FY 2018 (Fiscal Year 2018) (provided by *The Register:* GordonWatts.com and GordonWayneWatts.com)
Summary of Income vs. Outlays: I'm taking a look to see what can be adjusted **to stop overspending**
This summary prepared by Gordon Wayne Watts, Editor-in-Chief, *The Register* (Thursday, 13 June 2019)

2018 Outlays (Spending) by Category			
2018 Outlays by Category	**Source 1:** Official GAO report https://www.GAO.gov/assets/700/698089.pdf	**Source 2:** House Budget Committee https://budget.house.gov/sites/democrats.budget.house.gov/files/wysiwyg_uploaded/Screen%20Shot%202019-01-18%20at%209.24.39%20AM.png	**Comments**
Dept of Health & Human Svcs (HHS)	**25%**	**14%** (Medicare: Net of offsetting receipts) **11%** (Medicaid, CHIP, ACA subsidies) **25% subtotal**	These 2 sources agree.
Social Security Administration (SSA)	**23%**	**24%**	Very close (1% difference is probably a rounding issue)
Dept of Defense (discretionary)	**15%**	**15%**	These 2 sources agree.
Net Interest on Treasury Securities held by the Public	**8%**	**8%**	These 2 sources agree.
Income security programs for Dept of Veteran Affairs (aka: "V.A. benefits")	**8%**	**7%**	Very close (1% difference is probably a rounding issue)
"All other"	**21%**	**16%** "Non-defense discretionary" **6%** "Other mandatory" **22% subtotal**	Very close (1% difference is probably a rounding issue)
TOTAL	**100%** **$ 4.5 Trillion** ($4,500,000,000,000.**oo**)	**100%** (No dollar amount given, but assumed to be the same as the GAO report)	These 2 sources agree.

2018 Income (Revenues) by Source			
2018 Revenue by Source	**Source 1:** Official GAO report https://www.GAO.gov/assets/700/698089.pdf	**Source 2:** House Budget Committee https://budget.house.gov/sites/democrats.budget.house.gov/files/wysiwyg_uploaded/Screen%20Shot%202019-01-18%20at%209.24.39%20AM.png	**Comments**
Individual Income Taxes & Payroll Tax Withholdings	**83%**	**49%** Individual income taxes **35%** Payroll tax withholdings **84% subtotal**	Very close (1% difference is probably a rounding issue)
Corporate Income Taxes	**6%**	**7%**	Very close (1% difference is probably a rounding issue)
"Other" Revenue	**11%**	**9%**	Very close (2% difference is probably several **"cumulative"** roundings.)
TOTAL	**100%** **$ 3.4 Trillion** **($3,400,000,000,000.oo)**	**100%** (No dollar amount given, but assumed to be the same as the GAO report)	These 2 sources agree.

 See next page for analysis & proposed solutions...

<u> PROBLEM **</u>** – “**Overspending**” isn't just an abstract “number”: If the overspending doesn't stop, then the U.S. Dollar WILL crash (and it can happen in any number of unpredictable ways: An outright market crash, a bubble, a recession, or continued hyperinflation—or all of the above, and it would get worse should we have a war, “foreign conflicts,” a natural disaster, etc.)

<u> Proposed Solutions **</u>** – Therefore, in order to avert disaster and avoid a crash of the dollar (like MANY nations here, recently, have encountered—remember?), we can do one of three (3) things:

- ((#1)) Nothing—and accept a crash of the dollar (and the civil & economic unrest associated with it) ;
- ((#2)) Raise taxes ; or ,
- ((#3)) Cut spending (or, of course, a combination of the above), so let's get to work!

- **Number 1 (do nothing)** is out of the question. *Moving on...*
- **Number 2 (raise taxes)** is bandied about by “Liberals,” but they fail to realise that raising taxes is bad. Here are two (2) ways it could happen:
  - **[[A]] First, we might raise business taxes,** but this would cause employers to lower wages (thus hurting the middle-class).
  - **[[B]] Secondly, we might raise personal taxes,** but this would take from the middle-class (who is already barely getting by).
  - **[[C]] Summary:** Raising taxes is PRECISELY what was the cause of King Solomon's son being thrown out of office (by 10 of the 12 tribes of ISRAEL), the brief civil war that followed, and also a chief reason the GOP lost the House of Representatives during the 2018 midterm elections: Collegiate tuition, a type of tax because it's funding going to an arm of the government—state govt college, as here—was, and is, oppressively high (and getting worse) – see e.g., the earlier “Letter to the President” dated Wednesday, 24 April 2019 to document this, or, as proof of this, please look in your Bible: **1 Kings 12:1-20** and **2 Chronicles 10:1-19**, for Solomon's son, and even **1 Samuel 22:1-2** for a similar screw-up, ok? *Yeah, go ahead and raise taxes: Anger a few more voters, already...*
- **Number 3 (cut spending) is the <u>only</u> option left.** (Indeed, if we don't cut spending, we'll have to keep printing up dollars, so-much-so that they'll be fairly worthless at the end of the day***: Spending is inflationary, hello?)*** **– So, let's camp out here for a bit & see if we can make some spending cuts:**

First, we need to ask: How much “cut” is needed? Well, we need to bring spending down to (or below) taxation (actually “below” since we have a huge national debt). So, $4.5 Trillion minus $3.4 Trillion is 1.1 Trillion Dollars. That is, we'll need to cut the $4.5 Trillion by about twenty-four (24%) percent to even “hold even,” and more if we're to pay down our nat'l debt and avoid defaulting on the dollar. Let's just say **<u>$2 Trillion</u>** (or 44%) as a goal...

<u>Proposed Solution:</u> We *could* cut 25% if we cut **<u>all</u>** of the **Dept of Health & Human Svcs (HHS)** spending (14% (Medicare: Net of offsetting receipts) and 11% **(Medicaid, CHIP, ACA subsidies),** 25% subtotal, here. Moreover, we might possibly cut another 23% or 24% if we cut **<u>all</u>** of the **Social Security Administration (SSA)** payouts. But, really, while there is surely a little bit of fraud, graft, & excesses in these programs, good luck on even cutting ONE RED CENT, bud! It is politically (and practically) difficult (if not impossible). **⟵ BAD SOLUTION.** ***Moving on...***

<u>Proposed Solution:</u> We *could* cut some of the **Department of Defense** (see above: 15% of it is discretionary, and another 16% is non-discretionary, meaning it may be possible to cut non-discretionary spending. So, is this a tenable solution? **Possibly:** Even the Conservative *Tampa Tribune* (which was bought out by the *St. Pete Times*) supported some small cuts:

> “We believe those threatened cuts of $600 billion over 10 years are too deep. They would weaken the military, including MacDill Air Force Base. [] But some cuts are necessary, given the size of the budget deficit. And even with the so-called sequester cuts, military spending would remain far above pre-2001 levels. [] Including the costs of current foreign engagements and adjusting for inflation, the U.S. military is spending far more than at any time since World War II, and almost as

much as then. Military spending has grown 48 percent in the past 10 years. [] The United States is spending about five times what China spends on its military and almost 10 times what Russia spends each year. [] Let's remember Pearl Harbor, and also remember that times and threats do change."

Source: "Forgetting Pearl Harbor," by Staff at ***The Tampa Tribune*** & ***TBO.com***, December 07, 2012:

*** Original Link:** http://www2.tbo.com/news/opinion/2012/dec/07/naopino1-forgetting-pearl-harbor-ar-579832
*** *The Register*** mirror-1 Archive: https://GordonWatts.com/Twittergate.html
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*** *Kathryn's Report*** Archive: http://www.KathrynsReport.com/2012/12/forgetting-pearl-harbor-editorial.html
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*** *Archive.org*** capture-2: https://web.archive.org/web/20181001065101/http://www.gordonwaynewatts.com/Twittergate.html
*** *Archive.org*** capture-3: https://web.archive.org/web/20140830214933/http://www.KathrynsReport.com/2012/12/forgetting-pearl-harbor-editorial.html

Proposed Solution: ** MILITARY / DEFENSE ** – So, we might possibly cut a "little" bit of the military and defense spending, but is this really a tenable solution? NO! For several reasons: First, as a "political" reality, it's very hard to cut a machine like this, and moreover, as a "practical" necessity, we face more-serious threats of "post Nine Eleven," if you know what I mean. Lastly, over HALF of defense is "non-discretionary" spending, meaning we'd need to make "fundamental" changes in Federal Law to "reign in" out-of-control military (and nation-building) spending. We can't even pass ***ANNUAL*** budgets without much political infighting, how much ****less**** a change in Federal "non-discretionary" spending. ← **BAD SOLUTION.** ***Moving on...***

Proposed Solution: ** Veteran Affairs aka: "V.A. Benefits" ** – How about a cut in V.A. Benefits? *–Oh, really?* That only comprises about 7% or 8% of the budget. (Besides, cutting this would be VERY politically unpopular, as well as immoral & impractical, regarding our duties to our veterans.) ← **BAD SOLUTION.** ***Moving on...***

Proposed Solution: ** Net Interest on Treasury Securities held by the Public ** – Can we cut (or eliminate) interest we owe to ourselves? Well, about two (2) Trillion Dollars of debt is held by the public (that's you!), e.g., via private pensions, trusts, & insurance contracts managed for individuals' retirement needs. Failure to pay interest owed to Mr. & Mrs. Taxpayer isn't likely to be a tenable or popular "solution"**: ← BAD SOLUTION.** ***Moving on...***

All we have left is the 6% "Other mandatory" from the House Budget Committee data, which isn't a lot. **But *is it?..***

Proposed Solution: Let's take a listen one more time to U.S. Secretary of Education, Betsy DeVos: (Yes, I know everybody and their brother hates her guts, for being too "Conservative," and I'M disappointed that she's too LIBERAL in her financial dealings in the Department of Education, but we're about out of options, and DeVos is 100% correct in her assessment and warnings.) Let's take a listen: "Tuition, fees, room and board have grown at twice the rate of inflation and almost two and a half times median income. [] It has something to do with what one of my predecessors [Dr. Bill Bennett] famously pointed out decades ago. When the federal government loans more taxpayer money, schools raise their rates. FSA financing accounts for 80 percent of the actual tuition and fee revenue received by schools. [] Today, FSA's portfolio is nearly 10 percent of our nation's debt. [] Stop and absorb that for a moment. Ten percent of our total national debt. [] The student loan program is not only burying students in debt, it is also burying taxpayers and it's stealing from future generations." **(Note: Sec. DeVos doesn't outright call for loan limits, but STRONGLY implies it, ok?)** Source: "Prepared Remarks by U.S. Secretary of Education Betsy DeVos to Federal Student Aid's Training Conference," By Hon. Betsy DeVos, U.S. Sec. of Education, U.S. Dept. of Ed, November 27, 2018: https://www.ed.gov/news/speeches/prepared-remarks-us-secretaryeducation-betsy-devos-federal-student-aids-training-conference where she went on to say in salient part: "There's a fitting metaphor that comes to mind. When a thunderstorm looms on the horizon, pilots have a couple of choices to make. They can either adjust their flight path ten degrees when they are a long distance away from the storm. [] Or they can stay on their original course and then be forced to make a jarring and abrupt turn when they fly right up to the bad weather. We face that same decision here."

Now, her claim that collegiate debt is almost TEN (10%) PERCENT of total national debt is easily verifiable: Student Debt is almost TWO TRILLION ($2,000,000,000,000.oo) DOLLARS, and divide that by total U.S. Debt of slightly over $20 Trillion, and you get ten (10%) percent, OK?

We recall that President Trump recently called for loan limits for use of tax dollars to make/guarantee collegiate loans, and, more recently, called for a cut in the budget of the Dept of Education (including some ostensibly good programs, like after school programs, and such).

We don't even need to use one single DIME of taxpayer monies to make or back (guarantee) collegiate loans: We got by in decades past **without** subsidising college loans, and, in fact (reference: Bill Bennett Hypothesis – Google that!), when you subsidize anything, costs go up. (Because colleges & banks know students can "afford" more if they have "deep pockets" loans, on the tax dollar.) ← **GOOD SOLUTION.** ***Let's try this...***

Why not do as President Trump (and many others) have suggested? Let's cut (or eliminate) use of ANY tax dollars to make or back student loans. (In fact, make use of tax dollars for this purpose as illegal as it is for abortions: Anyone remember the "Hyde Amendment," hello?)

Now, remember that TWO **(**$2,000,000,000,000**.oo)** TRILLION "goal," I outlined above? Well, this is it: This is the "spending" cut which we need. And, the "tax" cut would ensue if collegiate loans had "standard" (not next-to-impossible) bankruptcy discharge standards: Bankruptcy would NOT be inflationary, as it would NOT require the printing of new dollars. And, most-importantly, besides curing Constitutional flaws in current U.S. Bankruptcy Code, it would NOT be a "free handout," or "bailout," like we did for sorry businesses, and which was "inflationary." (Lack of BK protections all but begs for a total "Jubilee" aka "loan forgiveness"—which would effectively occur when the dollar crashes: If the economy has crashed, how could a student loan borrower pay back any loan? This would GUARANTEE the loans never got paid back**—when the dollar crashes.** Now, is ***that*** really what you want? – If not, maybe we'd better got back to "square one" and review **my** proposed solutions.)

As outlined in my "Letter to the President" dated Wednesday, 24 April 2019, this 2-fold solution would be a "Conservative" Free Market approach to reign in excesses in taxing and spending. (Or, you might use a heavy-handed "Liberal" approach where you "regulate" tuition, like a public utility, regulate it like the ILLEGAL MONOPOLY that Higher Education us. It's your choice.)

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⟶ ***See below for the 2 graphs, which I cited as "sources," above...*** ⟶

(which would comprise Pages "5, 6, 7, 8, and 9" of this 9-page doc, but not numbered so due to download constraints)

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

March 28, 2019

The President
The President of the Senate
The Speaker of the House of Representatives

Financial Audit: Fiscal Years 2018 and 2017 Consolidated Financial Statements of the U.S. Government

This report transmits the results of GAO's audit of the U.S. government's fiscal years 2018 and 2017 consolidated financial statements. GAO's audit report is incorporated on page 226 in the enclosed *Fiscal Year 2018 Financial Report of the United States Government* (*2018 Financial Report*) prepared by the Secretary of the Treasury in coordination with the Director of the Office of Management and Budget (OMB).

To operate as effectively and efficiently as possible, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Our report on the U.S. government's consolidated financial statements for fiscal years 2018 and 2017 underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.

Our audit report on the U.S. government's consolidated financial statements is enclosed. In summary, we found the following:

- Certain material weaknesses[1] in internal control over financial reporting and other limitations resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2018, and 2017.[2] About 31 percent of the federal government's reported total assets as of September 30, 2018, and approximately 17 percent of the federal government's reported net cost for fiscal year 2018 relate to significant federal entities that received disclaimers of

[1]A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[2]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2018, and 2017, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Budget Deficit, (4) Statements of Changes in Cash Balance from Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis.

opinion[3] on their fiscal year 2018 financial statements or whose fiscal year 2018 financial information was unaudited.[4]

- Significant uncertainties (discussed in Note 22 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements,[5] which consist of the 2018 and 2017 Statements of Long-Term Fiscal Projections;[6] the 2018, 2017, 2016, 2015, and 2014 Statements of Social Insurance;[7] and the 2018 and 2017 Statements of Changes in Social Insurance Amounts. About $37.7 trillion, or 70 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2018 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2018 Statement of Social Insurance, which received a disclaimer of opinion. A material weakness in internal control also prevented us from expressing an opinion on the 2018 and 2017 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2018.

- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2018.

Overall, significant progress has been made in improving federal financial management since key federal financial management reforms were enacted in the 1990s. Twenty-two of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified ("clean") opinions on their respective entities' fiscal year 2018 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.[8] In addition, accounting and financial

[3]A disclaimer of opinion arises when the auditor is unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and accordingly does not express an opinion on the financial statements.

[4]The Department of Defense, the Department of Housing and Urban Development, and the Railroad Retirement Board each received a disclaimer of opinion on their respective fiscal year 2018 financial statements. Also, for fiscal year 2018, the financial information for Security Assistance Accounts was unaudited.

[5]The sustainability financial statements are based on projections of future receipts and spending, while the accrual-based consolidated financial statements are based on historical information, including the federal government's assets, liabilities, revenue, and net cost.

[6]The 2018 and 2017 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and non-interest spending under current policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and non-interest spending from the prior year. These statements also present the fiscal gap, which is the combination of non-interest spending reductions and receipts increases necessary to hold debt held by the public as a share of GDP at the end of the projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

[7]Statements of Social Insurance are presented for the current year and each of the 4 preceding years as required by U.S. generally accepted accounting principles. For the Statements of Social Insurance, the valuation date is January 1 for the Social Security and Medicare programs, October 1 for the Railroad Retirement program (January 1 for 2014 and 2015), and September 30 for the Black Lung program.

[8]The 22 agencies include the Department of Health and Human Services, which received an unmodified ("clean") opinion on all statements except the Statements of Social Insurance and the Statements of Changes in Social Insurance Amounts.

reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations, financial condition, and fiscal outlook.

While the U.S. government's consolidated financial statements provide a high-level summary of the financial position, financial condition, and operating results for the federal government as a whole, the annual preparation and audit of individual federal entity financial statements continue to be critical, among other things, to

- provide individual federal entity accountability to Congress and citizens, including (1) independent assurance, shortly after the end of the fiscal year, of the reliability of reported financial information and (2) association of program costs with related program performance and results;

- facilitate reliable, useful, and timely financial management information at the individual federal entity and program levels for effective management decision-making;

- assess the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, and abuse; and

- deliver early warnings of emerging financial management issues.

Further, annual audits along with congressional and executive oversight provide significant incentives for individual federal entities to maintain reliable financial management information and effective systems and controls.

The preparation and audit of individual federal entities' financial statements have also identified numerous deficiencies, leading to corrective actions to strengthen federal entities' internal controls, processes, and systems. For instance, the U.S. Department of Agriculture took corrective actions to address deficiencies identified during its audits that enabled it to obtain an unmodified audit opinion on its full set of financial statements after 2 years of only receiving an opinion on its balance sheet. Also, management of the Department of Housing and Urban Development (HUD) has developed plans to address the multiple material weaknesses identified by HUD's Office of Inspector General.

However, since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements over this period: (1) serious financial management problems at the Department of Defense (DOD) that have prevented its financial statements from being auditable, (2) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

DOD's financial management continues to face long-standing issues. Following years of unsuccessful financial improvement efforts at DOD and consistently being unable to receive an audit opinion on its financial statements, in 2005, the DOD Comptroller established the Financial Improvement and Audit Readiness Directorate to develop, manage, and implement a strategic approach for addressing internal control weaknesses and for achieving auditability, and to integrate those efforts with other improvement activities, such as the department's business systems modernization efforts.

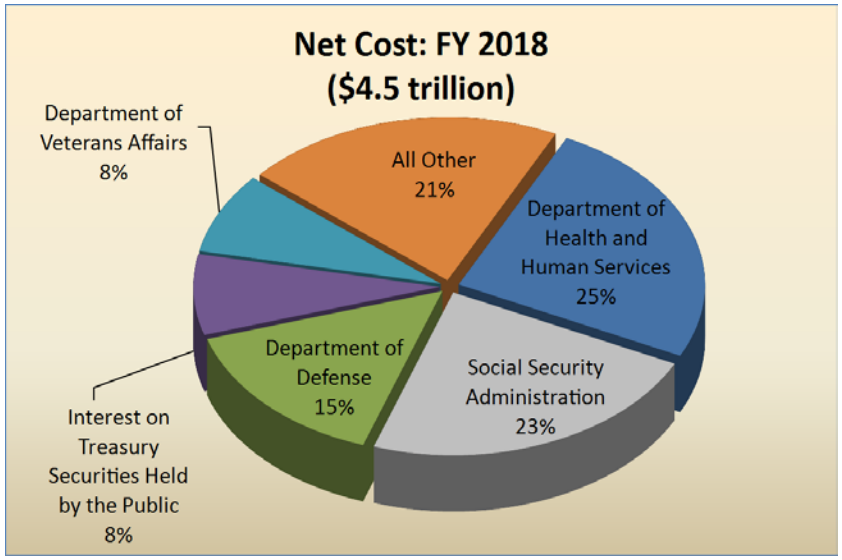
RESULTS IN BRIEF
Highlights of the Fiscal Year 2018 Financial Report of the U.S. Government

Where We Are Now

The government's net cost before taxes and other revenues for fiscal year 2018 was $4.5 trillion - an increase of $10.1 billion (0.2 percent) from fiscal year 2017.

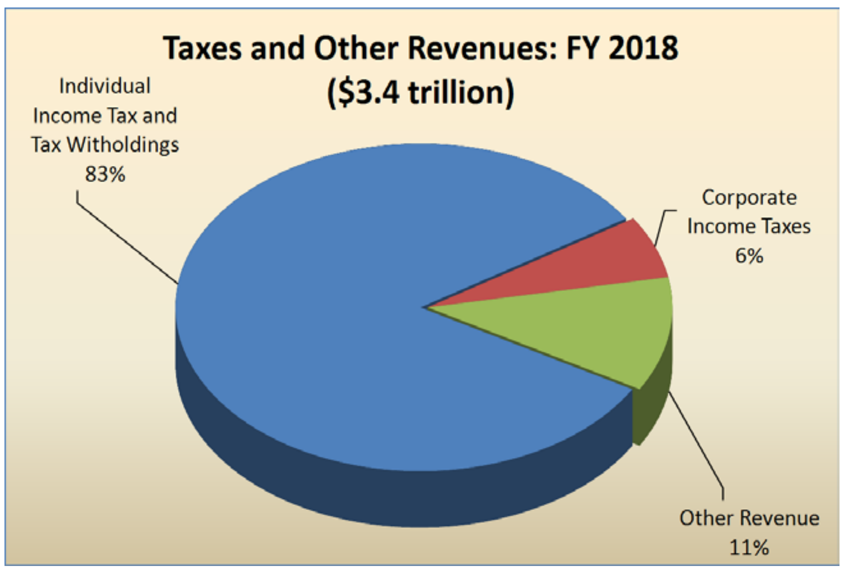
Net cost equals gross costs of $4.8 trillion, less earned program revenues (e.g., Medicare premiums, national park entry fees), and then adjusted for gains or losses from assumption changes used to estimate future federal employee and veterans benefits payments.

The increase in net cost is the combined effect of many offsetting increases and decreases across the government.

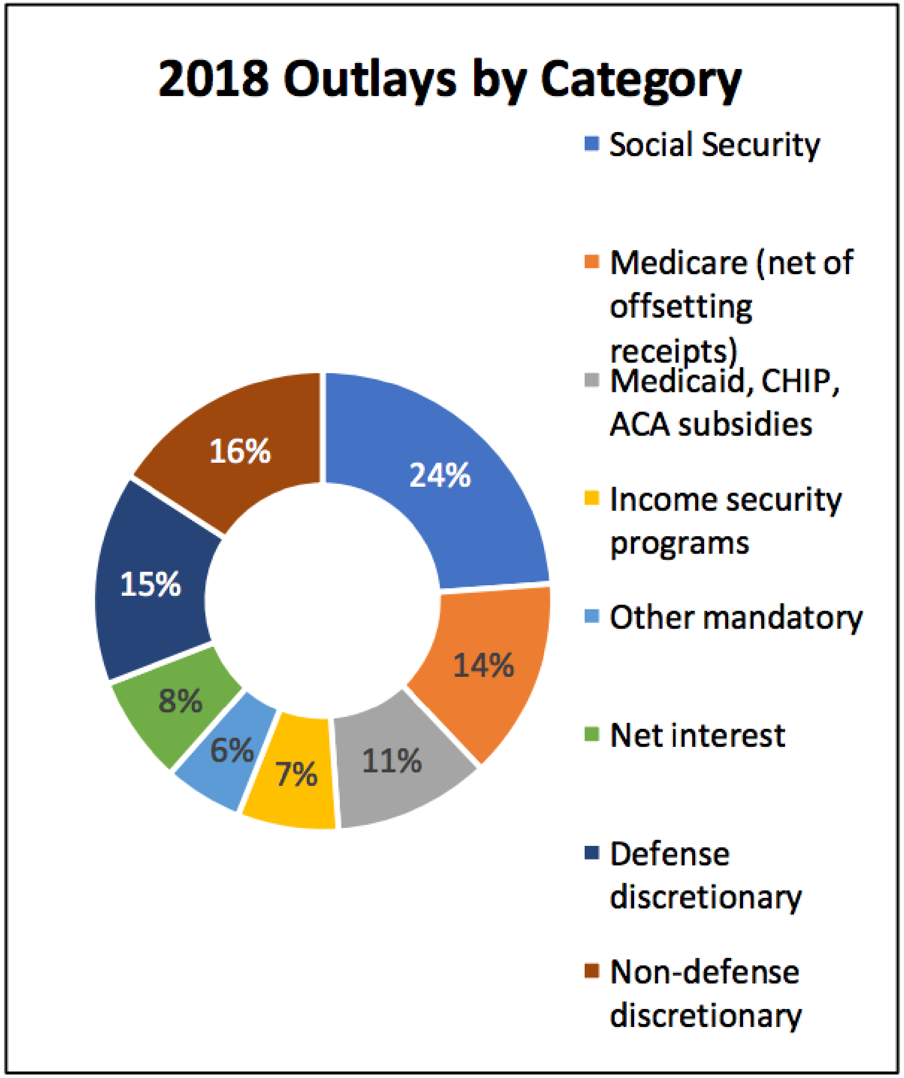


Total government tax and other revenues grew by $9.7 billion (0.3 percent) to about $3.4 trillion for fiscal year 2018.

The government deducts $3.4 trillion in tax and other revenues from its $4.5 trillion net cost (with some adjustments) to derive its fiscal year 2018 "bottom line" net operating cost of $1.2 trillion, which is largely unchanged compared to fiscal year 2017.



By comparison, the government's budget deficit for fiscal year 2018 was $779.0 billion – an increase of $113.3 billion (about 17.0 percent) over fiscal year 2017. The $380.0 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) that are included in net operating cost, but not the budget deficit. These include but are not limited to estimated future costs of federal employee and veterans benefits.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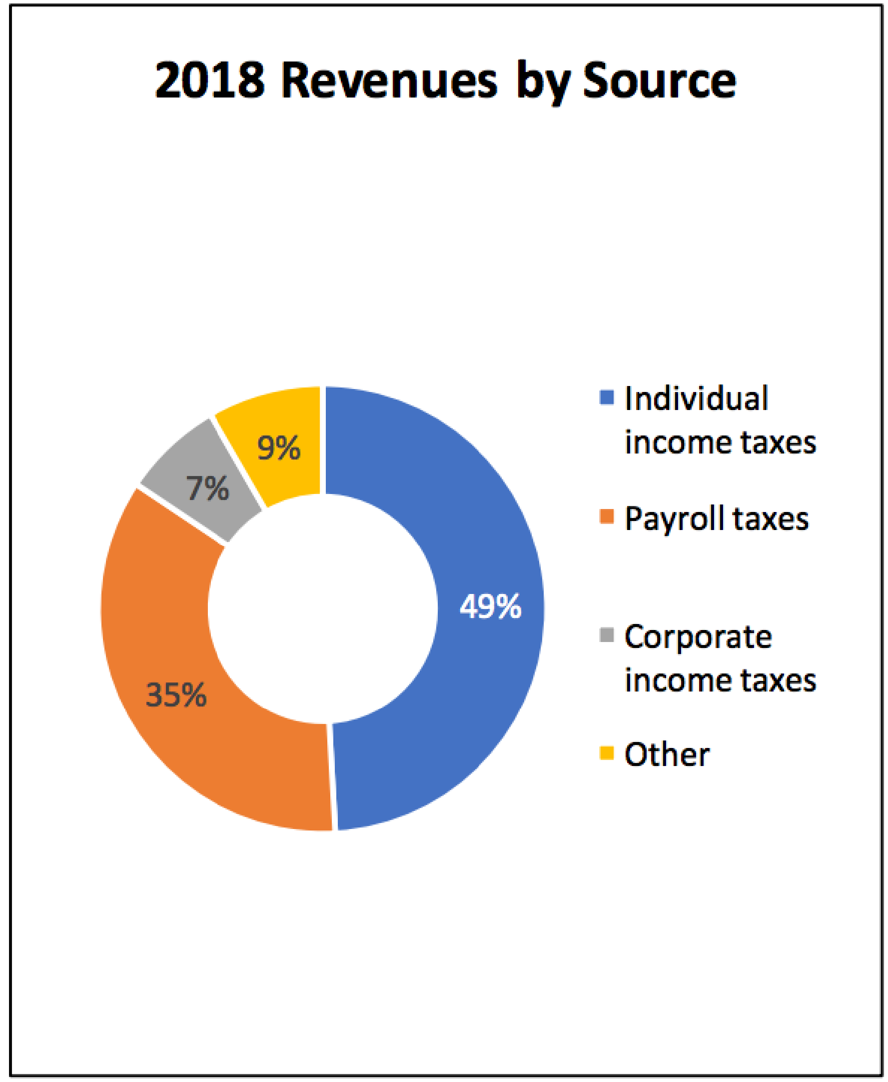
Other mandatory
Net interest
Defense discretionary
Non-defense discretionary


2018 Revenues by Source
49%
35%
7%
9%
Individual income taxes
Payroll taxes
Corporate income taxes
Other