2003

Financial Report of the United States Government

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Supplemental Information (Unaudited)

Appendix

List of Social Insurance Charts

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A MESSAGE FROM THE SECRETARY OF THE TREASURY

I am pleased to present the fiscal year 2003 *Financial Report of the United States Government*, which presents and discusses the Government's financial operations for the year. The report includes consolidated financial statements and important disclosures about the government's stewardship responsibilities. Since the first report pursuant to the Government Management Reform Act of 1994 was issued for fiscal year 1997, we have made great strides in improving the usefulness of this important report.

For fiscal 2003, the U.S. Government is reporting a net operating cost of $665 billion, an increase of $300 billion from the $365 billion net operating cost reported last year. The increase is primarily attributable to the increased cost of the global war on terrorism, increases in the government's post-retirement liabilities and a decline in tax revenues caused by the sluggish economy. The report reflects the adoption of a new accounting standard this year which requires the recording as an asset of military equipment and its related depreciation resulting in an increase to assets of $383 billion.

Twenty seven major departments and agencies received unqualified audit opinions on their FY 2003 financial statements and eight Departments issued their audited financial statements by mid-November, a significant increase from last year. When this accelerated reporting time frame is accomplished by all agencies, it will set the stage for the timely preparation of this report. I look forward to when we can issue the Financial Report in December so that it is available to support the budget deliberation process.

While much has been accomplished, much more remains to be done. Our efforts are well underway to eliminate the significant weaknesses cited by the auditors concerning the report's data and processes. It will require a concerted effort across government to resolve these matters and, working with OMB and through the President's Management Council and the Chief Financial Officer's Council, Treasury believes we will succeed.

The government's finances are important and complex, and our reporting will not be truly effective until it provides reliable information in a timely and useful form. Treasury is committed to meeting that challenge and to producing and reporting financial information that meets the highest standards expected by the American public.

John W. Snow

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The quality and timeliness of financial reporting in the Federal Government has come a long way since the first Governmentwide report subject to audit issued in March 1998 for fiscal year 1997. At that time, only 8 of the 24 Chief Financial Officers Act (CFO Act) agencies received clean opinions on their 1997 financial statements. This year, 20 of the 24 agencies received clean opinions and 21 of the 32 entities, most significant to these statements, had audited financial statements issued by the end of the calendar year. This improvement in both quality and timeliness was concurrent with the application of new accounting principles and new accounting systems, and involved performing reconciliations that had never been attempted before. This has been a monumental effort requiring years of planning and preparation and the efforts of thousands. However, we still have much to accomplish before we meet our objective of timely, useful financial reporting.

The accompanying *2003 Financial Report of the United States Government* is required by 31 U.S.C. § 331(e)(1) to be submitted to Congress by March 31, and consists of Management's Discussion and Analysis (MD&A), Statements of Net Cost, Statements of Operations and Changes in Net Position, Reconciliations of Net Operating Cost and Unified Budget Deficit, Statements of Changes in Cash Balance from Unified Budget and Other Activities, Balance Sheets, Stewardship Information (Unaudited), Notes to the Financial Statements, and Supplemental Information (Unaudited). Each section is preceded by a description of its contents.

Executive Summary

Purpose

This *Financial Report of the United States Government* is prepared to give the President, Congress, and the American people information about the financial position of the Federal Government. This report provides, on an accrual basis of accounting, a broad, comprehensive view of the Federal Government's finances that is not available elsewhere. It states the Government's financial position and condition, its revenues and costs, assets and liabilities, and other obligations and commitments. It also discusses important financial issues and significant conditions that may affect future operations.

Operating Results

Revenues were down by $81.7 billion primarily due to lower tax collections and costs were up by $225.8 billion due to, among other things, fighting the global war on terrorism. This resulted in a net operating cost of $665.0 billion. This compares with the net operating cost of $364.9 billion for fiscal year 2002. This MD&A discusses results in a historical context and includes a chart (page 17) that shows the relationship of prior U.S. budget deficits as a percentage of the U.S. gross domestic product (GDP), which is the total value of goods and services produced in the United States.

Economic Results

After recovering in fiscal year 2002 from the economic downturn, the economy continued to accelerate in fiscal year 2003 and achieved strong growth. The rate of increase in real GDP picked up in each of the last three quarters of the fiscal year and productivity continued to record substantial gains. The labor market stabilized in fiscal year 2003 following job losses in the previous year and in the final quarter of the fiscal year, employment began to increase. Improvement in the economy was aided by new fiscal policies in 2003, but the lingering effect of the recession and loss in equity wealth, the war with Iraq, homeland security spending, and lower taxes enacted to stimulate growth contributed to a widening in the Federal budget deficit to $374.8 billion for the fiscal year.

Overall Perspective

The 2003 balance sheet shows assets of $1,394 billion and liabilities of $8,499 billion, for a balance or negative net position of $7,105 billion. The Government's responsibilities to make future payments for social insurance and certain other programs are not shown as liabilities according to Federal accounting standards; however, they are measured in other contexts. These programmatic commitments remain Federal responsibilities and as currently structured will have a significant claim on budgetary resources in the future.

As summarized below, and in a more detailed table on page 12 of this section, the net present value for all of the responsibilities (over a 75-year period) is $34,825 billion, including Medicare and Social Security payments, pensions and benefits for Federal employees and veterans, and other financial responsibilities. The reader needs to understand these responsibilities to get a full understanding of the Government's finances.

Overall Perspective (In billions of dollars)	2003			2002		
	Balance Sheet	Additional Responsibilities	Combined Amounts	Balance Sheet	Additional Responsibilities	Combined Amounts
ASSETS	$ 1,394	$ -	$ 1,394	$ 997	$ [1] 616	$ 1,613
LIABILITIES & NET RESPONSIBILITIES						
Social Insurance	--	(26,858)	(26,858)	--	(24,149)	(24,149)
Fed. empl. & veterans pensions/benefits	(3,880)	--	(3,880)	(3,589)	--	(3,589)
Federal debt held by the public	(3,945)	--	(3,945)	(3,573)	--	(3,573)
Other liabilities & responsibilities	(674)	(862)	(1,536)	(654)	(771)	(1,425)
Total Liabilities & Net Responsibilities	$ (8,499)	$ (27,720)	$ (36,219)	$ (7,817)	$ (24,920)	$ (32,736)
BALANCE (Total Assets minus Total Liabilities & Net Responsibilities)	($7,105)	($27,720)	($34,825)	($6,820)	($24,304)	($31,123)

[1] Source: Fiscal Year 2004 Analytical Perspectives, page 37, Defense Fixed Reproducible Capital, Nonfinancial Assets.

Note: Overall details may not add to total due to rounding.

The table does not reflect the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that was enacted on December 8, 2003. The Department of Health and Human Services (HHS) actuaries estimated that this legislation would result in direct spending outlays totaling $534 billion over the 2004-2013 period. The 75-year period net present value estimate is not yet available.

Significant Reporting Items for Fiscal Year 2003

Department of Defense Property Addition

In fiscal year 2003, the Department of Defense's (DOD) reported general property, plant, and equipment, net increased by $323.7 billion or 264.2 percent over fiscal year 2002. The majority of this increase was due to the initial recording of the value of DOD's military equipment.

Beginning with the fiscal year 2003 financial statements, DOD was required to record on the balance sheet the value of its military equipment under the new Statement of Federal Financial Accounting Standard No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment* (SFFAS No. 23) issued by the Federal Accounting Standards Advisory Board (FASAB) in May 2003. SFFAS No. 23 establishes generally accepted accounting principles for valuing and reporting military equipment in Federal financial statements. Previously, military equipment was reported as national defense property, plant, and equipment in the Stewardship Information section of this report. For a detailed discussion of this increase, see the Assets section of the Asset and Liability Summary of this report.

Creation of the Department of Homeland Security

On March 1, 2003, more than 20 entities and offices and some 180,000 employees were transferred into the Department of Homeland Security (DHS). The creation of the DHS in 2003 was the most significant transformation of the Federal Government since 1947 when the various branches of the U.S. Armed Forces were merged into a new Department of Defense.

In the aftermath of the September 11, 2001, terrorist attacks, the President and the Congress recognized the need to coordinate the efforts of many Federal agencies, offices, and programs which had responsibility for various aspects of protecting and securing our homeland. President Bush proposed the creation of DHS, and Congress passed legislation establishing this new department. See the U.S. Government Structure & Performance section of this report for further details and a chart showing the entities transferred into DHS.

Iraq Operations

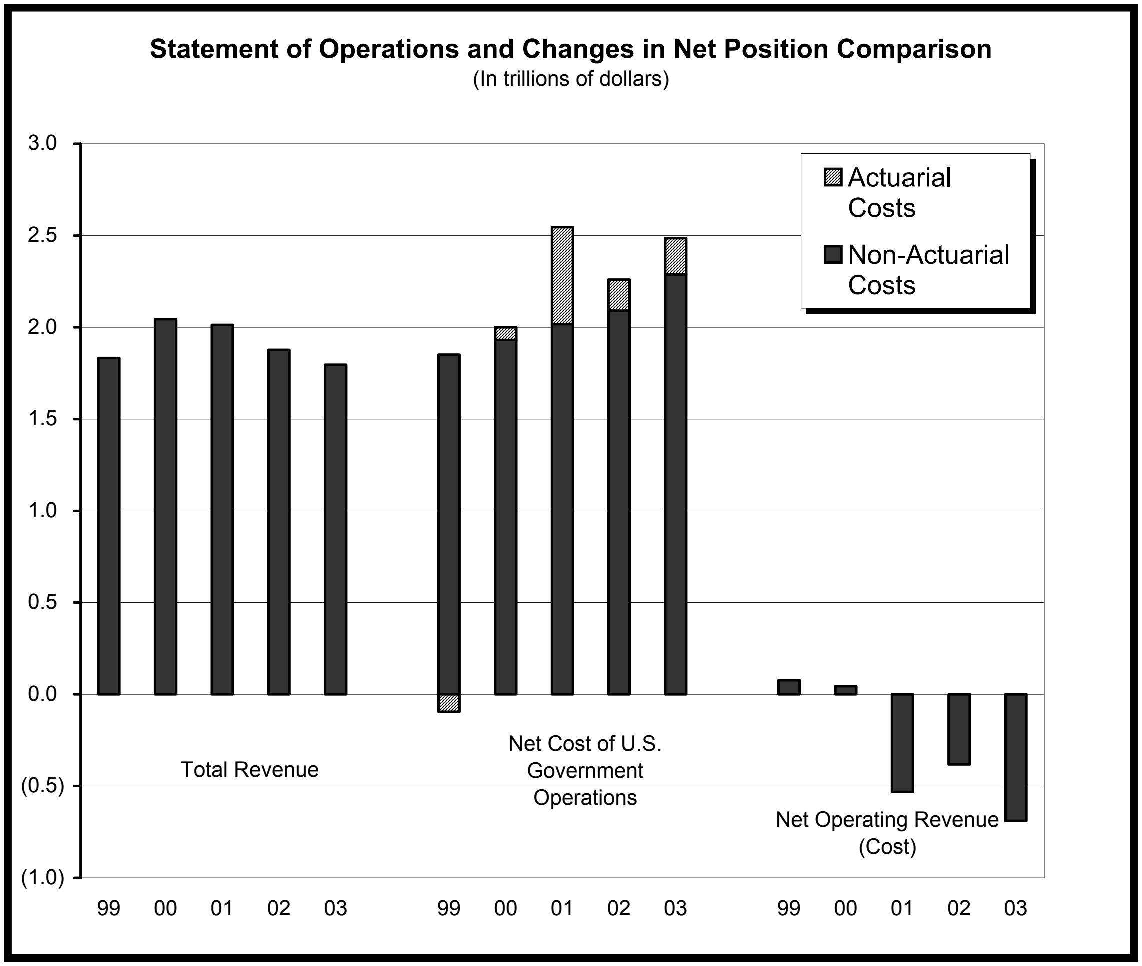
In March 2003, an international coalition led by the United States liberated Iraq and is overseeing a transformation. The vision for a sovereign, stable, prosperous, and democratic Iraq centered on four goals: establishing a secure environment, restoring essential services, promoting economic growth, and developing good governance through a legitimate constitutional government. To conduct military operations and address these goals in 2003, several sources of funding were used: appropriated and nonappropriated funds (seized and vested assets and the Development Fund for Iraq). U.S. agencies obligated $3.9 billion in appropriated funds for Iraq relief, renewal, and construction. Congress also appropriated funds to DOD for Operation Iraqi Freedom in the Emergency Wartime Supplemental Appropriations Act, 2003 (Public Law 108-11) the Consolidated Appropriations Resolution, 2003 (Public Law 108-7). DOD obligated $42.4 billion for incremental costs in support of Iraqi Freedom. For further discussion of the cost of Iraq operations and funding sources and uses, see Iraq Operations in the Financial Results section at the end of the Revenue and Cost Summary.

Debt Ceiling

On February 20, 2003, Treasury's outstanding debt reached the statutory limit of $6,400 billion. This requires Treasury to change its normal borrowing operations to stay within the limit. When this occurs, numerous statutory tools are used which allow the Government to manage without issuing new debt and to continue operations for short time periods. On May 27, 2003, President Bush signed legislation increasing the statutory debt limit to $7,384 billion (P.L. 108-24). For further discussion of the debt ceiling, see the Federal Budget and Federal Debt section of the MD&A.

Financial Results

Revenue and Cost Summary

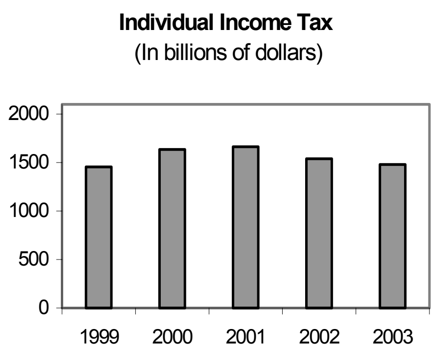


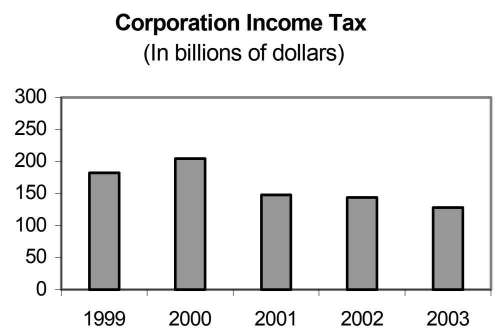
Accrual-Based Results

The financial statements (pages 58-62) present information about the financial position of the Federal Government, the net costs of its operations, and the financing sources used to fund its operations. The information in these statements gives a comprehensive view of the Government's finances. The information is reported generally on the accrual basis of accounting in which costs are recorded when a liability is incurred. This differs from the primarily cash basis used in calculating the budget results, in which outlays are recorded when bills are actually paid. See Note 1B (Basis of Accounting and Revenue Recognition) of this *Financial Report* for a discussion of how revenues are recorded.

The net operating cost as shown in these financial statements for fiscal year 2003 was $665.0 billion, compared to a budget deficit of $374.8 billion. The primary component of the difference between the budget and accrual reported results is the recognition of the year's actuarial expense for pension and health liabilities for civilian and military employees and veteran's compensation of $290.6 billion. This difference is similar to fiscal year 2002 which had a net operating cost of $364.9 billion and a budget deficit of $157.7 billion. For a detailed reconciliation between the two numbers, see the Reconciliations of Net Operating Cost and Unified Budget Deficit in the Financial Statements section.

Because the Government traditionally has been viewed from a budget perspective, and because many of the terms used to describe financial events have different meanings when describing budget outcomes, a conscious effort has been made to refer to budget-based amounts by using the term "budget" in order to eliminate any possible confusion. Net operating revenue (cost) is the term used to represent accrual-based operating results and equates to revenue less net cost of Government operations.

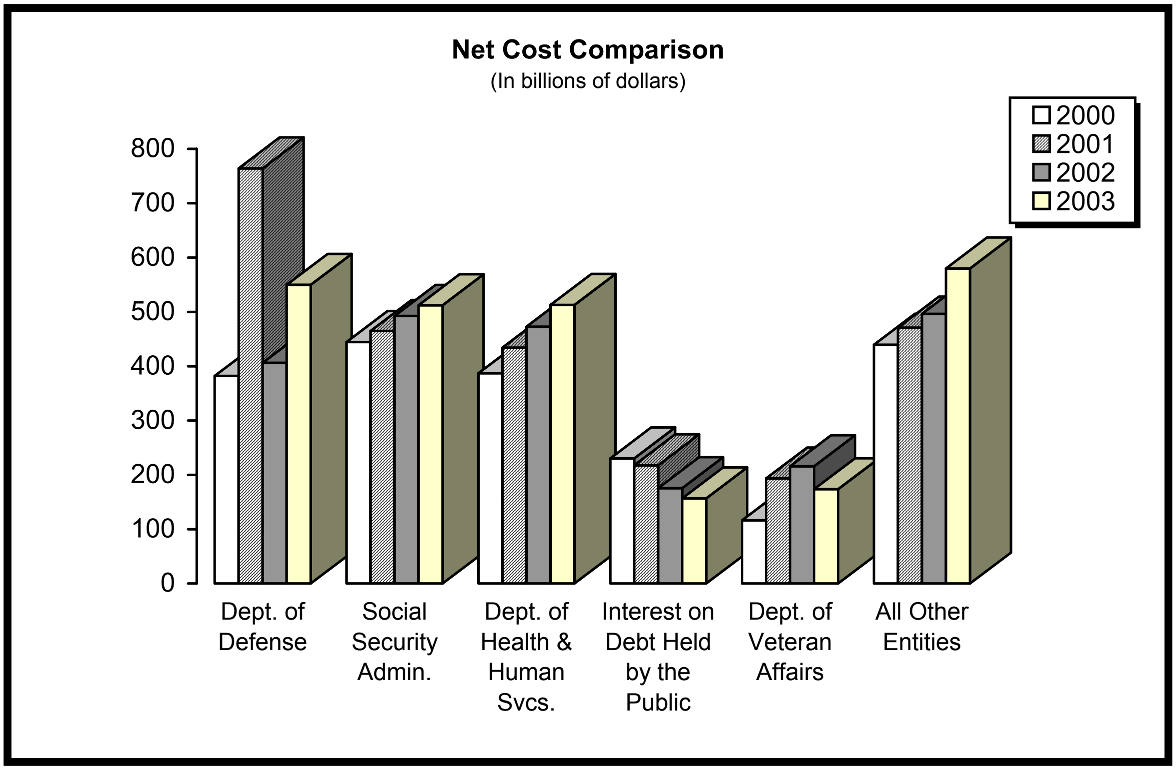




The Government's main source of revenue comes from its ability to demand payments from the public (e.g., taxes, duties, fines, and penalties). As shown in the chart above, the Government's principal source of revenue is individual income tax. In 2003, this revenue category was $1,481.3 billion, representing 82.5 percent of total revenue. This compares to $1,538.6 billion in 2002, a decrease of $57.3 billion or 3.7 percent from 2002. Since fiscal year 2000, when they were 10.0 percent of total revenue, corporate income taxes have fallen until they are 7.1 percent of total revenue in fiscal year 2003.

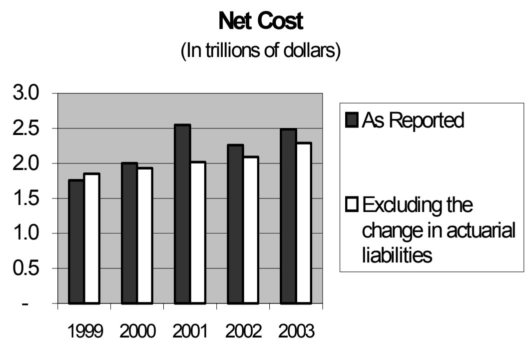
In 2003, total revenue was $1,796.0 billion. This amount compares to $1,877.7 billion in 2002, a decrease of $81.7 billion or a decline of 4.4 percent. Revenue has declined primarily due to a drop in individual income tax and tax withholdings and can be attributed to a variety of factors, including an economy recovering slowly from a recession, recently enacted tax cuts, and a decline in capital gains realizations.

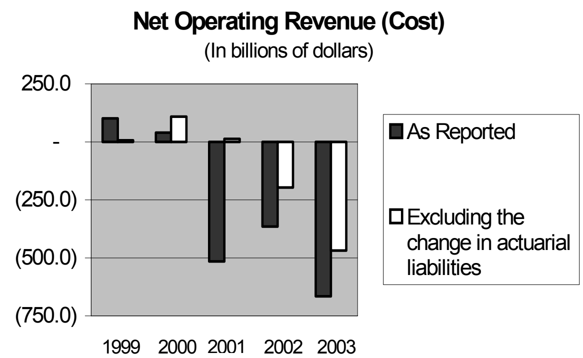
In addition to revenue from its ability to tax, the Government's other source of revenue comes from providing goods and services to the public for a price. This type of revenue is called "earned" revenue because it results from the exchange of transactions. Examples of earned revenue include the postage and mailing fees paid to the U.S. Postal Service and Medicare Part B premiums collected by HHS (these premiums do not comprise the majority of Medicare Part B's funding). This revenue is used to pay for or *offset* the costs of administering these programs or services and is included in the calculation of net cost on the Statements of Net Cost. In fiscal year 2003, the Government earned $164.8 billion from this type of revenue. This amount compares to $156.6 billion in fiscal year 2002, an increase of $8.2 billion or 5.2 percent.



The above chart compares significant elements of net cost by fiscal year. The largest charge was DOD's fiscal year 2003 cost increase of $143.4 billion, or 35.3 percent. This increase was primarily incurred due to fighting the global war on terrorism and an increase in DOD's military post retirement costs. DOD's military post retirement costs increased mainly due to an increase in its actuarial liabilities. DOD's cost in 2003 was also affected by the adoption of SFFAS No. 23 which required, for the first time, capitalizing military equipment and recording depreciation expense. The significant decrease in DOD cost from fiscal year 2001 to 2002 is the result of the initial non-recurring effect of the extension of $293.0 billion in medical benefits to retired personnel and another $91.3 billion in other actuarial assumption changes in 2001.

The social insurance costs at the Social Security Administration (SSA) and HHS continued their consistent upward trend during fiscal year 2003. From fiscal year 2002 to 2003, the net costs of SSA and HHS increased by 4.0 percent and 8.5 percent, respectively. The interest on debt held by the public continued to decrease during fiscal year 2003. Even while the debt principal increased again, the interest on the debt decreased by $18.6 billion, or 10.6 percent, due to the lower interest rates that continued to prevail in fiscal year 2003. The fiscal year 2003 $42.2 billion, or 19.6 percent, decrease in costs for the Department of Veterans Affairs (VA) shows the significant impact of changes in the actuarial calculation of the liability for future years' veterans' compensation and burial benefits on the Department's total cost (see further discussion in the Liabilities section of the MD&A).





The charts above show that over the past 5 fiscal years, significant costs associated with certain employee benefit liabilities have had a major impact on the Government's cost of operations. These incremental costs are the result of changes in interest rates and other actuarial assumptions. Also shown is that, absent these adjustments, all other costs are steadily trending upward and the net operating revenue (cost) has fluctuated from break-even in fiscal year 1999 to a net operating cost of $468.4 billion in fiscal year 2003. Actuarial liabilities include Federal employee and veteran benefits payable and are discussed in Note 11 of the Notes to the Financial Statements section.

Iraq Operations

Iraq Relief & Reconstruction

In March 2003, an international coalition led by the United States liberated Iraq and is overseeing a transformation. The vision for a sovereign, stable, prosperous, and democratic Iraq centered on four goals: establishing a secure environment, restoring essential services, promoting economic growth, and developing good governance through a legitimate constitutional government. Total funds of $9.5 billion were available in 2003 for Iraq relief and reconstruction efforts overseen by the Coalition Provisional Authority. This includes both appropriated and nonappropriated funds (seized and vested assets and the Development Fund for Iraq). Of this amount, approximately $7.6 billion was allocated or committed.

Appropriated Resources—In 2003, $4.5 billion in congressionally appropriated resources were used for Iraq relief, renewal, and reconstruction. Of this amount, about $3.9 billion was obligated in fiscal year 2003; this includes $1.1 billion in funds obligated by DOD for oil infrastructure and Coalition Provisional Authority administrative expenses.

Operation Iraqi Freedom

In the Emergency Wartime Supplemental Appropriations Act, 2003 (Public Law 108-11) the Consolidated Appropriations Resolution, 2003 (Public Law 108-7), Congress appropriated funds to DOD for Operation Iraqi Freedom. DOD obligated $42 billion for incremental costs in support of Operation Iraqi Freedom: $10 billion was spent for personnel pay and personnel support costs; and $6 billion was spent to transport personnel, equipment, and materials. The remaining $26 billion was spent for military operations, including the incremental costs for feeding and housing the troops, fuel for combat vehicles, logistics support, other military necessities, and Coalition Provisional Authority operating expenses.

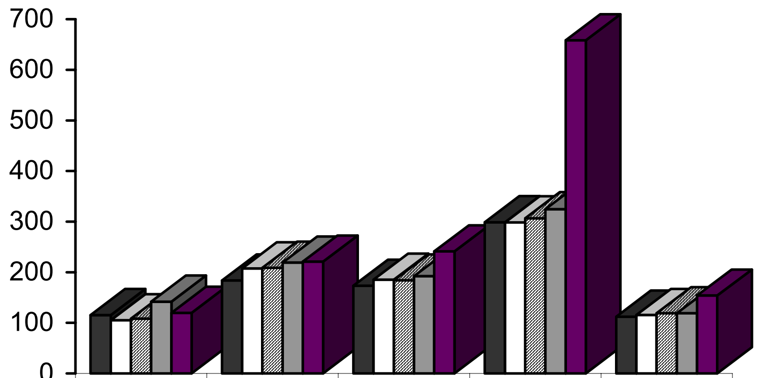
Asset and Liability Summary

Assets

The assets of the U.S. Government are the tangible resources available to pay liabilities or to satisfy future service needs. The accompanying chart depicts a 5-year comparison of the major categories of reported assets as of September 30, for fiscal years 1999 through 2003.

Assets - Key Items Comparison

(In billions of dollars)



	Cash and Other Monetary	Loans Receivable, Net	Inventories and Related Property, Net	Property, Plant and Equipment,	All Other Assets
1999	115.2	183.7	173.3	298.8	112.0
2000	104.9	207.6	185.2	298.5	115.3
2001	108.0	208.9	183.8	306.7	118.7
2002	141.6	219.2	192.2	324.7	118.8
2003	119.6	221.1	241.2	658.2	153.8

Looking at the chart above, fiscal year 2003 property, plant, and equipment exceeded all other asset category increases. This increase mainly was due to a change in the way that DOD reports its military equipment.

In May 2003, the FASAB issued SFFAS No. 23 which became effective for accounting periods beginning after September 30, 2002. SFFAS No. 23 establishes generally accepted accounting principles (GAAP) for valuing and reporting military equipment in Federal financial statements. That is, it requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. Previously, military equipment was expensed when acquired and reported as national defense property, plant, and equipment in the Stewardship Information section of this report.

In fiscal year 2003, the DOD equipment component increased by $324.6 billion. Most of this increase was due to the inclusion of $325.1 billion in military equipment on DOD's balance sheet. The $325.1 billion net book value is the result of an estimated total acquisition cost of military equipment of $1,123.5 billion with accumulated depreciation of $798.4 billion. This change also resulted in a change in accounting principle ($383.1 billion) reported on the Statements of Operations and Changes in Net Position and Note 17 of this report.

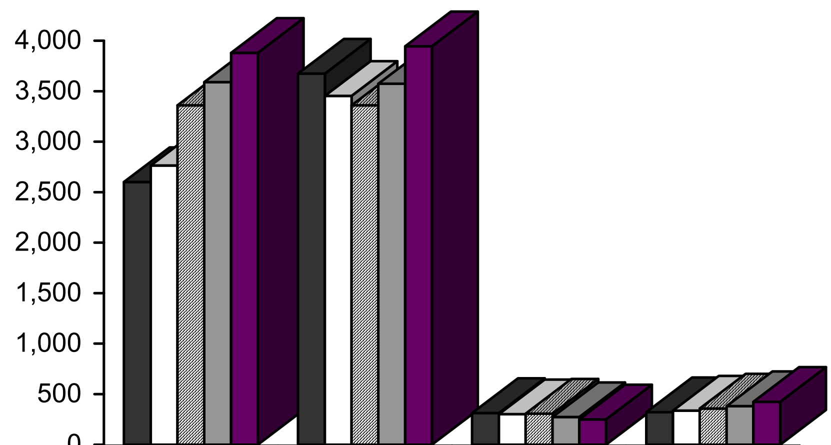
DOD has determined that it is not yet possible to accumulate the information necessary to value its military equipment for financial statement presentation using its own financial systems. Instead, DOD based the value of its military equipment on data provided by the Bureau of Economic Analysis, Department of Commerce. DOD is working to revise its accounting processes and systems to provide this information in the future. (See DOD's individual financial statements for further details).

Liabilities

This chart presents a 5-year comparison of the major components of liabilities reported on the balance sheets as of September 30, for fiscal years 1999 through 2003. At the end of fiscal year 2003, the U.S. Government reported liabilities of $8,498.6 billion, as compared to $7,816.7 billion for September 30, 2002, an 8.7 percent increase.

Liabilities - Key Items Comparison

(In billions of dollars)



	Federal Employee and Veteran Benefits Payable	Federal Debt Securities Held by the Public and Accrued	Environmental and Disposal Liabilities	All Other Liabilities
1999	2,600.7	3,674.2	313.2	321.1
2000	2,764.7	3,454.2	301.2	336.8
2001	3,360.8	3,359.3	306.8	358.0
2002	3,589.4	3,573.2	273.0	381.1
2003	3,880.0	3,944.9	249.9	423.8

In fiscal year 2003, Federal debt securities held by the public and accrued interest increased 10.4 percent so it is, once again, the largest liability on the balance sheet at $3,944.9 billon. This is a $371.7 billion increase over the balance at the end of fiscal year 2002. Both fiscal years' 2003 and 2002 increase in debt held by the public primarily is due to total Federal spending exceeding total Federal revenues.

The next largest liability, $3,880.0 billion, is Federal employee and veteran benefits payable (which was the largest for fiscal year 2002), which consists of pension, disability, and retiree health care costs for Federal civilian and military employees, as well as for veterans. This liability also increased in fiscal year 2003 by $290.6 billion or 8.1 percent. The largest component of this liability is for civilian and military pensions which, with a combined balance of $1,929.4 billion, increased 3.7 percent in fiscal year 2003. The next largest piece of this liability, $954.8 billion for veterans' compensation and burial benefits, increased $105.6 billion or 12.4 percent, due to a large increase in the average size and number of veteran compensation beneficiaries resulting from Agent Orange cases and an increase in the assumed average benefit payment. The civilian and military retiree health benefits component, $927.4 billion, has more than doubled since fiscal year 2000. The military retiree health component has increased threefold since fiscal year 2000, primarily due to a law passed in 2001 that extended new health benefits to military retirees effective in 2002. See Note 11 in the Notes to the Financial Statements section for a more detailed explanation of this liability.

Another liability is related to environmental cleanup costs associated with environmental damage and contamination. As of September 30, 2003, the recognized cost of cleaning up environmental damage and contamination across Government programs was estimated to be $249.9 billion, a decrease of $23.1 billion or 8.5 percent from September 30, 2002. The most significant component of this reduction relates to the Department of Energy (Energy). Energy has reduced its environmental liability by $26.3 billion or 12.5 percent in fiscal year 2003; this is the second year in a row that Energy's environmental liability decreased. The decrease in 2003 primarily was due to restructuring the cleanup program to focus on its core mission and accelerating cleanup.

Additional Responsibilities

Historically, the Government's financial situation has been evaluated primarily from a cash-based budgeting perspective that measures the flow of funds in and out of Government accounts. As a first step in examining our financial position, we are presenting a condensed perspective based on forward-looking accrual principles. This perspective is meant to complement the cash-based budget estimates of future spending and receipts.

In addition to accrual-based results, the overall perspective depicted below includes many responsibilities disclosed throughout this report but not captured by accrual-based operating results or liability balances. An attempt is made here to go beyond the balance sheet to also examine the impact of these other responsibilities.

Overall Perspective

The schedule below reveals a more complete picture of the Government's financial responsibilities—its liabilities and responsibilities on the balance sheet as well as its responsibilities that are tracked off the balance sheet.

Overall Perspective
(In billions of dollars)

	2003			2002		
	Balance Sheet	Additional Responsibilities	Combined Amounts	Balance Sheet	Additional Responsibilities	Combined Amounts
ASSETS						
Inventory, cash	$ 361	$ -	$ 361	$ 334	$ -	$ 334
Property, plant & equipment	658	-	658	325	[1] 616	941
Loans receivable	221	-	221	219	-	219
Other	154	-	154	119	-	119
Total Assets	$ 1,394	$ -	$ 1,394	$ 997	$ 616	$ 1,613
LIABILITIES & NET RESPONSIBILITIES						
Social Insurance						
Medicare (Parts A & B)	-	(15,006)	(15,006)	-	(12,896)	(12,896)
Social Security (OASDI)	-	(11,742)	(11,742)	-	(11,215)	(11,215)
Other (Railroad Retirement)	-	(110)	(110)	-	(38)	(38)
Subtotal, Social Insurance	-	(26,858)	(26,858)	-	(24,149)	(24,149)
Fed. empl. & veterans pensions/benefits	(3,880)	-	(3,880)	(3,589)	-	(3,589)
Federal debt held by the public	(3,945)	-	(3,945)	(3,573)	-	(3,573)
Other liabilities	(674)	-	(674)	(654)	-	(654)
Other responsibilities	-	(862)	(862)	-	(771)	(771)
Total Liabilities & Net Responsibilities	$ (8,499)	$ (27,720)	$ (36,219)	$ (7,817)	$ (24,920)	$ (32,736)
BALANCE (Total Assets minusTotal Liabilities & Net Responsibilities)	($7,105)	($27,720)	($34,825)	($6,820)	($24,304)	($31,124)

[1] Source: Fiscal Year 2004 Analytical Perspectives, page 37, Defense Fixed Reproducible Capital, Nonfinancial Assets.

Note: Overall details may not add to total due to rounding.

Social Insurance Calculations

The social insurance present value amounts are based on 75-year actuarial projections of scheduled benefits and legislated taxes for current participants.

The present value of these future responsibilities (at January 1, 2003), as presented in the pertinent agencies' financial statements, is $15,006 billion for Medicare and $11,742 billion for Social Security. These numbers are from the Statements of Social Insurance on page 64 of this *Financial Report*. The total of these future responsibilities, including Other and Railroad Retirement social insurance responsibilities of $862 billion and $110 billion, respectively, is $27,720 billion. These items are not recorded on the balance sheet because current accounting standards (GAAP) do not permit it. FASAB is reviewing this area and if it determines that it is proper to record these items, we will do so. A more detailed discussion of these projections and the future outlook for Social Security and Medicare is found in the Stewardship Information section.

As can be seen, the impact of these responsibilities is significant. Clearly, the social insurance component represents a major fiscal responsibility and serious future challenge for the Federal Government. Medicare and Social Security increased by $2,110 billion (or 16.4 percent) and $527 billion (or 4.7 percent), respectively, over fiscal year 2002. Moreover, the 2003 combined total of the future responsibilities (i.e., $27,720 billion) is more than three times the 2003 total accounting liabilities and responsibilities on the balance sheet (i.e., $7,105 billion).

Federal Budget and Federal Debt

At this time, the largest liability for the Federal Government is the Federal debt held by the public and accrued interest, which was $3,945 billion in 2003. This was an increase of $372 billion over the 2002 debt of $3,573 billion. There are two kinds of Federal debt: debt held by the public and the debt the Government owes to itself.

Debt Held by the Public

The first kind of Federal debt is debt held by (or owed to) the public. It includes all Treasury securities (bills, notes, bonds, and other securities) held by individuals, corporations, Federal Reserve banks, foreign governments and other entities outside the U.S. Government. This debt is included as a liability on the balance sheet.

Debt the Government Owes to Itself

The second kind is debt the Government owes to itself (intra-governmental debt), primarily in the form of special nonmarketable securities held by various parts of the Government. The laws establishing Government trust funds generally require the excess receipts of the trust funds to be invested in these special securities. This debt is not included on the balance sheet since these payments are claims of one part of the Government against another and are eliminated for consolidation purposes.

Statutory Debt Ceiling (Limit)

Both kinds of debt are included in the total debt subject to the limit set by the Congress. The Congress has traditionally exercised control on the size of the Government's debt by establishing limits on the amount of Treasury securities that can be outstanding. This limit is known as the debt ceiling.

On February 20, 2003, Treasury's outstanding debt reached the statutory limit of $6,400 billion. When this occurs, various statutes authorize the Secretary of the Treasury to "suspend the issuance of additional amounts of obligations of the United States, if such issuances could not be made without causing the public debt of the United States to exceed the public limit, as determined by the Secretary of the Treasury." On May 27, 2003, President Bush signed legislation increasing the statutory debt limit to $7,384 billion (P.L. 108-24).

The following chart shows the amounts of debt held by the public and intra-governmental debt from 1999 through 2003.