal imbalance resulting from past budget deficits and the impact of the economic downturn, the Government is on a trajectory that will result in deficits of 5 percent of GDP even after the economy recovers. The President has established a bipartisan fiscal commission to recommend policies to stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers and address the growth of entitlement spending and the gap between the estimated revenues and expenditures of the Federal Government.

Challenges Ahead: Deficits and Interest

Spending under current law for Medicare, Medicaid, and Social Security is expected to grow much faster than GDP over the next 75 years as health care costs rise and the population ages. Revenues, on the other hand, are expected to grow only modestly faster than GDP. Together, these two trends imply that without policy changes, the difference between spending and revenues—the budget deficit—will grow larger as a share of GDP.

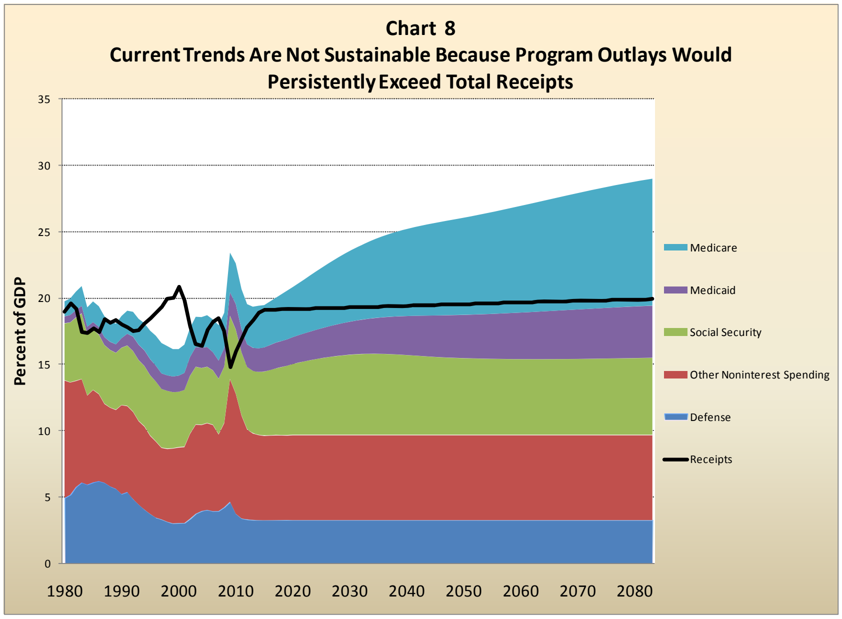


Chart 8 shows historical and estimated receipts, program spending, and primary deficits expressed as shares of GDP from 1980 to 2083. Program spending grew rapidly in 2008 and 2009 due to the financial crisis and the recession and the policies necessary to combat both, and is expected to fall in the next few years as the economy recovers. Starting in 2014, however, rising health care costs and, to a lesser extent, the aging population, are expected to cause program spending as a share of GDP to rise continuously from 19 percent in 2014 to 25 percent in 2040 and 29 percent in 2080. This reflects the expectation that heath care spending per person will continue to grow faster than will the economy as a whole and also reflects the movement of the 78 million ‘baby boomers’ (those born between 1946 and 1964) from work to retirement.[5]

[5] The Medicare Trustees' Report shows that, under current law, the Hospital Insurance Trust Fund will not have sufficient funds to pay scheduled benefits beginning in 2017. At that point, trust fund income would still be able to cover only 81 percent of scheduled benefits, but this share would fall to about 29 percent in 2083. The Social Security Trust Funds similarly face a long-run shortfall. Under current law, the OASDI Trust Funds will be exhausted in 2037, though revenues would still be sufficient to pay 76 percent of scheduled benefits in 2037 and 74 percent in 2083.

The revenue share of GDP was depressed in 2008 and especially 2009 by the recession and tax changes enacted as part of the 2009 stimulus package. As the economy recovers, the revenue share of GDP is expected to return to more normal levels and then grow slightly as increases in real incomes cause larger shares of income to fall into the upper income tax brackets.[6] This estimate assumes that legislation will continue to be enacted that prevents the share of income subject to the Alternative Minimum Tax from rising.

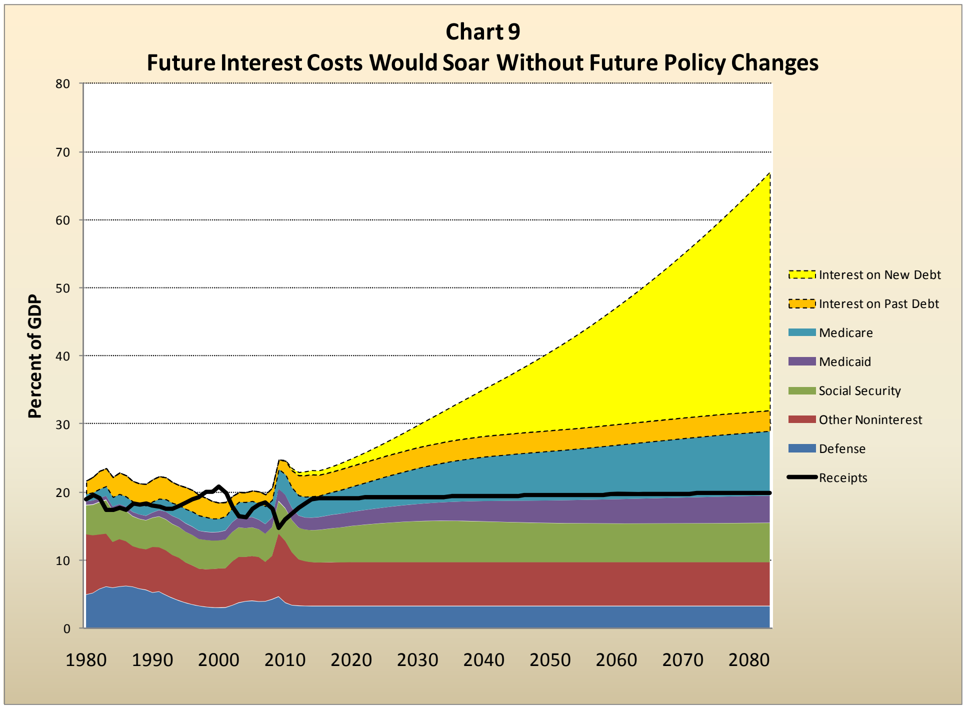


Chart 8 also illustrates the difference between estimated program spending (spending on mandatory and discretionary programs, excluding interest on debt held by the public) and estimated Government receipts. This difference, known as the primary deficit, is a useful concept because interest spending results from past primary deficits and interest payments on the resulting debt, and can be controlled only by controlling the level of future primary deficits. To stabilize the debt held by the public-to-GDP (debt-to-GDP) ratio at the projected level of debt-to-GDP when the economy recovers would require roughly a sustained primary balance – a balanced budget excluding interest payments. As such, the chart is also useful for assessing the magnitude of revenue increases or spending reductions that would be necessary to produce fiscal stability.[7] If policy changes are delayed, the magnitude of the policy changes that would be needed to stabilize the debt-to-GDP ratio would be greater.

Looking forward, in the absence of policy changes, large and growing primary deficits will increase debt held by the public and interest on that debt. Chart 9 shows that net interest expressed as a share of GDP is estimated to rise from 1.3 percent in 2009 to 10 percent in 2040 and to 35 percent in 2080. Because interest expenses grow, the total deficit and debt held by the public grow much more rapidly than does the primary deficit. Chart 2 at the opening of this Guide showed an extrapolation of increases in the outyears in publicly-held debt as a share of GDP if current policies remain unchanged. These estimates illustrate that current policies are not sustainable.

[6] The increase in estimated revenues due to real income rising is somewhat offset by a decline in revenue as the share of compensation allocated to employer-sponsored health insurance costs, which are tax-exempt, increases over time.

[7] The conditions for a stable debt-to-GDP ratio also depend on the relationship between interest rates and GDP growth rates.

Looking Ahead

During the past two years, the nation has confronted extraordinary challenges: a severe recession here and around the world; a catastrophic loss of trust and confidence in our financial system; unprecedented foreclosure rates; small businesses struggling to stay afloat; and millions of Americans worried about losing their jobs and savings. The current economic challenges that the United States faces require bold and comprehensive action, and Treasury and other Government agencies have responded with an array of programs and initiatives. However, even as the Government continues its current efforts to foster economic stability, it cannot lose sight of the long-term fiscal challenges associated with its social insurance programs. The nation must change course and bring social insurance expenses and resources in balance before the deficit and debt reach unprecedented heights. Delays will only increase the magnitude of the reforms needed and will place more of the burden on future generations. While there is still more work to be done and both near- and long-term challenges remain, the Federal Government has already accomplished a great deal during this fiscal year and will continue to work at an unprecedented pace to restore balance, growth, and confidence in our nation's economy.

Find Out More

You will find more detail on the issues discussed in this Guide in the *2009 Financial Report of the United States Government*, issued by the U.S. Department of the Treasury. The Report provides a comprehensive view of both the Government's current financial position and prospects for moving forward. It further discusses the steps the Federal Government has taken to restore stability in the U.S. financial system and the fiscal challenges of the future. The issues discussed in the Citizens' Guide and the *Financial Report* affect, and should be of interest to, every citizen. The *Financial Report's* comprehensive reporting is intended to inform and support the decision-making needs of lawmakers and the public and to help keep the United States on solid financial ground.

You are encouraged to explore the information it contains and to ask questions about how the Government manages taxpayers' money. The *2009 Financial Report of the United States Government* and other information about the nation's finances are available at:

- U.S. Department of the Treasury's Financial Management Service, http://www.fms.treas.gov/fr/index.html;
- OMB's Office of Federal Financial Management, http://www.whitehouse.gov/omb/financial/index.html; and
- GAO, http://www.gao.gov/financial/fy2009financialreport.html.

This Citizen's Guide highlights information in the 2009 Financial Report. The Government Accountability Office's (GAO) complete audit report on the U.S. Government's consolidated financial statements can be found beginning on page 209 of the Financial Report. For FY 2009 and 2008, GAO issued an unqualified or 'clean' opinion on the Statement of Social Insurance. However, certain material financial reporting control weaknesses and other limitations on the scope of its work prevented GAO from expressing an opinion on the remaining financial statements in the Financial Report.

Government's Financial Position and Condition

The Financial Report of the U.S. Government (Report) provides the President, Congress, and the American people a comprehensive view of how the Federal Government is managing taxpayer dollars. It discusses the Government's financial position and condition, its revenues and costs, assets and liabilities, and other responsibilities and commitments, as well as important financial issues that affect the nation and its citizens both now and in the future.

The following table presents several key indicators of the Government's financial health, which are discussed in greater detail in the Report.

NATION BY THE NUMBERS

A Snapshot of The Government's Financial Position & Condition

billions of dollars	2009	2008
Gross Costs	**$ (3,735.6)**	**$ (3,891.6)**
Earned Revenues	$ 300.9	$ 250.9
Net Cost	**$ (3,434.7)**	**$ (3,640.7)**
Total Taxes and Other Revenues	**$ 2,198.4**	**$ 2,661.4**
Other	$ (17.4)	$ (29.8)
Net Operating Cost	**$ (1,253.7)**	**$ (1,009.1)**
Assets:	**$ 2,667.9**	**$ 1,974.7**
Less: Liabilities, comprised of:		
Debt Held By the Public	$ (7,582.7)	$ (5,836.2)
Federal Employee & Veteran Benefits	$ (5,283.7)	$ (5,318.9)
Other Liabilities	$ (1,257.4)	$ (1,023.1)
Total Liabilities	**$ (14,123.8)**	**$ (12,178.2)**
Net Position (Assets Minus Liabilities)	**$ (11,455.9)**	**$ (10,203.5)**
Sustainability Measures:		
Statement of Social Insurance: [1]		
Closed Group (current participants) [2]	$ (52,145)	$ (49,135)
Open Group (current + future participants) [3]	$ (45,878)	$ (42,970)
Social Insurance as Percent of Gross Domestic Product (GDP)[4]:		
Closed Group (current participants)	-6.6%	-6.2%
Open Group (current + future participants)	-5.8%	-5.4%
Budget Results		
Unified Budget Deficit	**$ (1,417.1)**	**$ (454.8)**

1 Present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain benefit programs that are referred to as Social Insurance (e.g., Social Security, Medicare). Not considered liabilites on the balance sheet.

2 Includes current participants (i.e., receiving and/or are eligible to receive benefits) for the Social Security and Medicare programs ages 15 and over at the start of the 75-year projection period, except for the 2007 Medicare programs for which current participants are assumed to be at least 18 years of age at the start of the 75-year projection period.

3 Includes all current and future projected participants over the 75-year projection period.

4 Social Insurance values as reported in the Statement of Social Insurance. GDP values from the 2009 Social Security and Medicare Trust Fund Reports represent the present value of GDP over the 75 year projection period.

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