FINANCIAL REPORT

of the United States Government

FISCAL YEAR 2023

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

February 15, 2024

A Message from the Secretary of the Treasury

During fiscal year 2023, the American economy continued to improve and the gains have been widely shared: consumers have more purchasing power, businesses have been investing more, and inflation has come down significantly. The labor market is also strong, with the unemployment rate near historic lows.

This is the result of a historically fast recovery, as well as actions to navigate adverse shocks. Over the past year, the Biden Administration acted decisively in response to stress in the banking sector to protect depositors and mitigate systemic risks to the financial system. The Administration continues to vigilantly monitor potential economic spillovers from global events, including Russia's war in Ukraine and the conflict in the Middle East.

The Biden Administration also remains focused on growing our economy for the medium to long term. This year, Americans are starting to see the results of the historic legislation passed in 2021 and 2022: the Bipartisan Infrastructure Law, the CHIPS and Science Act, and the Inflation Reduction Act. Public dollars are now crowding in private investment, with companies announcing over $600 billion in clean energy and manufacturing investments since the start of the Biden Administration and new jobs being created in twenty-first century industries.

To further the government's commitment to financial transparency and accountability, the annual Financial Report of the United States Government lays out comprehensive data and analysis on our nation's finances. Here, you will find information on all aspects of the government's current financial position, as well as information on changes in the financial position during this fiscal year, and potential future changes.

It is my duty and pleasure to present the Fiscal Year 2023 Report to the American people.

Janet L. Yellen

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Contents

For a complete listing of frequently used acronyms found throughout the Financial Report, please refer to the Glossary of Acronyms located in Appendix B.

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NATION BY THE NUMBERS		
A Snapshot of The Government's Financial Position & Condition		
	2023	**2022***
Financial Measures (Dollars in Billions):		
Net Cost:		
Gross Costs	$ (7,661.7)	$ (7,420.1)
Less: Earned Revenue	$ 539.5	$ 531.1
Gain/(Loss) from Changes in Assumptions	$ (760.6)	$ (2,207.9)
Total Net Cost	**$ (7,882.8)**	**$ (9,096.9)**
Less: Total Tax and Other Unearned Revenues	**$ 4,465.6**	**$ 4,925.9**
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**
Budget Deficit	**$ (1,695.2)**	**$ (1,375.5)**
Assets, comprised of:		
Cash and Other Monetary Assets	$ 922.2	$ 877.8
Inventory and Related Property, Net	$ 423.0	$ 406.9
Loans Receivable, Net	$ 1,695.1	$ 1,434.1
General Property, Plant, and Equipment, Net	$ 1,235.0	$ 1,197.5
Other	$ 1,143.8	$ 1,046.1
Total Assets	**$ 5,419.1**	**$ 4,962.4**
Less: Liabilities, comprised of:		
Federal Debt and Interest Payable	$ (26,347.7)	$ (24,328.0)
Federal Employee & Veteran Benefits Payable	$ (14,327.4)	$ (12,811.9)
Other	$ (2,223.2)	$ (1,882.4)
Total Liabilities	**$ (42,898.3)**	**$ (39,022.3)**
Unmatched Transactions and Balances[1]	$ -	$ (1.3)
Net Position[2]	**$ (37,479.2)**	**$ (34,061.2)**
Sustainability Measures (Dollars in Trillions):		
Social Insurance Net Expenditures	$ (78.4)	$ (75.9)
Total Federal Non-Interest Net Expenditures	$ (73.2)	$ (79.5)
Sustainability Measures as Percent GDP:		
Social Insurance Net Expenditures[3]	(4.4%)	(4.3%)
Total Federal Non-Interest Net Expenditures	(3.8%)	(4.2%)
Fiscal Gap[4]	(4.5%)	(4.9%)

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences.

[2] The government's net position is calculated in accordance with federal accounting standards. Per these standards, net position does not include the financial value of the government's sovereign power to tax, regulate commerce, or set monetary policy, or the value of nonoperational resources, such as national and natural resources, for which the government is a steward.

[3] Pursuant to federal accounting standards, for SOSI reporting, the federal government's social insurance programs include Social Security; Medicare Parts A, B, and D; DOL's Black Lung program; and the RRB.

[4] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amount to 4.5 percent of GDP on average is needed (4.9 percent of GDP on average in FY 2022). See Financial Statement Note 24.

[*] Change in presentation (see Financial Statement Note 1.W).

Executive Summary to the FY 2023 Financial Report of the United States Government

The FY 2023 *Financial Report* presents the U.S. government's current financial position and condition, and discusses key financial topics and trends. The *Financial Report* is produced by Treasury in coordination with OMB, which is part of the Executive Office of the President. The table on the preceding page presents several key indicators of the government's financial position and condition, which are discussed in this Executive Summary and, in greater detail, in the *Financial Report*. The Secretary of the Treasury, the Director of OMB, and the Comptroller General of the U.S. at the GAO believe that the information discussed in the *Financial Report* is important to all Americans.

The *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2023, and 2022. Note 30—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

Results in Brief

The "Nation by the Numbers" table on the preceding page and the following summarize key metrics about the federal government's financial position for and during FY 2023:

- The budget deficit increased by $319.7 billion (23.2 percent) to $1.7 trillion and net operating cost decreased by $753.8 billion (18.1 percent) to $3.4 trillion.
- Net operating cost decreased due largely to significant decreases in non-cash costs (including decreases in losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits programs (which do not affect the current year deficit) and reestimates of long-term student loan costs).
- The government's gross costs of $7.7 trillion, less $539.5 billion in revenues earned for goods and services provided to the public, plus $760.6 billion in net losses from changes in assumptions yields the government's net cost of $7.9 trillion, a decrease of $1.2 trillion (13.3 percent) from FY 2022.
- Tax and other revenues decreased by $460.3 billion to $4.5 trillion. Deducting these revenues from net cost yields the federal government's "bottom line" net operating cost of $3.4 trillion referenced above.
- Comparing total government assets of $5.4 trillion (including $1.7 trillion of loans receivable, net and $1.2 trillion of PP&E) to total liabilities of $42.9 trillion (including $26.3 trillion in federal debt and interest payable, and $14.3 trillion of federal employee and veteran benefits payable) yields a negative net position of $37.5 trillion.
- The Statement of Long-Term Fiscal Projections (SLTFP) shows that the present value (PV) of total non-interest spending, over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $73.2 trillion (total federal non-interest net expenditures from the table on the previous page).
- The debt-to-GDP ratio was approximately 97 percent at the end of FY 2023. Under current policy and based on this report's assumptions, it is projected to reach 531 percent by 2098. The projected continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.
- The Statement of Social Insurance (SOSI) shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues by about $78.4 trillion, a $2.5 trillion increase over 2022 social insurance projections.

Where We Are Now

The government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The government's accrual-based net position, (the difference between its assets and liabilities, adjusted for unmatched transactions and balances), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators. The following includes brief discussions of some of the diminishing effects of the pandemic on the government's financial results for FY 2023. Please refer to Note 29—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

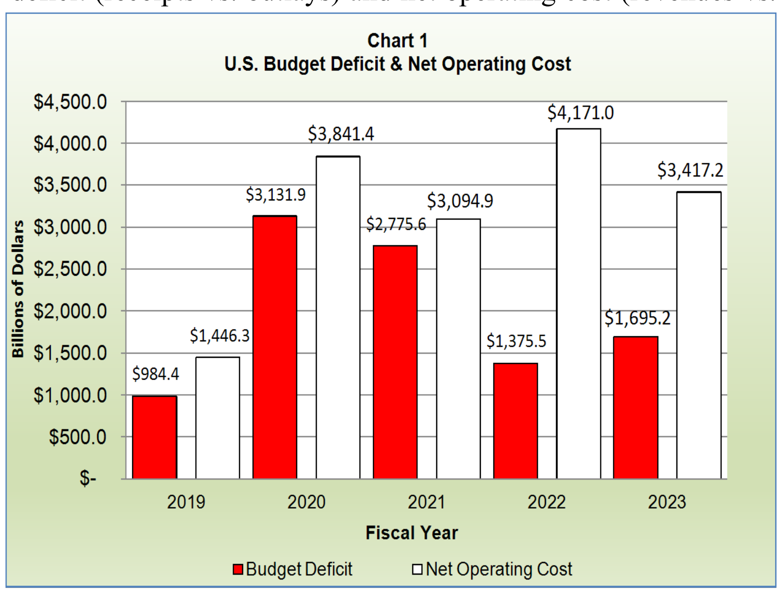
Comparing the Budget and the Financial Report

The *Budget* and the *Financial Report* present complementary perspectives on the government's financial position and condition.

- The *Budget* is the government's primary financial planning and control tool. It accounts for past government receipts and spending and includes the President's proposed receipts and spending plan. Receipts are cash received by the U.S. government and spending is measured as outlays, or payments made by the federal government to the public or entities outside the government. When total receipts exceed outlays, there is a budget surplus; conversely, if total outlays exceed total receipts, there is a budget deficit.
- The *Financial Report* includes the government's costs and revenues, assets and liabilities, and other important financial information. It compares the government's revenues (amounts earned, but not necessarily collected), with costs (amounts incurred, but not necessarily paid) to derive net operating cost.

Chart 1 compares the government's budget deficit (receipts vs. outlays) and net operating cost (revenues vs. costs) for FYs 2019 - 2023. During FY 2023:

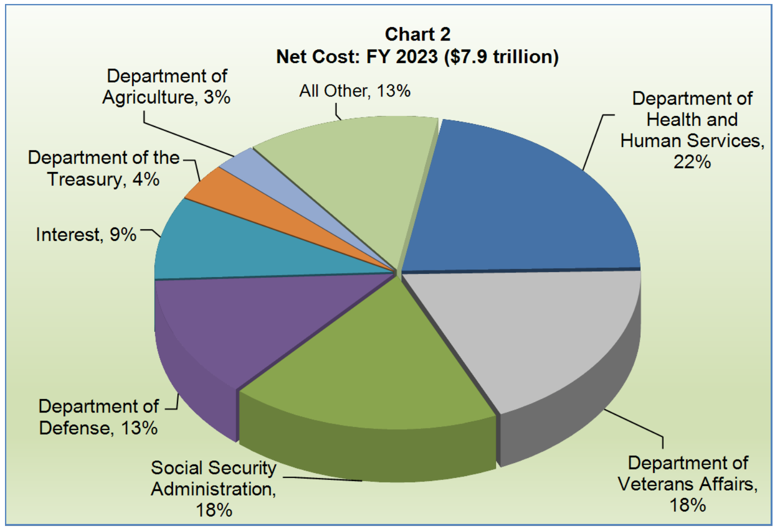
- A $456.8 billion decrease in receipts more than offset a $137.1 billion decrease in outlays resulting in a $319.7 billion (23.2 percent) increase in the budget deficit from $1.4 trillion to $1.7 trillion.
- Net operating cost decreased $753.8 billion or 18.1 percent from $4.2 trillion to $3.4 trillion, due mostly to a $1.2 trillion or 13.3 percent decrease in net cost which more than offset a $460.3 billion or 9.3 percent decrease in tax and other revenues.



The $1.7 trillion difference between the budget deficit and net operating cost for FY 2023 is primarily due to accrued costs (incurred but not necessarily paid) that are included in net operating cost, but not the budget deficit. These are primarily actuarial costs related to federal employee and veteran benefits programs, particularly at VA, DOD, and OPM. Other sources of differences include but are not limited to decreases in taxes receivable, increases in advances and deferred revenue received by the federal government from others, decreases in advances and prepayments made by the federal government.

Costs and Revenues

The government's "bottom line" net operating cost decreased $753.8 billion (18.1 percent) during FY 2023 to $3.4 trillion. It is calculated as follows:



- Starting with total gross costs of $7.7 trillion, the government subtracts earned program revenues (e.g., Medicare premiums, national park entry fees, and postal service fees) and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate future federal employee and veteran benefits payments to derive its net cost before taxes and other revenues of $7.9 trillion (see Chart 2), a decrease of $1.2 trillion (13.3 percent) from FY 2022. This net decrease is the combined effect of many offsetting increases and decreases across the government. For example:
  - Entities administering federal employee and veteran benefits programs, including the VA, DOD, and OPM employ a complex series of assumptions to make actuarial projections of their long-term benefits liabilities. These assumptions include but are not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $760.6 billion in FY 2023, a loss decrease (and a corresponding net cost decrease) of $1.4 trillion compared to FY 2022.
  - In particular, VA net costs decreased $479.6 billion due largely to decreased losses from changes in assumptions as referenced above, partially offset by an increase in costs as a result of legislation expanding and extending eligibility for veteran's benefits.
  - DOD net costs decreased $455.6 billion due primarily to a $437.7 billion loss decrease from changes in assumptions as referenced above. However, most of DOD's net costs included those related to military operations, readiness and support, procurement, personnel, and R&D.
  - A $222.7 billion decrease in Treasury net costs was largely due to a decrease in costs associated with Treasury's pandemic relief programs, including: 1) the Coronavirus State and Local Fiscal Recovery Funds; and 2) COVID-19 related refunds and other payments such as the EIP and advances for child tax credits.
  - Education net costs decreased $521.0 billion due largely to the combined effect of: 1) an FY 2022 cost increase of $330.9 billion due largely to a $337.3 billion loan modification stemming from the announced broad-based student loan debt relief; and 2) an FY 2023 cost decrease of $319.9 billion from a downward modification to reverse the broad-based student loan debt relief, as a result of the Supreme Court's ruling on Biden v. Nebraska. Education's FY 2023 net costs were also impacted by: 1) $71.4 billion in upward cost reestimates of the Department's existing loan portfolio; and 2) $115.7 billion of upward modifications related to COVID-19 administrative actions, changes to repayment plans, and other programmatic changes.
  - A $54.1 billion net cost increase at HHS primarily due to a $116.1 billion increase across the Medicare and Medicaid benefits programs largely associated with increasing benefits payments. This cost increase was offset by a $62.0 billion cost decrease across all other HHS segments primarily due to decreases in COVID-19 costs.

- SSA net costs increased $138.8 billion due largely to a 2.5 percent increase in the number of OASI beneficiaries, combined with an 8.7 percent COLA provided to beneficiaries in 2023.
- Interest costs related to federal debt securities held by the public increased by $181.5 billion due largely to increases in outstanding debt held by the public and the average interest rates, which were offset by a decrease in inflation adjustments.

- The government deducts tax and other revenues from net cost (with some adjustments) to derive its FY 2023 "bottom line" net operating cost of $3.4 trillion.
  - From Chart 3, total government tax and other revenues decreased by $460.3 billion (9.3 percent) to about $4.5 trillion for FY 2023 due primarily to a decline in individual income and tax withholdings and corporate income taxes as well as decreased deposits of earnings from the Federal Reserve due to increased interest rates.
  - Together, individual income tax and tax withholdings, and corporate income taxes accounted for about 91.4 percent of total tax and other revenues in FY 2023. Other revenues include Federal Reserve earnings, excise taxes, and customs duties.

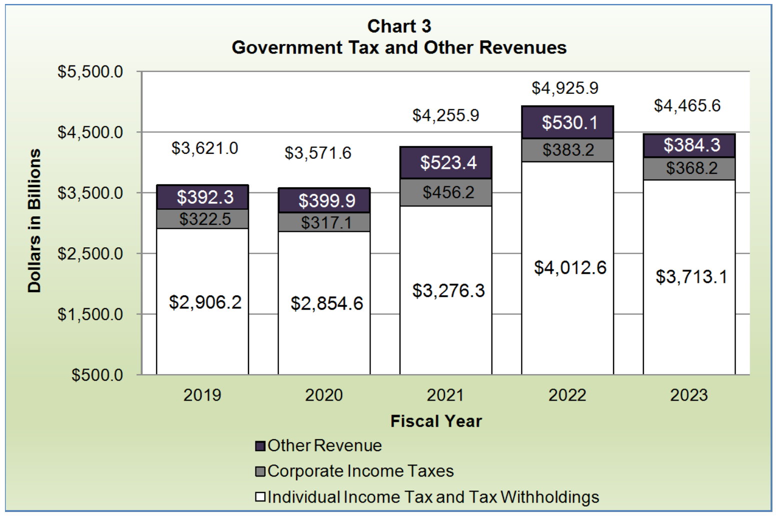


Chart 3
Government Tax and Other Revenues

Assets and Liabilities

Chart 4 summarizes the assets and liabilities that the government reports on its Balance Sheet. As of September 30, 2023:

- More than three-fourths of the federal government's total assets ($5.4 trillion) consist of: 1) $922.2 billion in cash and monetary assets; 2) $423.0 billion in inventory and related property; 3) $1.7 trillion in loans receivable, net (primarily student loans); and 4) $1.2 trillion in net PP&E.
  - Cash and monetary assets ($922.2 billion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury increased $21.9 billion (3.5 percent) to $638.9 billion during FY 2023.

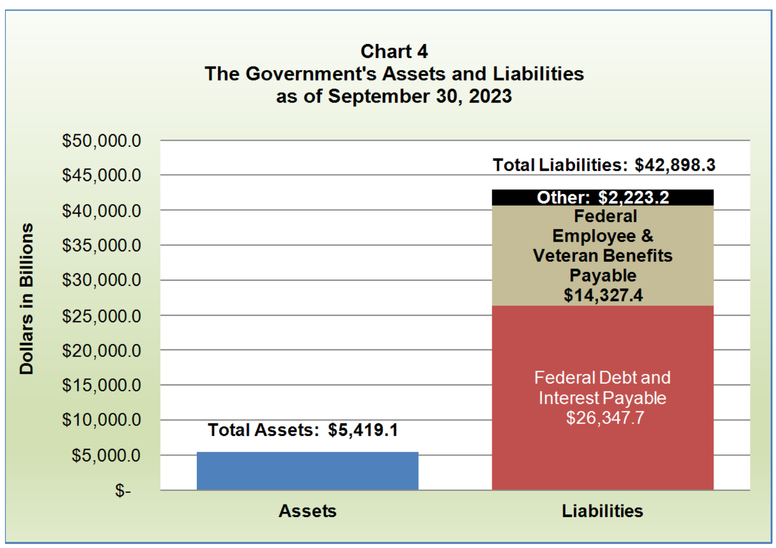


Chart 4
The Government's Assets and Liabilities
as of September 30, 2023

  - Inventory and related property ($423.0 billion) includes: 1) inventory, which is tangible personal property that is either held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee; 2) OM&S, or tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, and tactical missiles); and 3) stockpiles, or strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies.

- Loans receivable, net ($1.7 trillion) is comprised of loans provided by multiple agencies, including Education and SBA, to promote the nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions or otherwise providing for certain activities or investments. The government's net loan portfolio increased by $261.0 billion (18.2 percent) during FY 2023. This net increase was largely due to a $214.3 billion increase in Education's Federal Direct Student Loans, net, primarily due to a reversal of the broad-based student loan debt relief as a result of the Supreme Court's ruling in Biden v. Nebraska. Additional Loans Receivable, net increases included Treasury's purchase of a $50 billion note issued by a trust created by FDIC in its receivership capacity and backed by a guarantee from the FDIC in its corporate capacity. These and other net increases were partially offset by a $49.6 billion decrease in SBA's loan receivables, net, due largely to write-offs of direct disaster loans. Other changes included fluctuations in loan programs for HUD, DOT, and DFC.
- Federal government general PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general-purpose land. DOD comprises approximately 67.4 percent of the government's reported general PP&E of $1.2 trillion as of September 30, 2023.
- Other significant government resources not reported on the Balance Sheet include the government's power to tax and set monetary policy, natural resources, and stewardship assets. Stewardship assets, including heritage assets and stewardship land, benefit the nation (e.g., national monuments, national parks) and are intended to be held indefinitely.

- Total liabilities ($42.9 trillion) consist mostly of: 1) $26.3 trillion in federal debt and interest payable; and 2) $14.3 trillion in federal employee and veteran benefits payable.
  - Federal debt held by the public is debt held outside of the government by individuals, corporations, state and local governments, the FR System, foreign governments, and other non-federal entities.
  - The government borrows from the public (increases federal debt levels) to finance deficits. During FY 2023, federal debt held by the public increased $2.0 trillion (8.3 percent) to $26.3 trillion.
  - The government also reports about $6.9 trillion of intra-governmental debt outstanding, which arises when one part of the government borrows from another. For example, government funds (e.g., Social Security and Medicare Trust Funds) typically must invest excess receipts, including interest earnings, in Treasury-issued federal debt securities. Although not reflected in Chart 4, these securities are included in the calculation of federal debt subject to the debt limit.
  - Federal debt held by the public plus intra-governmental debt equals gross federal debt, which, with some adjustments, is subject to a statutory debt ceiling ("debt limit"). Congress and the President increased the debt limit by $2.5 trillion in December 2021 with the enactment of P.L. 117-73. In response to delays in raising the statutory debt limit, Treasury took extraordinary measures to meet the government's obligations as they came due without exceeding the debt limit from January 19 through June 2, 2023. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025. On Monday, June 5, 2023, Treasury discontinued its use of extraordinary measures and resumed normal debt management operations. At the end of FY 2023, debt subject to the statutory limit was $33.1 trillion. Increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the government to continue to honor pre-existing commitments (see Note 12—Federal Debt and Interest Payable).
  - Federal employee and veteran benefits payable ($14.3 trillion) represents the amounts of benefits payable by agencies that administer the government's pension and other benefit plans for its military and civilian employees.

See Note 29—COVID-19 Activity, as well as the referenced agencies' FY 2023 financial statements for additional information about the financial effects of the federal government's response to the pandemic. See Note

30—Subsequent Events for information about events that occurred after the end of the fiscal year that may affect the government's financial results.

Key Economic Trends

An analysis of U.S. economic performance provides useful background when evaluating the government's financial statements. Over the course of FY 2023, the economy's growth accelerated even as inflation continued to slow. In addition, labor markets remained tight and continued to generate a substantial number of jobs but also showed signs of very gradual easing over the course of FY 2023. These and other economic and financial developments are discussed in greater detail in the *Financial Report*.

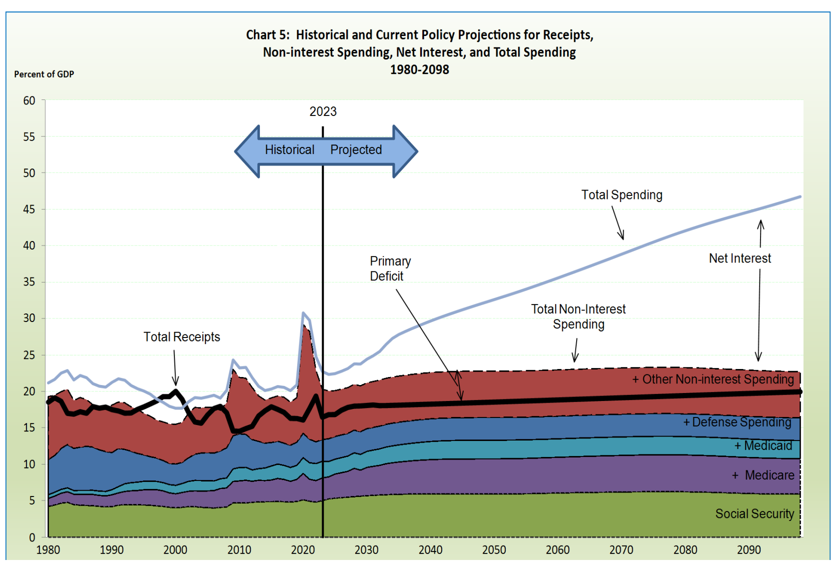
An Unsustainable Fiscal Path

An important purpose of this *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable fiscal policy is defined as one where the ratio of debt held by the public to GDP (the debt-to-GDP ratio) is stable or declining over the long term. GDP measures the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the government's many programs. This *Financial Report* presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The debt-to-GDP ratio was approximately 97 percent at the end of FY 2023, which is similar to (but slightly above) the debt-to-GDP ratio at the end of FY 2022. The long-term fiscal projections in this *Financial Report* are based on the same economic and demographic assumptions that underlie the SOSI.

The current fiscal path is unsustainable. To determine if current fiscal policy is sustainable, the projections based on the assumptions discussed in the *Financial Report* assume current policy will continue indefinitely.[1] The projections are therefore neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes need to be enacted for the actual financial outcomes to differ from those projected.

Receipts, Spending, and the Debt

Chart 5 shows historical and current policy projections for receipts, non-interest spending by major category, net interest, and total spending expressed as a percent of GDP.



- The primary deficit is the difference between non-interest spending and receipts. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability.
- The primary deficit-to-GDP ratio increased during the financial crisis of 2008 and the COVID-19 pandemic. Spending was elevated in 2020 and 2021 due to funding to support economic recovery, but increased receipts reduced the primary deficit-to-GDP ratio to 10.8 percent in 2021 from 13.3 percent in 2020. The primary deficit-to-GDP ratio in 2023 was 3.8 percent, increasing by 0.2 percentage points from 3.6 percent in 2022 partially due to lower receipts.

[1] Current policy in the projections is based on current law, but includes extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue.

- The persistent long-term gap between projected receipts and total spending shown in Chart 5 occurs despite the projected effects of the PPACA[2] on long-term deficits.
    - Enactment of the PPACA in 2010 and the MACRA (P.L. 114-10) in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness is still to be demonstrated fully.
    - There is uncertainty about the extent to which these projections can be achieved and whether the PPACA's provisions intended to reduce Medicare cost growth will be overridden by new legislation.

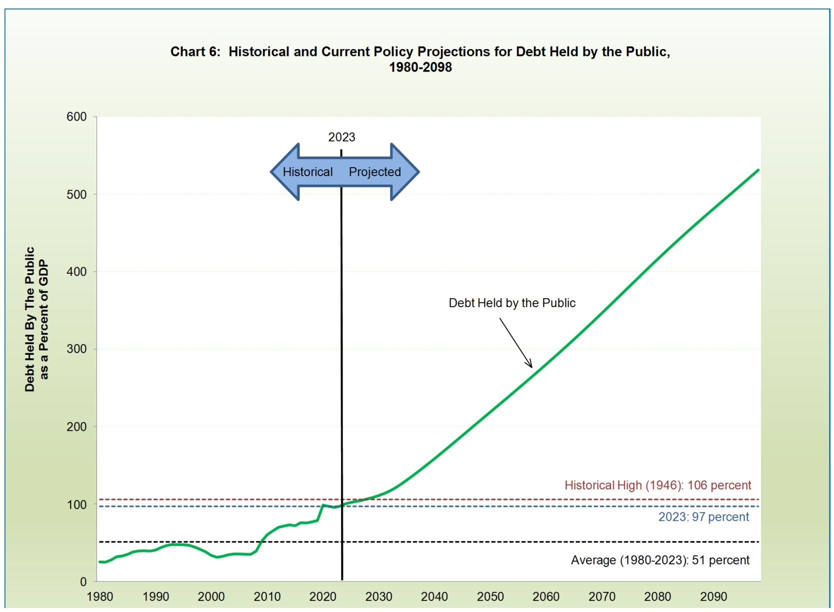
Table 1 summarizes the status and projected trends of the government's Social Security and Medicare Trust Funds.

Table 1: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance *	2031	In 2031, trust fund income is projected to cover 89 percent of benefits, decreasing to 81 percent in 2047, then returning to 96 percent by 2097.
Combined Old-Age Survivors and Disability Insurance **	2034	In 2034, trust fund income is projected to cover 80 percent of scheduled benefits, decreasing to 74 percent by 2097.

* Source: 2023 Medicare Trustees Report ** Source: 2023 OASDI Trustees Report
This Report's projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

The primary deficit projections in Chart 5, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections in Chart 6.



- The debt-to-GDP ratio was approximately 97 percent at the end of FY 2023, and under current policy and based on this report's assumptions is projected to reach 531 percent in 2098.
- The debt-to-GDP ratio rises continuously in great part because primary deficits lead to higher levels of debt. The continuous rise of the debt-to-GDP ratio indicates that current fiscal policy is unsustainable.
- These debt-to-GDP projections are lower than both the 2022 and 2021 *Financial Report* projections.

[2] The PPACA refers to P.L. 111-148, as amended by P.L. 111-152. The PPACA expands health insurance coverage, provides health insurance subsidies for low-income individuals and families, includes many measures designed to reduce health care cost growth, and significantly reduces Medicare payment rate updates relative to the rates that would have occurred in the absence of the PPACA. (See Note 25 and the RSI section of the *Financial Report*, and the 2023 Medicare Trustees Report for additional information).

The Fiscal Gap and the Cost of Delaying Fiscal Policy Reform

- The 75-year fiscal gap is a measure of how much primary deficits must be reduced over the next 75 years in order to make fiscal policy sustainable. That estimated fiscal gap for 2023 is 4.5 percent of GDP (compared to 4.9 percent for 2022).
- This estimate implies that making fiscal policy sustainable over the next 75 years would require some combination of spending reductions and receipt increases that equals 4.5 percent of GDP on average over the next 75 years. The fiscal gap represents 23.8 percent of 75-year PV receipts and 19.8 percent of 75-year PV non-interest spending.
- The timing of policy changes to make fiscal policy sustainable has important implications for the well-being of future generations as is shown in Table 2.

Table 2

Cost of Delaying Fiscal Reform

Period of Delay	Change in Average Primary Surplus
Reform in 2024 (No Delay)	4.5 percent of GDP between 2024 and 2098
Reform in 2034 (Ten-Year Delay)	5.3 percent of GDP between 2034 and 2098
Reform in 2044 (Twenty-Year Delay)	6.5 percent of GDP between 2044 and 2098

  - Table 2 shows that, if reform begins in 2034 or 2044, the estimated magnitude of primary surplus increases necessary to close the 75-year fiscal gap is 5.3 percent and 6.5 percent of GDP, respectively. The difference between the primary surplus increase necessary if reform begins in 2034 or 2044 and the increase necessary if reform begins in 2024, an additional 0.8 and 2.0 percentage points, respectively, is a measure of the additional burden policy delay would impose on future generations.
  - The longer policy action to close the fiscal gap is delayed, the larger the post-reform primary surpluses must be to achieve the target debt-to-GDP ratio at the end of the 75-year period. Future generations are harmed by a policy delay because the higher the primary surpluses are during their lifetimes, the greater is the difference between the taxes they pay and the programmatic spending from which they benefit.

Conclusion

- Projections in the *Financial Report* indicate that the government's debt-to-GDP ratio is projected to rise over the 75-year projection period and beyond if current policy is kept in place. The projections in this *Financial Report* show that current policy is not sustainable.
- If changes in fiscal policy are not so abrupt as to slow economic growth and those policy changes are adopted earlier, then the required changes to revenue and/or spending will be smaller to return the government to a sustainable fiscal path.

Reporting on Climate Change

As stated in Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad* "the United States and the world face a profound climate crisis…Domestic action must go hand in hand with United States international leadership, aimed at significantly enhancing global action." In response, the administration has enacted key legislation and issued important policy actions. As summarized in the MD&A section of the *Financial Report*, many of the 24 CFO Act agencies have leveraged their FY 2023 financial statements to discuss a wide range of topics concerning how their agencies are responding to the climate crisis, including providing links to agency Climate Adaptation and Resilience Plans.

Find Out More

The FY 2023 *Financial Report* and other information about the nation's finances are available at:

- Treasury, https://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/fr_index.htm and https://fiscaldata.treasury.gov/americas-finance-guide/;
- OMB's Office of Federal Financial Management, https://www.whitehouse.gov/omb/management/office-federal-financial-management/; and
- GAO, https://www.gao.gov/federal-financial-accountability.

The GAO audit report on the U.S. government's consolidated financial statements can be found beginning on page 218 of the full *Financial Report*. GAO was unable to express an opinion (disclaimed) on these consolidated financial statements for the reasons discussed in the audit report.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The FY 2023 *Financial Report* provides the President, Congress, and the American people with a comprehensive view of the federal government's financial position and condition; and discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability over the long-term.

Pursuant to 31 U.S.C. § 331(e)(1), Treasury, in cooperation with OMB, must submit an audited (by GAO) financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the U.S. government[1] to the President and Congress no later than six months after the September 30 fiscal year-end.

The *Financial Report* is prepared from the financial information provided by 166 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 25 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2023, and 2022. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2023 and 2022 SLTFP; the 2023, 2022, 2021, 2020, and 2019 SOSI; and the 2023 and 2022 SCSIA. A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with GAAP. In FY 2023, 32[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2023 *Financial Report* consists of:

- MD&A, which provides management's perspectives on and analysis of information presented in the *Financial Report*, such as financial and performance trends;
- Financial statements and the related notes to the financial statements;
- RSI and Other Information; and
- GAO's audit report.

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2023, and 2022. Note 30—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

In addition, the Executive Summary to this *Financial Report* provides a quick reference to the key issues in the *Financial Report* and an overview of the government's financial position and condition.

Mission & Organization

The government's fundamental mission is derived from the Constitution: *"…to form a more perfect union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare and secure the blessings of liberty to ourselves and our posterity."* The government's functions have evolved over time to include health care, income security, veterans benefits and services, housing and transportation, security, and education. Exhibit 1 provides an overview of how the U.S. government is organized.

[1] The *Government Management Reform Act of 1994* has required such reporting, covering the executive branch of the government, beginning with financial statements prepared for FY 1997. The consolidated financial statements include the legislative and judicial branches.

[2] The 32 entities include the HHS, which received disclaimers of opinion on its 2023, 2022, 2021, 2020, and 2019 SOSI and on its 2023 and 2022 SCSIA.

Exhibit 1

THE UNITED STATES GOVERNMENT

THE CONSTITUTION

LEGISLATIVE BRANCH

THE CONGRESS
SENATE HOUSE

Architect of the Capitol
U.S. Botanic Garden
Government Accountability Office
Government Publishing Office
Library of Congress
Congressional Budget Office
U.S. Capitol Police

EXECUTIVE BRANCH

THE PRESIDENT
THE VICE PRESIDENT
EXECUTIVE OFFICE OF THE PRESIDENT

White House Office
Office of the Vice President
Council of Economic Advisers
Council on Environmental Quality
National Security Council
Office of Administration
Office of Management and Budget
Office of National Drug Control Policy
Office of Policy Development
Office of Science and Technology Policy
Office of the U.S. Trade Representative

JUDICIAL BRANCH

THE SUPREME COURT OF THE U.S.

U.S. Courts of Appeals
U.S. District Courts
Territorial Courts
U.S. Court of International Trade
U.S. Court of Federal Claims
Administrative Office of the U.S. Courts
Federal Judicial Center
U.S. Sentencing Commission

CHIEF FINANCIAL OFFICERS ACT AGENCIES (24)

DEPARTMENT OF AGRICULTURE
DEPARTMENT OF COMMERCE
DEPARTMENT OF DEFENSE
DEPARTMENT OF EDUCATION
DEPARTMENT OF ENERGY
DEPARTMENT OF HEALTH AND HUMAN SERVICES
DEPARTMENT OF HOMELAND SECURITY
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF THE INTERIOR
DEPARTMENT OF JUSTICE
DEPARTMENT OF LABOR
DEPARTMENT OF STATE
DEPARTMENT OF TRANSPORTATION
DEPARTMENT OF THE TREASURY
DEPARTMENT OF VETERANS AFFAIRS
ENVIRONMENTAL PROTECTION AGENCY
GENERAL SERVICES ADMINISTRATION
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
NATIONAL SCIENCE FOUNDATION
OFFICE OF PERSONNEL MANAGEMENT
SMALL BUSINESS ADMINISTRATION
SOCIAL SECURITY ADMINISTRATION
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
U.S. NUCLEAR REGULATORY COMMISSION

SIGNIFICANT CONSOLIDATION ENTITIES (16)

EXPORT-IMPORT BANK OF THE U.S.
FARM CREDIT SYSTEM INSURANCE CORPORATION
FEDERAL COMMUNICATIONS COMMISSION
FEDERAL DEPOSIT INSURANCE CORPORATION
GENERAL FUND OF THE U.S. GOVERNMENT
MILLENNIUM CHALLENGE CORPORATION
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST
PENSION BENEFIT GUARANTY CORPORATION
RAILROAD RETIREMENT BOARD
SECURITIES AND EXCHANGE COMMISSION
SECURITY ASSISTANCE ACCOUNTS
SMITHSONIAN INSTITUTION
TENNESSEE VALLEY AUTHORITY
U.S. INTERNATIONAL DEVELOPMENT FINANCE CORP
U.S. POSTAL SERVICE

OTHER CONSOLIDATION ENTITIES LISTED IN APPENDIX A OF THIS FINANCIAL REPORT (126)

The Government's Financial Position and Condition

This *Financial Report* presents the government's financial position at the end of the fiscal year, explains how and why the financial position changed during the year, and discusses the government's financial condition and how it may change in the future.

Table 1
The Federal Government's Financial Position and Condition

	2023	2022*	Increase / (Decrease) $	Increase / (Decrease) %
FINANCIAL MEASURES (Dollars in Billions)				
Gross Cost	**$ (7,661.7)**	**$ (7,420.1)**	**$ 241.6**	**3.3%**
Less: Earned Revenue	$ 539.5	$ 531.1	$ 8.4	1.6%
Gain/(Loss) from Changes in Assumptions	$ (760.6)	$ (2,207.9)	$ (1,447.3)	(65.6%)
Net Cost	**$ (7,882.8)**	**$ (9,096.9)**	**$ (1,214.1)**	**(13.3%)**
Less: Total Tax and Other Unearned Revenues	**$ 4,465.6**	**$ 4,925.9**	**$ (460.3)**	**(9.3%)**
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**	**$ (753.8)**	**(18.1%)**
Budget Deficit	**$ (1,695.2)**	**$ (1,375.5)**	**$ 319.7**	**23.2%**
Assets:				
Cash & Other Monetary Assets	$ 922.2	$ 877.8	$ 44.4	5.1%
Inventory and Related Property, Net	$ 423.0	$ 406.9	$ 16.1	4.0%
Loans Receivable, Net	$ 1,695.1	$ 1,434.1	$ 261.0	18.2%
General Property, Plant & Equipment, Net	$ 1,235.0	$ 1,197.5	$ 37.5	3.1%
Other	$ 1,143.8	$ 1,046.1	$ 97.7	9.3%
Total Assets	**$ 5,419.1**	**$ 4,962.4**	**$ 456.7**	**9.2%**
Liabilities:				
Federal Debt and Interest Payable	$ (26,347.7)	$ (24,328.0)	$ 2,019.7	8.3%
Federal Employee & Veteran Benefits Payable	$ (14,327.4)	$ (12,811.9)	$ 1,515.5	11.8%
Other	$ (2,223.2)	$ (1,882.4)	$ 340.8	18.1%
Total Liabilities	**$ (42,898.3)**	**$ (39,022.3)**	**$ 3,876.0**	**9.9%**
Unmatched Transactions and Balances[1]	$ -	$ (1.3)	$ (1.3)	(100.0%)
Net Position	**$ (37,479.2)**	**$ (34,061.2)**	**$ 3,418.0**	**10.0%**
SUSTAINABILITY MEASURES (Dollars in Trillions)				
Social Insurance Net Expenditures:				
Social Security (OASDI)	$ (25.2)	$ (23.3)	$ 1.9	8.2%
Medicare (Parts A, B, & D)	$ (53.1)	$ (52.5)	$ 0.6	1.1%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Net Expenditures	**$ (78.4)**	**$ (75.9)**	**$ 2.5**	**3.3%**
Total Federal Non-Interest Net Expenditures	**$ (73.2)**	**$ (79.5)**	**$ (6.4)**	**(8.1%)**
75-Year Fiscal Gap (Percent of Gross Domestic Product)[2]	**(4.5%)**	**(4.9%)**	**(0.4%)**	**(8.2%)**

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences.

[2] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.5 percent of GDP on average is needed (4.9 percent of GDP on average in FY 2022). See Financial Statement Note 24.

* Change in presentation (see Financial Statement Note 1.W).

Table 1 on the previous page and the following summarize the federal government's financial position:

- This *Financial Report* includes discussion and analysis of the effects that the federal government's response to the COVID-19 pandemic continued to have on the government's financial position during FY 2023.
- During FY 2023, the budget deficit increased by $319.7 billion (23.2 percent) to $1.7 trillion. However, net operating cost decreased by $753.8 billion (18.1 percent) to $3.4 trillion.
- Net operating cost decreased due largely to significant decreases in non-cash costs (including decreases in losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits programs (which do not affect the current year deficit), and reestimates of long-term student loan costs).
- The government's gross costs of $7.7 trillion, less $539.5 billion in revenues earned for goods and services provided to the public (e.g., Medicare premiums, national park entry fees, and postal service fees), plus $760.6 billion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of $7.9 trillion, a decrease of $1.2 trillion or 13.3 percent compared to FY 2022.
- Total tax and other revenues decreased $460.3 billion to $4.5 trillion. Deducting these revenues from net cost results in a "bottom line" net operating cost of $3.4 trillion for FY 2023, a decrease of $753.8 billion or 18.1 percent compared to FY 2022.
- Comparing total FY 2023 government assets of $5.4 trillion (including $1.7 trillion of loans receivable, net and $1.2 trillion of PP&E) to total liabilities of $42.9 trillion (including $26.3 trillion in federal debt and interest payable[3], and $14.3 trillion of federal employee and veteran benefits payable) yields a negative net position of $37.5 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2023, debt held by the public, excluding accrued interest, was $26.3 trillion. This amount, plus intra-governmental debt ($6.9 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2023, the government's total debt subject to the debt limit was $33.1 trillion. Congress and the President increased the debt limit by $480.0 billion in October 2021 and by $2.5 trillion in December 2021. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025.

This *Financial Report* also contains information about projected impacts on the government's future financial condition. Under federal accounting rules, social insurance amounts as reported in both the SLTFP and in the SOSI are not considered liabilities of the government. From Table 1:

- The SLTFP shows that the PV[4] of total non-interest spending, including Social Security, Medicare, Medicaid, defense, and education, etc., over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $73.2 trillion (total federal non-interest net expenditures from Table 1).
- The SOSI shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues[5] by about $78.4 trillion, a $2.5 trillion increase over 2022 social insurance projections.
- The Social Insurance and Total Federal Non-Interest Net Expenditures measures in Table 1 differ primarily because total non-interest net expenditures from the SLTFP include the effects of general revenues and non-social insurance spending, neither of which is included in the SOSI.

The government's current financial position and long-term financial condition can be evaluated both in dollar terms and in relation to the economy. GDP is a measure of the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the government's many programs. For example:

- The budget deficit increased from $1.4 trillion in FY 2022 to $1.7 trillion in FY 2023. The deficit-to-GDP ratio also increased from 5.4 percent in FY 2022 to 6.3 percent in 2023.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2023, the $26.3 trillion in debt held by the public, excluding accrued interest, equates to 97 percent of GDP.
- The 2023 SOSI projection of $78.4 trillion net PV excess of expenditures over receipts over 75 years represents about 4.4 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of $73.2 trillion from the SLTFP represents 3.8 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in these projections can, in turn, have a significant impact on projected debt as a percent of GDP.
- To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.5 percent of GDP on average is needed (4.9 percent of GDP on

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[3] On the government's Balance Sheet, federal debt and interest payable consists of Treasury securities, net of unamortized discounts and premiums, and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government.

[4] PVs recognize that a dollar paid or collected in the future is worth less than a dollar today because a dollar today could be invested and earn interest. To calculate a PV, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

[5] Social Security is funded by the payroll taxes and revenue from taxation of benefits. Medicare Part A is funded by the payroll taxes, revenue from taxation of benefits, and premiums that support those programs. Medicare Parts B and D are primarily financed by transfers from the General Fund, which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2023 and 2022 SOSI, the amounts eliminated totaled $48.5 trillion and $47.5 trillion, respectively. In addition, the SOSI programs include DOL's Black Lung Program, the projection period for which is 40 years.

average in the 2022 projections). The fiscal gap in the 2023 projections represents 23.8 percent of 75-year PV receipts and 19.8 percent of 75-year PV non-interest spending.

FY 2023 Financial Statement Audit Results

For FY 2023, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 26 years, due to certain material weaknesses in internal control over financial reporting and other limitations on the scope of its work. In addition, GAO issued a disclaimer of opinion on the sustainability financial statements due to significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. GAO's audit report on page 218 of this *Financial Report*, discusses GAO's findings.

In FY 2023, 19 of the 24 entities required to issue audited financial statements under the CFO Act received unmodified audit opinions, as did 13 of 16 additional significant consolidation entities (see Table 10 and Appendix A).[6]

The Government-wide Reporting Entity

This *Financial Report* includes the financial status and activities of the executive, legislative, and judicial branches of the federal government. SFFAS No. 47, *Reporting Entity*, provides criteria for identifying organizations that are consolidation entities, disclosure entities, and related parties. Such criteria are summarized in Note 1.A, Significant Accounting Policies, Reporting Entity, and in Appendix A, which lists the entities included in this *Financial Report* by these categories. The assets, liabilities, results of operations, and related activity for consolidation entities are consolidated in the financial statements.

Fannie Mae and Freddie Mac meet the criteria for disclosure entities and, consequently, are not consolidated into the government's financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the consolidated financial statements. The FR System and the SPVs are disclosure entities and are not consolidated into the government's financial statements. See Note 1.A and Note 27—Disclosure Entities and Related Parties for additional information. In addition, per SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary funds are not consolidated in the government financial statements.[7]

Most significant consolidation entities prepare financial statements that include financial and performance related information, as well as Annual Performance Reports. More information may be obtained from entities' websites indicated in Appendix A and at https://www.performance.gov/.

The following pages contain a more detailed discussion of the government's financial results for FY 2023, the *Budget*, the economy, the debt, and a long-term perspective about fiscal sustainability, including the government's ability to meet its social insurance benefits obligations. The information in this *Financial Report*, when combined with the *Budget*, collectively presents information on the government's financial position and condition.

Accounting Differences Between the Budget and the Financial Report

Each year, the administration issues two reports that detail the government's financial results: the *Budget* and this *Financial Report*. The exhibit on the following page provides the key characteristics and differences between the two documents.

Treasury generally prepares the financial statements in this *Financial Report* on an accrual basis of accounting as prescribed by GAAP for federal entities.[8] These principles are tailored to the government's unique characteristics and circumstances. For example, entities prepare a uniquely structured "Statement of Net Cost," which is intended to present net government resources used in its operations. Also, unique to government is the preparation of separate statements to reconcile differences and articulate the relationship between the *Budget* and financial accounting results.

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[6] The 19 entities include the HHS, which received disclaimers of opinions on its 2023, 2022, 2021, 2020, and 2019 SOSI and its 2023 and 2022 SCSIA. The 13 entities include the FDIC, the NCUA, and the FCSIC, which operate on a calendar year basis (December 31 year-end). Statistic reflects 2022 audit results for these organizations if 2023 results are not available.

[7] See Note 23—Fiduciary Activities.

[8] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The SOSI presents the PV of the estimated future revenues and expenditures for scheduled benefits over the next 75 years for the Social Security, Medicare, RRP; and 25 years for the Black Lung program. The SLTFP presents the 75-year PV of the projected future receipts and non-interest spending for the federal government.

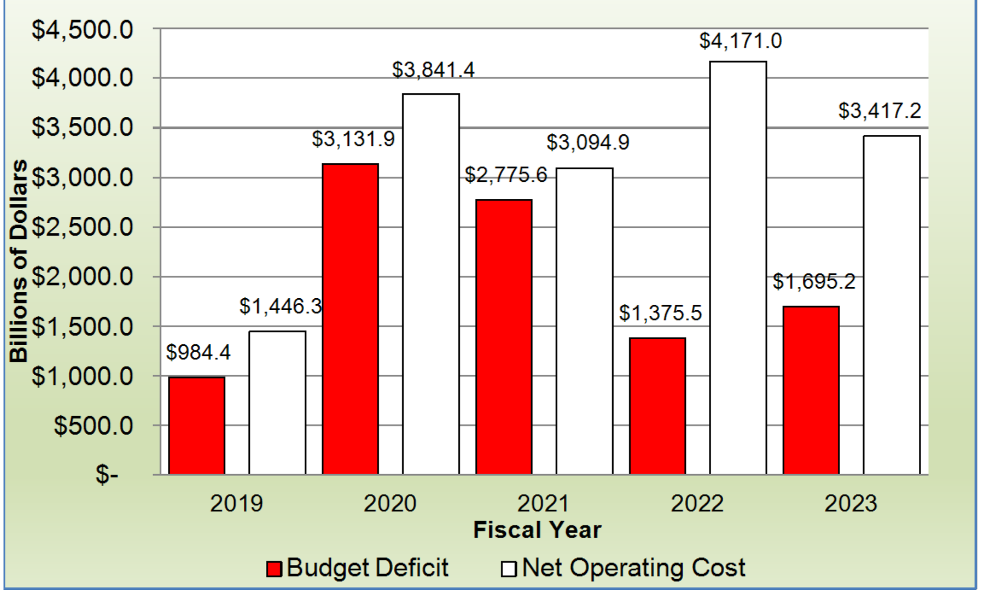
Budget of the U.S. Government	Financial Report of the U.S. Government
Prepared primarily on a "*cash basis*" • Initiative-based and prospective: focus on current and future initiatives planned and how resources will be used to fund them. • Receipts ("cash in"), taxes and other collections recorded when received. • Outlays ("cash out"), largely recorded when payment is made.	Prepared on an "*accrual basis*" and "*modified cash basis*" • Entity-based and retrospective – prior and present resources used to implement initiatives. • Revenue: Tax revenue (more than 90.0 percent of total revenue) recognized on modified cash basis (see Financial Statement Note 1.B). Remainder recognized when earned, but not necessarily received. • Costs: recognized when incurred, but not necessarily paid.

Budget Deficit vs. Net Operating Cost

Three key components of the *Budget* process are: 1) appropriations; 2) obligations; and 3) outlays. An appropriation is a provision of law authorizing the expenditure of funds for a given purpose. Rescissions and cancellations are reductions in law of budgetary resources. They are considered permanent reductions unless legislation clearly indicates that the reduction is temporary. Once funds are appropriated by Congress, Treasury issues warrants that officially establish the amounts available to be obligated and spent (i.e., expended or outlayed) by each agency. An agency's obligation of funds is a binding agreement to outlay funds for a particular purpose immediately or in the future. The budget deficit is measured as the excess of outlays, or payments made by the government, over receipts, or cash received by the government.

Net operating cost, calculated on an accrual basis, is the excess of costs (what the government has incurred but has not necessarily paid) over revenues (what the government has collected and expects to collect but has not necessarily received). As shown in Chart 1, net operating cost typically exceeds the budget deficit due largely to the inclusion of cost accruals associated with increases in estimated liabilities for the government's postemployment benefit programs for its military and civilian employees and veterans as well as environmental liabilities.

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



The government's primarily cash-based[9] budget deficit increased by $319.7 billion (23.2 percent) from approximately $1.4 trillion in FY 2022 to about $1.7 trillion in FY 2023 due to a $456.8 billion decrease in receipts which more than offset a $137.1 billion decrease in outlays in FY 2023. The decrease in receipts can be attributed to lower individual income tax receipts as capital gains realizations fell and lower deposits of earnings by the Federal Reserve due to higher interest rates. These decreases were partially offset by higher social insurance and retirement receipts due to a strong labor market boosting wages and salaries. The decrease in outlays in part reflects the broad-based student loan debt relief, which increased outlays in FY 2022, and the effect of the reversal of broad-based debt relief in FY 2023 as a result of the Supreme Court's decision in Biden v. Nebraska. It also reflects decreases due to the expiration of the expanded child tax credit as well as reductions in COVID-19 related spending, including spending by Treasury from the Coronavirus Relief Fund and by the Food and Nutrition Service for SNAP and child nutrition programs. Outlays for some other categories of spending increased, including Social Security, Medicare, Medicaid, and net interest.[10]

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[9] Interest outlays on Treasury debt held by the public are recorded in the *Budget* when interest accrues, not when the interest payment is made. For federal credit programs, outlays are recorded when loans are disbursed, in an amount representing the PV cost to the government, commonly referred to as credit subsidy cost. Credit subsidy cost excludes administrative costs.

[10] 10/20/23 press release – Joint Statement of Janet L. Yellen, Secretary of the Treasury, and Shalanda D. Young, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2023. Note that some amounts in this *Financial Report* reflect updates subsequent to publication of the press release.

Treasury's September 2023 MTS provides fiscal year-end receipts, spending, and deficit information for this *Financial Report*. The MTS presents primarily cash-based spending, or outlays, for the fiscal year in a number of ways, including by month, by entity, and by budget function classification. The *Budget* is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2023 MTS.[11]

The government's largely accrual-based net operating cost decreased by $753.8 billion (18.1 percent) to $3.4 trillion during FY 2023. As discussed in this *Financial Report*, as the deficit is affected by changes in both receipts and outlays, so too are the government's net operating costs affected by changes in both revenues and costs.

The *Reconciliation of Net Operating Cost and Budget Deficit* statement articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. The difference between the government's budget deficit and net operating cost is typically impacted by many variables. For example, from Table 2, 88 percent of the $1.7 trillion net difference for FY 2023 is attributable to a $1.5 trillion net increase in liabilities for federal employee and veteran benefits payable (see Note 13—Federal Employee and Veteran Benefits Payable). Other differences include: 1) a $108.1 billion increase in advances from others and deferred revenue (see Note 17—Advances from Others and Deferred Revenue); 2) a $55.0 billion decrease in net taxes receivable (see Note 3—Accounts Receivable, Net); and 3) a $45.4 billion decrease in advances and prepayments made by the federal government (see Note 9—Advances and Prepayments).

Table 2: Net Operating Cost vs. Budget Deficit

Dollars in Billions	2023	2022*
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**
Changes in:		
Federal Employee and Veteran Benefits Payable	$ 1,515.5	$ 2,629.0
Advances from Others and Deferred Revenue	$ 108.1	$ 45.2
Taxes Receivable, Net	$ 55.0	$ 65.5
Advances and Prepayments	$ 45.4	$ 71.3
Other, Net	$ (2.0)	$ (15.5)
Subtotal - Net Difference:	$ 1,722.0	$ 2,795.5
Budget Deficit	**$ (1,695.2)**	**$ (1,375.5)**

*Change in presentation (see Financial Statement Note 1.W).

The Government's Net Position: "Where We Are"

The government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The government's accrual-based net position, (the difference between its assets and liabilities, adjusted for unmatched transactions and balances), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators. The following includes brief discussions of some of the diminishing effects of the pandemic on the government's financial results for FY 2023. Please refer to Note 29—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

Costs and Revenues

The government's Statement of Operations and Changes in Net Position, much like a corporation's income statement, shows the government's "bottom line" and its impact on net position (i.e., assets net of liabilities, adjusted for unmatched transactions and balances). To derive the government's "bottom line" net operating cost, the Statement of Net Cost first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the government's net cost or the net of: 1) gross costs, or the costs

[11] Final MTS for FY 2023 through September 30, 2023 and Other Periods.

of goods produced and services rendered by the government; 2) the earned revenues generated by those goods and services during the fiscal year; and 3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is offset against the government's taxes and other revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.

Table 3: Gross Cost, Revenues, Net Cost, and Net Operating Cost

Dollars in Billions	2023	2022*	Increase / (Decrease) $	%
Gross Cost	**$ (7,661.7)**	**$ (7,420.1)**	**$ 241.6**	**3.3%**
Less: Earned Revenue	$ 539.5	$ 531.1	$ 8.4	1.6%
Gain/(Loss) from Changes in Assumptions	$ (760.6)	$ (2,207.9)	$(1,447.3)	(65.6%)
Net Cost	**$ (7,882.8)**	**$ (9,096.9)**	**$(1,214.1)**	**(13.3%)**
Less: Tax and Other Revenues	**$ 4,465.6**	**$ 4,925.9**	**$ (460.3)**	**(9.3%)**
Net Operating Cost	**$ (3,417.2)**	**$ (4,171.0)**	**$ (753.8)**	**(18.1%)**

*Change in presentation (see Financial Statement Note 1.W).

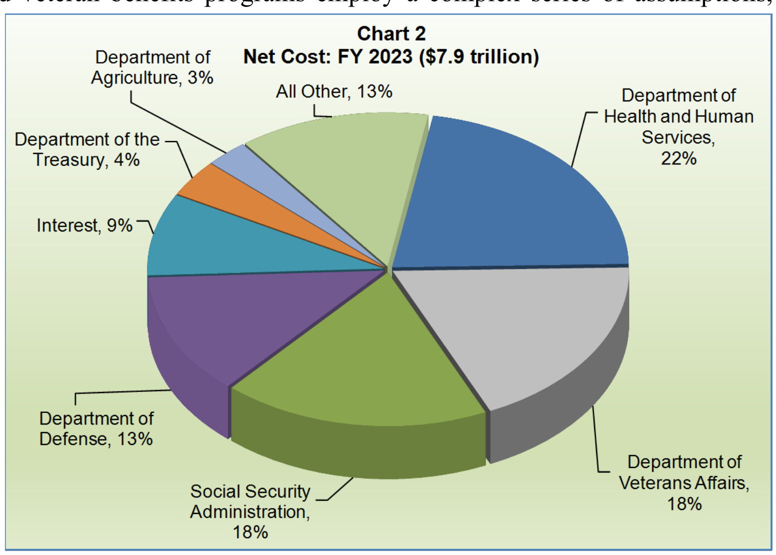
Table 3 shows that the government's "bottom line" net operating cost decreased $753.8 billion (18.1 percent) during 2023 from $4.2 trillion to $3.4 trillion. This decrease is due mostly to a $1.2 trillion (13.3 percent) decrease in net costs, which more than offset a $460.3 billion (9.3 percent) decrease in tax and other revenues over the past fiscal year as discussed in the following.

Gross Cost and Net Cost

The FY 2023 Statement of Net Cost starts with the government's total gross costs of $7.7 trillion, subtracts $539.5 billion in revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities ($760.6 billion loss), including federal employee and veteran benefits to derive its net cost of $7.9 trillion, a $1.2 trillion (13.3 percent) decrease compared to FY 2022.

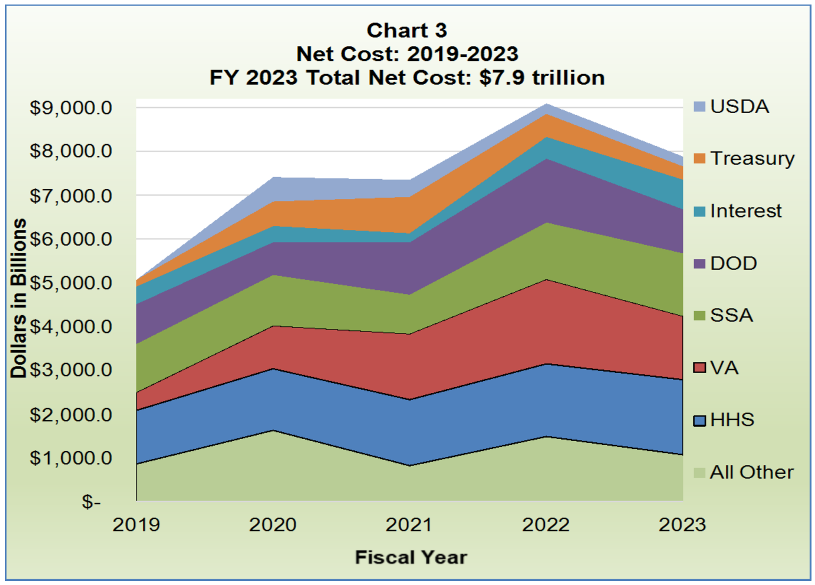
Typically, the annual change in the government's net cost is the result of a variety of offsetting increases and decreases across entities. Offsetting changes in federal entity net cost during FY 2023 included:

- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $760.6 billion in FY 2023, a net loss (and a corresponding net cost) decrease of $1.4 trillion compared to FY 2022. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the VA, DOD, and OPM. All three of these entities recorded losses from changes in assumptions in the amounts of $111.9 billion, $89.3 billion, and $558.8 billion, respectively. These actuarial estimates and the resulting gains or losses from changes in assumptions can sometimes cause significant swings in total entity costs from year to year. For example, for FY 2023, net cost decreases at OPM ($88.5 billion), DOD ($455.6 billion), and VA ($479.6 billion) were significantly impacted by the decreases in losses from assumption changes at these entities.



- A $479.6 billion decrease in VA net cost was impacted largely by a $967.7 billion decrease in losses from changes in assumptions as referenced above, partially offset by an increase in costs as a result of legislation expanding and extending the eligibility for veteran's benefits.
- The $455.6 billion decrease in DOD net cost is primarily due to a $437.7 billion decrease in losses from changes in assumptions referenced above. While losses from changes in assumptions represented the largest decrease, the majority (more than 80 percent) of DOD costs are attributable to a wide range of functions, including military operations, readiness, and support; procurement; military personnel; and R&D.

- The $222.7 billion decrease in Treasury net costs is largely due to a decrease in costs associated with Treasury's pandemic relief programs. As discussed in Note 29—COVID-19 Activity, Treasury's net costs related to COVID-19 relief efforts decreased $105.5 billion, from $164.4 billion to $58.9 billion, during FY 2023, mainly attributed to a reduction in the estimated amount of eligible costs incurred by state and local, territorial, and tribal program recipients of Coronavirus State and Local Fiscal Recovery Funds. In addition, Treasury gross costs reported in this *Financial Report* reflect a decrease in COVID-19 related refunds and other payments, such as EIP and advances for child tax credits, from $89.2 billion to $53.4 billion.
- A $521.0 billion decrease at Education, due largely to the combined effect of: 1) the announced broad-based student loan debt relief in continued response to the pandemic to help borrowers at highest risk of delinquencies or default once payments resumed; and 2) the reversal of the announced broad-based student loan debt relief as a result of the Supreme Court's ruling in Biden v. Nebraska. The combined effect on Education's net cost was: 1) an FY 2022 cost increase of $330.9 billion, due largely to a $337.3 billon upward cost modification to its direct loan program stemming from the announced broad-based relief; and 2) a $319.9 billion downward cost modification in FY 2023 related to the student loan debt relief. Education's FY 2023 costs were also impacted by: 1) a $71.4 billion upward loan reestimate of the costs of its existing loan portfolio; and 2) $115.7 billion in upward modifications related to COVID-19 administrative actions, changes to repayment plans, and other programmatic changes.

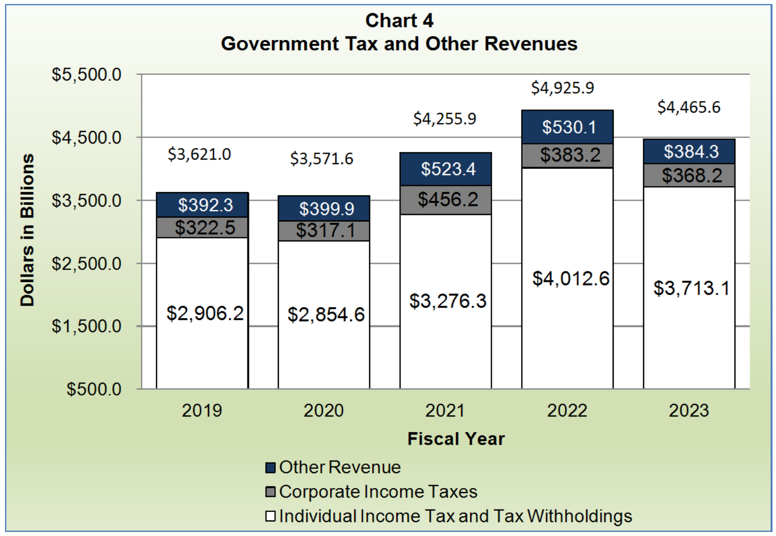


- A $54.1 billion net cost increase at HHS was primarily due to $116.1 billion across the Medicare and Medicaid benefit programs largely associated with increasing benefits. Notably, Medicare HI costs increased due to increases in HI benefit expenses of $26.6 billion and contingent liability of $10.4 billion. Medicaid benefit expense increased $19.1 billion from higher grant awards to the states due to the continuation of the COVID-19 relief, offset by $1.1 billion decrease in contingent liability expenses for the state plan amendments. HHS also experienced a $62.0 billion decrease across all other HHS segments primarily due to decreased COVID-19 costs.
- A $138.8 billion increase at SSA, due to a 2.5 percent increase in the number of OASI beneficiaries, and the 8.7 percent COLA provided to beneficiaries in 2023. The OASI, DI, and SSI net cost increased by 12.0 percent, 6.0 percent, and 0.1 percent respectively. Total benefit expenses increased by $137.8 billion or 10.8 percent.
- A $181.5 billion increase in interest on debt held by the public primarily attributable to an increase in the outstanding debt held by the public and an increase in the average interest rates, which were partially offset by a decrease in inflation adjustments.

Chart 2 shows the composition of the government's net cost for FY 2023, and Chart 3 shows the five-year trend in the largest agency cost components. In FY 2023, approximately 87 percent of the federal government's total net cost came from only six agencies (HHS, VA, SSA, DOD, Treasury, USDA), and interest on the debt. The other 150-plus entities included in the government's FY 2023 Statement of Net Cost accounted for a combined 13 percent of the government's total net cost for FY 2023. HHS and SSA net costs for FY 2023 ($1.7 trillion and $1.4 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of $1.5 trillion support health, education and other benefits programs for our nation's veterans. DOD net costs of $1.0 trillion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $303.7 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our nation's financial system, and effectively managing the U.S. government's finances and resources. USDA net costs of $226.3 billion support a wide range of programs that provide effective, innovative, science-based public policy leadership in agriculture, food and nutrition, natural resource protection and management, rural development, and related issues with a commitment to deliver equitable and climate-smart opportunities that inspire and help America thrive.

Tax and Other Revenues

As noted earlier, tax and other revenues from the Statement of Operations and Changes in Net Position are deducted from total net cost to derive the government's "bottom line" net operating cost. Chart 4 shows that total tax and other revenue decreased by $460.3 billion or 9.3 percent to $4.5 trillion for FY 2023. This decrease is attributable mainly to an overall decline in income tax collections, primarily from individuals and corporations, coupled with decreased deposits of earnings from the Federal Reserve due to increased interest rates. Earned revenues from Table 3 are not considered "taxes and other revenue" and, thus, are not shown in Chart 4. Individual income tax and tax withholdings and corporate income taxes accounted for about 83.1 percent and 8.2 percent of total revenue, respectively in FY 2023; other revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.



As previously shown in Table 3, the decrease in tax and other revenue was more than offset by the decrease in net cost, yielding a $753.8 billion decrease to the government's bottom line net operating cost to $3.4 trillion for FY 2023.

Tax Expenditures

Tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, deductions, tax credits, preferential tax rates, and tax deferrals that allow individuals and businesses to reduce taxes they may otherwise owe. Tax expenditures may be viewed as alternatives to other policy instruments, such as spending or regulatory programs. For example, the government supports college attendance through both spending programs and tax expenditures. The government uses Pell Grants to help low- and moderate-income students afford college and allows certain funds used to meet college expenses to grow tax free in special college savings accounts. Tax expenditures may include deductions and exclusions which reduce the amount of income subject to tax (e.g., deductions for personal residence mortgage interest). Tax credits, which reduce tax liability dollar for dollar for the amount of credit (e.g., child tax credit), are also considered tax expenditures. Tax expenditures may also allow taxpayers to defer tax liability.

Receipts in the calculation of surplus or deficit, and tax revenues in the calculation of net position, reflect the effect of tax expenditures. As discussed in more detail in the Other Information section of this *Financial Report*, tax expenditures will generally lower federal government receipts although tax expenditure estimates do not necessarily equal the increase in federal revenues (or the change in the *Budget* balance) that would result from repealing these special provisions.

Tax expenditures are reported annually in the Analytical Perspectives of the *Budget*. In addition, current and past tax expenditure estimates and descriptions can be found at the following location from Treasury's Office of Tax Policy: https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

Assets and Liabilities

The government's net position at the end of the fiscal year is derived by netting the government's assets against its liabilities, as presented in the Balance Sheet (summarized in Table 4).[12] The Balance Sheet does not include the financial value of the government's sovereign powers to tax, regulate commerce, or set monetary policy or value of nonoperational resources of the government, such as national and natural resources, for which the government is a steward. In addition, as is the case with the Statement of Operations and Changes in Net Position, the Balance Sheet includes a separate presentation of the portion of net position related to funds from dedicated collections. Moreover, the government's exposures are broader than the liabilities presented on the Balance Sheet. The government's future social insurance exposures (e.g., Medicare and Social Security) as well as other fiscal projections, commitments and contingencies, are reported in separate statements and disclosures. This information is discussed later in this MD&A section, the financial statements, and RSI sections of this *Financial Report*.

[12] As shown in Table 4, the government's Balance Sheet includes an adjustment for unmatched transactions and balances, which represent unresolved differences in intra-governmental activity and balances between federal entities. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

Table 4: Assets and Liabilities				
Dollars in Billions	**2023**	**2022**	**Increase / (Decrease) $**	**%**
Assets				
Cash & Other Monetary Assets	$ 922.2	$ 877.8	$ 44.4	5.1%
Inventory and Related Property, Net	$ 423.0	$ 406.9	$ 16.1	4.0%
Loans Receivable, Net	$ 1,695.1	$ 1,434.1	$ 261.0	18.2%
General Property, Plant & Equipment, Net	$ 1,235.0	$ 1,197.5	$ 37.5	3.1%
Other	$ 1,143.8	$ 1,046.1	$ 97.7	9.3%
Total Assets	**$ 5,419.1**	**$ 4,962.4**	**$ 456.7**	**9.2%**
Less: Liabilities, comprised of:				
Federal Debt and Interest Payable	$(26,347.7)	$(24,328.0)	$ 2,019.7	8.3%
Federal Employee & Veteran Benefits Payable	$(14,327.4)	$(12,811.9)	$ 1,515.5	11.8%
Other	$ (2,223.2)	$ (1,882.4)	$ 340.8	18.1%
Total Liabilities	**$(42,898.3)**	**$(39,022.3)**	**$ 3,876.0**	**9.9%**
Unmatched Transactions and Balances[1]	**$ -**	**$ (1.3)**	**$ (1.3)**	**(100.0%)**
Net Position	**$(37,479.2)**	**$(34,061.2)**	**$ 3,418.0**	**10.0%**

[1] Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences.

Assets

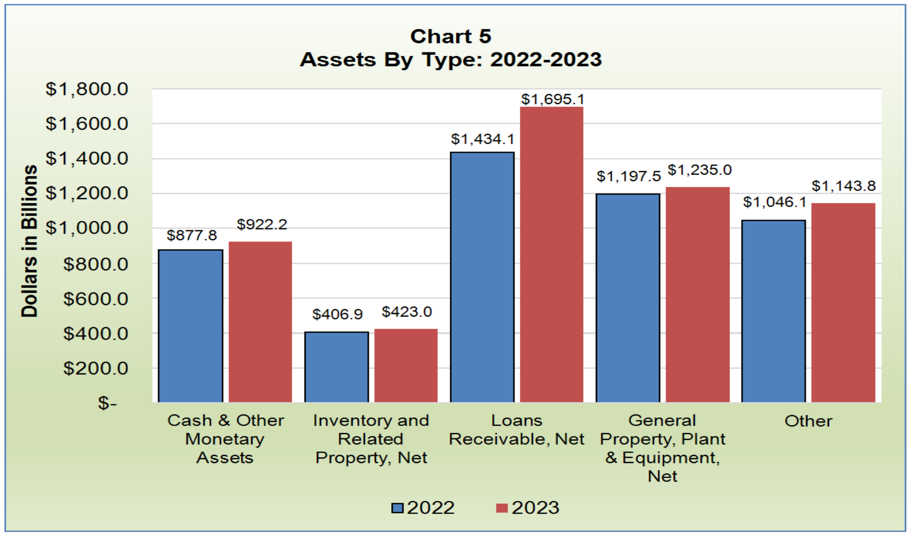
From Table 4, as of September 30, 2023, more than three-fourths of the government's $5.4 trillion in reported assets is comprised of: 1) cash and other monetary assets ($922.2 billion); 2) inventory and related property, net ($423.0 billion); 3) loans receivable, net ($1.7 trillion); and 4) net PP&E ($1.2 trillion).[13] Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2023, and 2022.

Cash and other monetary assets ($922.2 billion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury, which represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments and other payments, increased $21.9 billion (3.5 percent) to $638.9 billion (see Note 2—Cash and Other Monetary Assets).

Inventory and related property is comprised of inventory; OM&S; stockpile materials; commodities; and seized, forfeited, and foreclosed property. Inventory is tangible personal property that is either held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee (e.g., raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels). OM&S consists of tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, and tactical missiles). Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies. Contributing agencies include DOD, DOE, Treasury, DHS, and HHS (see Note 5—Inventory and Related Property, Net).

[13] For financial reporting purposes, other than multi-use heritage assets, stewardship assets of the government are not recorded as part of PP&E. Stewardship assets are comprised of stewardship land and heritage assets. Stewardship land primarily consists of public domain land (e.g., national parks, wildlife refuges). Heritage assets include national monuments and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. See Note 26—Stewardship Property, Plant, and Equipment.

The federal government's direct loans and loan guarantee programs are used to promote the nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. For example, Education supports individuals engaged in education programs through a variety of student loan, grant and other assistance programs. USDA administers loan programs to support the nation's farming and agriculture community. HUD loan programs support affordable homeownership, as well as the construction and rehabilitation of housing projects for the elderly and persons with disabilities. SBA loan programs enable the establishment and vitality of small businesses and assist in the economic recovery of communities after disasters. Loans receivable consists primarily of direct loans disbursed by the government, receivables related to guaranteed loans that have defaulted, and certain receivables for guaranteed loans that the government has purchased from lenders. The federal government's direct loan portfolio increased by $261.0 billion (18.2 percent) to $1.7 trillion during FY 2023, with Education and SBA together accounting for more than three-fourths of the total.



Loan guarantee programs are another form of federal lending. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. Significant changes to the federal government's loans receivable, net, and loan guarantee liabilities, as discussed in Note 4, include:

- Education has loan programs that are authorized by Title IV of the *Higher Education Act of 1965*. The William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), was established in FY 1994 and offers four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. Education's net loans receivable for its Direct Loan Program increased from $816.6 billion to $1.0 trillion (60.8 percent of total loans receivable, net). This increase was largely due to the reversal of the broad-based student loan debt relief as a result of the Supreme Court's ruling in Biden v. Nebraska. Education had announced the broad-based relief during FY 2022 to address the financial harms of the pandemic by smoothing the transition back to repayment and helping borrowers at highest risk of delinquencies or default once payments resumed. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted.
- Treasury purchased a $50 billion note issued by a trust created by FDIC in its receivership capacity and backed by a guarantee from the FDIC in its corporate capacity.
- SBA makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters. SBA's Disaster Assistance Loan Program makes direct loans to disaster survivors under four categories: 1) physical disaster loans to repair or replace damaged homes and personal property; 2) physical disaster loans to businesses of any size; 3) EIDLs to eligible small business and nonprofit organizations without credit available elsewhere; and 4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. In FY 2023 SBA's credit program receivables decreased by $49.6 billion from FY 2022 due largely to write-offs of direct disaster loans.
- Fluctuations in loan programs for HUD, DOT, and DFC.

Federal government general PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general-purpose land. DOD comprises approximately 67.4 percent of the government's reported general PP&E of $1.2 trillion as of September 30, 2023. See Note 6—General Property, Plant, and Equipment, Net.

"Other" assets of $1.1 trillion in Table 4 and Chart 5 includes: 1) $319.9 billion in accounts receivable, net; 2) $252.7 billion in "Advances and Prepayments"; and 3) $240.4 billion in investments in GSEs. Treasury comprises approximately 57.7 percent of the government's reported accounts receivable, net, mostly in the form of reported taxes receivable, which consist of unpaid assessments due from taxpayers, unpaid taxes related to IRC section 965, and deferred payments for employer's share of FICA taxes pursuant to the CARES Act. Taxes receivable, net, decreased by $55.0 billion during FY