



Understanding the Financial Report of the United States Government



Preface

Reliable, useful, and timely financial and performance information is needed to make sound decisions on the current results and future direction of vital federal programs and policies. The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, annually prepares the *Financial Report of the United States Government*, hereafter referred to as the Financial Report. The Financial Report is intended for use by all interested parties, including Members of Congress, federal executives, and federal program managers, as well as by citizens and others such as members of the news media, who may analyze and interpret the Financial Report's more complex and detailed information for the general public.

The goal of the Financial Report, and the subject of this guide, is to provide a comprehensive overview of the federal government's finances. As described in the Financial Report, significant issues regarding the reliability and presentation of the federal government's financial information still need to be addressed. For example, several long-standing material weaknesses, significant uncertainties, and other scope limitations have prevented GAO from being able to express an opinion on the federal government's consolidated financial statements. The Financial Report offers certain valuable insights into the overall financial operations, condition, position, and financial outlook of the federal government.

GAO prepared this guide to the Financial Report to help those who seek to gain a baseline understanding of the significant information provided in the primary components that make up the Financial Report, especially the consolidated financial statements. This guide explains the purpose of each Financial Report component and provides illustrative financial information to focus readers on the kinds of significant information found in the various parts of the Financial Report. Because the illustrative financial information in this guide minimizes detail in order to highlight significant line items, it does not display or explain all of the items included in the Financial Report.

GAO is updating this guide, last issued in 2009, consistent with the changes to the Financial Report, which primarily result from federal accounting standards implemented after fiscal year 2008. Significant changes to the Financial Report since the previous guide are as follows:

- The Statement of Changes in Social Insurance Amounts, added to the Financial Report in 2011, presents information on the changes in social insurance programs between valuation periods. For example, it details changes caused by factors such as changes in economic data, assumptions, and policy.
- Starting in fiscal year 2011, an additional column was added to the Statement of Net Cost to display, separately from all other costs, the gains and losses from changes in long-term assumptions used to estimate certain liabilities associated with pensions, other retirement benefits, and other postemployment benefits.
- The Statement of Long-Term Fiscal Projections, added to the Financial Report in 2015, displays the present value of 75-year projections by major category of future receipts and spending (other than interest) of the entire federal government.
- Starting in fiscal year 2015, to help facilitate understandability, the Financial Report's consolidated financial statements were categorized as accrual-based consolidated financial

statements and sustainability financial statements based on the nature of the financial statements.

The annual financial reports of the U.S. government are available through GAO's website at <https://www.gao.gov/financial.html>.

This guide was prepared under my direction, and I may be reached at (202) 512-3406 or simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this guide.

A handwritten signature in black ink that reads "Dawn Simpson". The signature is written in a cursive, flowing style.

Dawn B. Simpson
Director
Financial Management and Assurance

Preface	i
The Financial Report	1
Sections of the Financial Report	3
Executive Summary	4
Management’s Discussion and Analysis	5
Financial Statements	7
Composition of the Financial Statements	9
Statement of Net Cost	11
Statement of Operations and Changes in Net Position	13
Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)	17
Statement of Changes in Cash Balance from Budget and Other Activities	19
Balance Sheet	21
Statement of Long-Term Fiscal Projections	24
Statement of Social Insurance	26
Statement of Changes in Social Insurance Amounts	28
Notes to the Financial Statements	30
Required Supplementary Information (Unaudited)	35
Other Information (Unaudited)	37
Required Supplementary Stewardship Information (Unaudited)	38
Government Accountability Office Report	39
How the Federal Government’s Accrual-Based Consolidated Financial Statements Relate to One Another	41
How the Federal Government’s Sustainability Financial Statements Relate to One Another	43
Figures	
What are the interrelationships between the accrual-based consolidated financial statements of the U.S. government?	42
What are the interrelationships between the sustainability financial statements of the U.S. government?	45

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The Financial Report

Similar to a corporation's annual report, the *Financial Report of the United States Government* (Financial Report) is the federal government's general-purpose report that is intended to provide accountability on its finances. Specifically, the Financial Report does the following:

- Provides an overall view of the annual financial results of operations, condition, and position of the federal government, including the federal government's fiscal sustainability. For example,
 - the Statement of Net Cost provides information about the annual costs associated with the federal government's operations;
 - the Statement of Operations and Changes in Net Position provides information concerning the money the federal government raises through taxes and, after deducting net cost, the federal government's "bottom line" net operating revenue or cost;
 - the Balance Sheet provides information about the federal government's financial position and condition, such as what it owns (assets) and what it owes (liabilities), as of the end of the fiscal year; and
 - the Statement of Long-Term Fiscal Projections and the Statement of Social Insurance provide information about the federal government's financial condition and fiscal sustainability and where the federal government is headed, including projections of future receipts and spending.
- Provides information concerning the money the federal government raises through taxes.
- Reports on the federal government's operating performance, accounting systems, and internal control.
- Assists report users in assessing the federal government's stewardship over its resources.

The consolidated financial statements in the Financial Report, prepared by the Secretary of the Treasury in coordination with the Director of the Office of Management and Budget, present consolidated and summarized financial information from the various federal government agencies and departments (federal entities). This includes financial information from the executive, legislative, and judicial branches of the federal government. Management of the federal government is responsible for

- preparing the annual consolidated financial statements in accordance with U.S. generally accepted accounting principles;
- establishing, maintaining, and evaluating internal control over financial reporting to provide reasonable assurance that the control objectives of the Federal Managers' Financial Integrity Act, 31 U.S.C. 3512 (c), (d), are met; and
- complying with applicable laws, regulations, contracts, and grant agreements.

The Federal Accounting Standards Advisory Board (FASAB), after considering the financial information needs of citizens, congressional oversight groups, executive agencies, and other users, promulgates the accounting standards essential for public accountability over federal dollars, which are the basis for U.S. generally accepted accounting principles.

GAO conducts the audit of the consolidated financial statements. The objectives of GAO's audit are to

- express opinions on the fair presentation of the accrual-based consolidated financial statements and the sustainability financial statements (both of which include the related notes to those statements);
- report any material weaknesses or significant deficiencies in internal control over financial reporting that come to GAO's attention as a result of its audit; and
- report on compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that are tested.

Sections
of the
Financial
Report

Sections of the Financial Report

The Financial Report is organized into eight major sections.

Executive Summary highlights significant information found in the Financial Report.

Executive
Summary

Management's Discussion and Analysis provides management's insights into the information presented in the federal government's consolidated financial statements.

Management's
Discussion and
Analysis

Financial Statements present consolidated financial information that includes all federal entities and fiscal sustainability information, providing an overall view of the federal government's financial operations, condition, and position.

Financial
Statements

Notes to the Financial Statements provide important disclosures and details related to information reported on the federal government's consolidated financial statements.

Required Supplementary Information provides additional information on important topics, such as fiscal sustainability and social insurance, to enhance the understanding of the federal government's financial operations, condition, and position.

Other Information provides additional information on important topics such as the tax burden and the tax gap to supplement a user's understanding of the federal government's financial operations, condition, and position.

Notes to the
Financial
Statements

Required Supplementary Stewardship Information highlights substantial federal investments that have long-term benefits to the public, including programs related to nonfederal physical property, human capital, and research and development.

Required
Supplementary
Information

Government Accountability Office Report presents the results of GAO's audit of the federal government's consolidated financial statements and notes to the financial statements.

This guide discusses the significant content of each section of the Financial Report, with a primary emphasis on the federal government's consolidated financial statements.

Other
Information

Required
Supplementary
Stewardship
Information

Government
Accountability
Office Report

**Sections
of the
Financial
Report**

Executive
Summary

Management's
Discussion and
Analysis

Financial
Statements

Notes to the
Financial
Statements

Required
Supplementary
Information

Other
Information

Required
Supplementary
Stewardship
Information

Government
Accountability
Office Report

Executive Summary

The purpose of the Executive Summary is to provide a high-level overview of significant information found in the Financial Report. It summarizes the federal government's current financial operations, condition, and position, and discusses key financial topics, including fiscal sustainability. It includes information on the following.

The Nation by the Numbers

This section provides a "snapshot" of key financial information, such as the federal government's financial operations, condition, and position.

Where We Are Now

This section provides information on the current and prior years' results of operations and on the year-end financial condition and position of the federal government, including the following:

- The budget results (i.e., budget receipts less budget outlays) are presented in comparison to the accrual-based results of operations (i.e., revenues less costs).
- The federal government's costs and revenues (what went out and what came in) and the resulting "bottom line"—net operating revenue or cost.
- The federal government's assets and liabilities (what it owns and owes).

Where We Are Headed

This section provides a perspective to help citizens assess the financial condition of the federal government, including the following:

- Information about projections of receipts and spending, both spending on programs and spending on interest, as well as its effect on the federal government's debt.
- Information about the "fiscal gap," which represents the estimated magnitude of fiscal reforms—a combination of non-interest spending reductions and receipts increases—needed to achieve a sustainable fiscal policy. A sustainable fiscal policy is one where the ratio of federal debt held by the public to gross domestic product (GDP), which is the value of all goods and services produced in the United States in a given year, is ultimately stable or declining in the long term.
- Information on the effect of delaying fiscal policy reforms.

Sections
of the
Financial
Report

Executive
Summary

Management's
Discussion and
Analysis

Financial
Statements

Notes to the
Financial
Statements

Required
Supplementary
Information

Other
Information

Required
Supplementary
Stewardship
Information

Government
Accountability
Office Report

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) section of the Financial Report provides important insights into the information presented in the federal government's consolidated financial statements. It presents management's perspective on the financial information and overall operations of the federal government in more detail than the Executive Summary. It also discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability.

The MD&A is intended to provide readers with a narrative overview and analysis of the federal government's financial performance, operations, condition, and position. It is also intended to provide information about the results of agency audits, systems, controls, and legal compliance and about financial management progress and priorities.

The MD&A includes information on the following.

Financial Statement Audit Results

- Indicates the type of opinion issued by GAO.
- Summarizes the audit results of the 24 agencies that are required to issue audited financial statements under the Chief Financial Officers (CFO) Act.

Accounting Differences between the Budget and the Financial Report

- Discusses the key accounting differences between the budget and the Financial Report.
- Discusses the primarily cash basis of accounting used to prepare the budget as compared to the primarily accrual basis of accounting used to prepare the Financial Report.
- Details the more significant reasons for differences between the Net Operating Revenue (or Cost) and the Budget Surplus (or Deficit).

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

- Provides important information on the current and recent fiscal years, such as the federal government's revenues and costs, or "what came in and what went out," and the federal government's assets and liabilities, or "what we own and what we owe," by major components.
- Discusses the federal government's financial position (assets minus liabilities) at the end of the current and recent fiscal years, and how the financial position changed during the current fiscal year.

The Long-Term Fiscal Outlook: "Where We Are Headed"

- Discusses fiscal sustainability to help citizens understand current fiscal policy and the importance and estimated magnitude of policy reforms necessary to make the federal government's fiscal policy sustainable.

- Discusses the implications for the changes in debt as a share of GDP and the projections of the federal government's debt-to-GDP ratio.
- Explains the fiscal gap by providing information about projections if current policy is left unchanged; estimates of the cost of delaying policy reform; and the estimated combination of non-interest spending reductions and receipts increases needed to achieve fiscal sustainability.
- Provides a focused perspective of the federal government's social insurance programs and its long-term estimated exposures and costs for those programs in excess of future revenues.

Agency Audit Results, Systems, Controls, and Legal Compliance

- Details the audit results of the 24 agencies that are required to issue audited financial statements under the CFO Act.
- Provides information on agency financial management systems, internal controls, and compliance with laws and regulations relating to financial reporting.

Financial Management Progress and Priorities

- Describes the federal government's important improvement initiatives, including
 - improving the quality, utility, and transparency of federal financial information and
 - improving program efficiency, such as payment integrity and grant management oversight.

Sections
of the
Financial
Report

Executive
Summary

Management's
Discussion and
Analysis

Financial
Statements

Notes to the
Financial
Statements

Required
Supplementary
Information

Other
Information

Required
Supplementary
Stewardship
Information

Government
Accountability
Office Report

Financial Statements

The federal government's consolidated financial statements consist of five financial statements collectively referred to as the accrual-based consolidated financial statements, and three additional financial statements collectively referred to as the sustainability financial statements.

- The accrual-based consolidated financial statements are
 - Statement of Net Cost,
 - Statement of Operations and Changes in Net Position,
 - Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit),
 - Statement of Changes in Cash Balance from Budget and Other Activities, and
 - Balance Sheet.
- The sustainability financial statements are
 - Statement of Long-Term Fiscal Projections,
 - Statement of Social Insurance, and
 - Statement of Changes in Social Insurance Amounts.

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. The interrelationships between the accrual-based consolidated financial statements, as well as the interrelationships between the sustainability financial statements, are discussed later in this guide.

Some Important Financial Statement Concepts

Before considering the purpose and content of each of the federal government's consolidated financial statements, it is important to understand certain concepts about the nature of those financial statements, especially (1) the basis of accounting (either accrual basis or budget basis) and (2) the treatment of transactions between federal entities.

Basis of Accounting

The Financial Report's accrual-based consolidated financial statements are generally prepared on the accrual basis of accounting; however, two of those statements, the Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit) and the Statement of Changes in Cash Balance from Budget and Other Activities, report the budget surplus or deficit. Understanding the basic concepts of the accrual basis and budget basis of accounting, which are described below, is important to understanding the information included in the federal government's consolidated financial statements.

Accrual Basis of Accounting

The accrual basis of accounting recognizes revenue when it is earned and recognizes expenses in the period incurred, without regard to when cash is received or disbursed. The

federal government, which receives most of its revenue from taxes, nevertheless recognizes tax revenue when it is collected, under an accepted modified cash basis of accounting.

Expenses are recognized during the period in which they are incurred. Accrual accounting, for example, recognizes that while the employee is working, the employee earns not only a salary but also health, pension, and other benefits that will be paid in the future during the employee's retirement. Accordingly, each year, on the basis of actuarial calculations of benefits earned, the federal government records as a cost an estimated amount for these earned benefits and increases the related liability—Federal Employee and Veteran Benefits Payable—for the amounts owed to its employees, both civilian and military.

Thus, the accrual basis of accounting provides a more complete financial picture, for the Financial Report reader, of the federal government's annual employee-related costs. Also, under accrual accounting, the federal government reports physical assets when they are acquired and records related expenses when the federal government benefits from their use or consumption. Physical assets consist of inventories of goods held for sale or for future consumption and long-lived assets, such as land, buildings, and equipment. In the case of assets such as buildings and equipment, the annual cost attributed to their use is recorded as depreciation expense.

Budget Basis of Accounting

Because it is similar to keeping a checkbook, the budget basis of accounting (used to account for and report the budget results) is perhaps the easier of the two bases of accounting to understand. The budget basis focus is on cash receipts and cash disbursements, and the difference between the two amounts. With relatively few exceptions, such as interest on debt held by the public and most loans and loan guarantee-related transactions, receipts are recorded when cash is received and outlays are recorded when cash is disbursed. The difference between receipts and outlays at the end of the fiscal year is reported as the annual budget surplus or budget deficit.

The sustainability financial statements represent mainly the present value of estimated future cash receipts and estimated future cash disbursements.

Treatment of Transactions between Federal Entities

In the normal course of federal government operations, federal entities frequently purchase and sell goods and services among themselves. These types of activities between federal entities are called intragovernmental transactions. They also include amounts the federal government borrows from federal government accounts, such as the Social Security and Medicare trust funds, to finance current operations of the rest of the federal government. In effect, these intragovernmental borrowings represent loans from one part of the federal government to another and reduce the current need for the federal government to borrow from the public. Intragovernmental transactions are recorded in federal entities' accounts and financial statements along with transactions conducted with nonfederal entities. By accounting convention, these intragovernmental transactions are eliminated in the consolidation process.

Financial Statements

Statement of Net Cost

Statement of Operations and Changes in Net Position

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

Statement of Changes in Cash Balance from Budget and Other Activities

Balance Sheet

Statement of Long-Term Fiscal Projections

Statement of Social Insurance

Statement of Changes in Social Insurance Amounts

Composition of the Financial Statements

The federal government's consolidated financial statements include eight statements. The first five financial statements (accrual-based consolidated financial statements) present two years of financial data so that readers can compare the federal government's financial information for the current and prior years. The last three financial statements (sustainability financial statements) relate to 75-year projections for the entire federal government, as well as social insurance programs. The sequence outlined below is the order in which the financial statements appear in the Financial Report.

Accrual-Based Consolidated Financial Statements

- The **Statement of Net Cost** shows the annual costs on the accrual basis of accounting, to operate the federal government in total and by major department and agency.
- The **Statement of Operations and Changes in Net Position** shows the accrual-based results of the federal government's operations—the extent to which the federal government's tax revenue covers its net cost. It also shows how these annual results (called the net operating revenue or net operating cost) affect the federal government's net financial position as of a given date—the difference between its assets (what it owns) and its liabilities (what it owes).
- The **Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)** shows the relationship between the accrual-based operating results and the primarily cash-based budget results. It begins with the net operating result from the Statement of Operations and Changes in Net Position and shows the items that explain the difference between that amount and the federal government's annual budget surplus or deficit.
- The **Statement of Changes in Cash Balance from Budget and Other Activities** shows the relationship between the budget surplus or deficit and the change in the balance of cash and other monetary assets. It begins with the budget surplus or deficit, broken out by budget receipts and budget outlays, and shows the items that explain (1) either how the federal government used a budget surplus or financed a budget deficit and (2) why the budget surplus or deficit normally would not result in an equivalent change in the balance of cash and other monetary assets.
- The **Balance Sheet** shows the nature and amount of the federal government's assets (what it owns) and liabilities (what it owes) and the difference between the two, called the net position. This net position amount is the same as the net position amount reported on the Statement of Operations and Changes in Net Position.

Sustainability Financial Statements

- The **Statement of Long-Term Fiscal Projections** is intended to assist readers in assessing the financial condition of the federal government and how the federal government's financial condition has changed (improved or deteriorated) during the year and may change in the future. It displays 75-year projections by major category of the federal government's receipts and non-interest spending, as well as the fiscal gap. The fiscal gap measures how much spending reductions, revenue increases, or a combination of both are needed to achieve a debt-to-GDP ratio that is stable or

declining. This statement is also intended to assist readers in assessing whether future budget resources of the federal government will likely be sufficient to sustain public services and to meet obligations as they come due, assuming that current policy for federal government public services and taxation is continued without change.

- The **Statement of Social Insurance** provides estimates of the status of the most significant social insurance programs, almost entirely Social Security and Medicare. It displays 75-year projections by major social insurance program. Specifically, the statement illustrates the relationship between the estimated receipts and expenditures of those programs.
- The **Statement of Changes in Social Insurance Amounts** details the reasons for the change, by social insurance program, between the current valuation period and the prior valuation period, including changes in factors such as (1) demographic data, assumptions, and methods; (2) policy; and (3) economic and other health care assumptions.

The following sections discuss each of these eight statements in detail and offer insights regarding potential uses and analytical data available from each.

Financial Statements

Statement of Net Cost

Statement of Operations and Changes in Net Position

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

Statement of Changes in Cash Balance from Budget and Other Activities

Balance Sheet

Statement of Long-Term Fiscal Projections

Statement of Social Insurance

Statement of Changes in Social Insurance Amounts

Statement of Net Cost

The Statement of Net Cost is intended to show how much it costs to operate the federal government, by federal entity, and in total. The statement displays, for each significant federal entity, amounts for gross cost, earned revenue, any gains and losses recognized from changes in long-term assumptions used to measure certain liabilities, and the resulting net cost. It also displays interest on Treasury securities held by the public. It provides costs on an accrual basis of accounting, which recognizes expenses when they are incurred, regardless of when cash is disbursed. Thus, it provides, for the accounting period, cost information that can be related to the goods produced, services rendered, and the outcomes of the programs of the federal entities for the same period. An important concept of the Statement of Net Cost is that the revenue earned by federal entities from their operations, such as admissions to national parks and fees paid for postal services and stamps, is subtracted from their gross cost. The statement separately reports gains and losses from changes in long-term assumptions used to measure liabilities, such as civilian and military employee pensions and other retirement benefit liabilities. Federal entities that use actuarial projections in determining their costs and related liabilities can experience large fluctuations in annual costs because of program benefit changes and changes to actuarial assumptions.

Readers can use this statement to find such information as

- which federal entities accounted for most of the federal government’s net cost,
- how much the federal government’s net cost increased or decreased from the prior fiscal year,
- the amount of gains and losses that occurred from changes in long-term assumptions used to measure certain liabilities, and
- which federal entity experienced the largest change in net cost from the previous fiscal year.

Generally, over half of the federal government’s fiscal year net costs come from three federal entities: the Department of Health and Human Services (which administers Medicare and Medicaid), the Social Security Administration, and the Department of Defense.

Illustrative Net Cost Information

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services	\$1,187	\$101	\$1,086	\$-	\$1,086
Social Security Administration	999	-	999	-	999
Department of Defense	719	78	641	24	665
Department of Veterans Affairs	255	5	250	230	480
Interest on Treasury Securities Held by the Public	296	-	296	-	296
Office of Personnel Management	90	22	68	102	170
Department of the Treasury	180	38	142	-	142
Department of Agriculture	143	8	135	-	135
Department of Transportation	80	1	79	-	79
Department of Housing and Urban Development	71	2	69	-	69
Department of Homeland Security	77	12	65	-	65
U.S. Postal Service	72	69	3	-	3
All other entities	440	96	344	1	345
Total	\$4,609	\$432	\$4,177	\$357	\$4,534

Source: GAO. | GAO-18-239SP

Gross Cost is the accrual-based total cost of the federal government's operations for the year, including the cost of interest on Treasury securities held by the public. The gross cost excludes the (gain)/loss from changes in assumptions discussed below.

Earned Revenue comes from fees charged for goods and services. The fees charged for postal services, such as stamps, are a well-known example of earned revenue. Earned revenue shows how much the federal entities earn from their operations to cover their gross costs, as compared to relying on taxes and borrowing to cover the costs.

(Gain)/Loss from Changes in Assumptions is the gain or loss from changes in long-term assumptions used to measure certain liabilities, such as those reported for federal civilian and military pensions and other retirement benefits.

Net Cost is the portion of the gross cost left after subtracting earned revenue and taking into account any gain or loss from changes in assumptions. Generally, the federal government funds its net cost from tax revenue and, as needed, by borrowing.

Financial Statements

Statement of Operations and Changes in Net Position

Similar to corporations' income statements, the Statement of Operations and Changes in Net Position shows the annual financial results of federal operations (tax revenue less net cost) and how these results affect net position—the difference between its assets and liabilities.

Statement of Net Cost

Statement of Operations and Changes in Net Position

The Statement of Operations and Changes in Net Position shows activity for funds from dedicated collections and funds other than those from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, provided to the federal government by nonfederal sources, and often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and are accounted for separately from the rest of the federal government's operations. For example, the Federal Old-Age and Survivors Insurance and Federal Disability Insurance programs, collectively referred to as Social Security, are financed primarily through a payroll tax on employees and employers, including the self-employed. These programs provide a basic income supplement to retired workers, to survivors in the event of death of a family's primary wage earner, and to disabled workers for protection against the loss of earnings because of disability. Other major funds from dedicated collections include the Federal Hospital Insurance Trust Fund (Medicare Part A) and the Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D). The financial condition and operating results of each of these major funds can be found in the note disclosure for Funds from Dedicated Collections.

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

Statement of Changes in Cash Balance from Budget and Other Activities

Funds other than those from dedicated collections are financed by receipts not dedicated by law for specific purposes and by the proceeds of general borrowing. These funds finance the federal government activities that are not financed by funds from dedicated collections, and often are designated to supplement funds from dedicated collections through appropriations and transfers, called intragovernmental transfers, on the Statement of Operations and Changes in Net Position. For example, each year, Congress appropriates significant amounts that are transferred from the General Fund of the U.S. Government (General Fund) to finance the Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D).

Balance Sheet

Statement of Long-Term Fiscal Projections

The Department of the Treasury (Treasury) borrows cash surpluses from certain funds from dedicated collections to help finance federal government operations, and it issues Treasury securities to the funds for the amounts borrowed. Treasury pays interest to these funds on the amounts borrowed. Both the related interest expense incurred by Treasury and the revenue earned by these funds are shown on this statement and referred to as intragovernmental interest. By accounting convention, such intragovernmental transactions are eliminated in the consolidation process.

Statement of Social Insurance

Statement of Changes in Social Insurance Amounts

An important concept for this statement is the relationship between the results of operations and the changes in net position on the Balance Sheet. The annual financial results of federal operations should be directly reflected in net position. For example, a net operating cost of \$500 billion reduces the net position by \$500 billion. However, unresolved differences between the net operating revenue or cost and the changes in net position have been reported in the Statement of Operations and Changes in Net Position as unmatched transactions and balances, as shown in the Illustrative Information on Operations and Changes in Net Position section below.

Readers can use this statement to find such information as

- the annual net operating revenue or cost for funds other than those from dedicated collections, funds from dedicated collections, and the consolidated totals;
- how much tax revenue the federal government generated for funds other than those from dedicated collections and for funds from dedicated collections for the fiscal year;
- how much funds other than those from dedicated collections were used to supplement funds from dedicated collections; and
- whether the financial status of the federal government—its net position—has improved or deteriorated from the prior year.

Illustrative Information on Operations and Changes in Net Position

(In billions of dollars)	Funds other than those from Dedicated Collections (Combined)	Funds from Dedicated Collections (Combined)	Eliminations	Consolidated
Revenue:				
Individual income tax and tax withholdings	\$1,560	\$1,128	\$-	\$2,688
Corporation income taxes	299	-	-	299
Excise taxes	25	62	-	87
Other taxes, duties and receipts	216	84	-	300
Intragovernmental interest	-	100	(100)	-
Total Revenue	2,100	1,374	(100)	3,374
Net Cost of Government Operations:				
Net cost	2,886	1,648	-	4,534
Intragovernmental net cost	(8)	8	-	-
Intragovernmental interest	100	-	(100)	-
Total net cost	2,978	1,656	(100)	4,534
Intragovernmental transfers	(327)	327	-	-
Unmatched transactions and balances	3	-	-	3
Net operating (cost)/revenue	(1,202)	45	-	(1,157)
Net position, beginning of period	(22,671)	3,374	-	(19,297)
Prior period adjustments	37	1	-	38
Net operating (cost)/revenue	(1,202)	45	-	(1,157)
Net position, end of period	\$(23,836)	\$3,420	-	\$(20,416)

Source: GAO. | GAO-18-239SP

Funds other than those from Dedicated Collections (Combined) are financed by receipts not dedicated by law for a specific purpose and by the proceeds of general borrowing. These funds finance federal government activities that are not financed by funds from dedicated collections.

Funds from Dedicated Collections (Combined) are financed by specifically identified revenues, provided to the federal government by nonfederal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and are accounted for separately from the rest of the federal government's operations. Major funds from dedicated collections relate to Social Security and Medicare programs.

Eliminations represent the subtraction of intragovernmental interest revenue and cost.

Revenue primarily comes from federal income tax collections, including payroll taxes that are dedicated collections to mostly pay for Social Security and Medicare benefits.

Intragovernmental interest represents interest earned from the investment of surplus funds from dedicated collections, which finance the deficit spending of all other funds' nondedicated operations. This amount is eliminated in determining the consolidated net operating revenue or cost.

Total net cost, consolidated is the net cost from the Statement of Net Cost, net of intragovernmental interest.

Intragovernmental transfers supplement dedicated collections fund activities, generally through appropriations from the General Fund.

Unmatched transactions and balances are the unresolved differences between the net operating revenue (or cost) and the changes in net position.

Net operating (cost)/revenue is the financial results of operations—the difference between the revenue and the net cost of federal government operations for the fiscal year, plus or minus the net amount of any unmatched transactions and balances.

Net position is the difference between the assets and liabilities reported on the Balance Sheet.

**Financial
Statements**

Statement
of
Net Cost

Statement of
Operations and
Changes in
Net Position

**Reconciliation of
Net Operating
Revenue (or Cost)
and Budget
Surplus (or Deficit)**

Statement of
Changes in
Cash Balance
from Budget
and Other
Activities

Balance
Sheet

Statement of
Long-Term
Fiscal
Projections

Statement
of Social
Insurance

Statement
of Changes
in Social
Insurance
Amounts

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

This statement reconciles the results of operations (net operating revenue or cost) on the Statement of Operations and Changes in Net Position (accrual basis of accounting) to the budget surplus or deficit (budget basis of accounting). The statement reports activities where these two bases of accounting differ. One example of this is the way that the federal government accounts for its physical assets (e.g., property, equipment, and inventory). On the budget basis of accounting, the federal government records as a budget outlay the cost of the physical asset when the cash is disbursed. On the accrual basis of accounting, physical assets are generally capitalized (i.e., recorded as an asset on the balance sheet) when purchased, and depreciation expense (i.e., charges to operating cost) is recognized over the assets' estimated useful lives as the assets are used.

Readers can use this statement to find such information as

- major differences between the net operating revenue (or cost) and the budget surplus (or deficit),
- how much of the federal government's operating cost was attributable to the depreciation of its capitalized physical assets, and
- how much the federal government spent on acquiring capitalized physical assets.

Illustrative Information on the Reconciliation of Net Operating Cost and Budget Deficit

(In billions of dollars)	
Net operating cost	\$(1,157)
Components of net operating cost not part of the budget deficit	
Excess of accrual-basis expenses over budget outlays	
Federal employee and veteran benefits payable	491
Environmental and disposal liabilities	18
Property, plant, and equipment depreciation expense	34
Other	64
Subtotal	607
Components of the budget deficit that are not part of net operating cost	
Acquisition of capitalized assets	(79)
Other	(58)
Subtotal	(137)
Other	21
Budget deficit	\$(666)

Source: GAO. | GAO-18-239SP

Net operating cost comes from the Statement of Operations and Changes in Net Position. It primarily represents the difference between the federal government's tax revenue and expenses.

Components of net operating cost not part of the budget deficit are mostly current-year expenses under accrual accounting that do not involve current-year budget outlays. Increases in liabilities, such as employee and veteran benefits and depreciation expense, are recognized as current-year operating expenses under accrual accounting but are not in the budget deficit.

Components of the budget deficit that are not part of net operating cost consist mostly of current-year budget outlays for transactions that do not involve current-year expenses, such as outlays to purchase buildings and equipment that the federal government capitalizes (records on its Balance Sheet as assets) and depreciates (expenses) as they are used in operations. The outlays to purchase these assets increase the budget deficit but not the current net operating cost.

Budget deficit represents the difference between budget receipts (primarily cash receipts from taxes) and budget outlays (primarily cash disbursements) for the year for all programs.

**Financial
Statements**

Statement of Changes in Cash Balance from Budget and Other Activities

The primary purpose of this statement is to report how the annual budget surplus or deficit relates to the changes in the federal government's cash and other monetary assets as well as financing activities, such as borrowing from the public and repayment of debt held by the public. The statement shows the adjustments for noncash outlays included in the budget surplus or deficit and cash items not included in the budget surplus or deficit.

Readers can use this statement to identify

- amounts of budget receipts and budget outlays making up the budget surplus or deficit,
- how much cash the federal government spent to pay interest on debt held by the public,
- how much cash the federal government borrowed from the public, and
- how much cash the federal government used to make repayments of debt held by the public.

Statement
of
Net Cost

Statement of
Operations and
Changes in
Net Position

Reconciliation of
Net Operating
Revenue (or Cost)
and Budget
Surplus (or Deficit)

Statement of
Changes in
Cash Balance
from Budget
and Other
Activities

Balance
Sheet

Statement of
Long-Term
Fiscal
Projections

Statement
of Social
Insurance

Statement
of Changes
in Social
Insurance
Amounts

Illustrative Information on Changes in Cash Balance from Budget and Other Activities

(In billions of dollars)	
Cash flow from budget activities	
Total budget receipts	\$3,315
Total budget outlays	(3,981)
Budget deficit	(666)
Adjustments for non-cash outlays included in the budget	
Interest accrued on Treasury securities held by the public	279
Cash flow from activities not included in the budget	
Interest paid on Treasury securities held by the public	(242)
Credit-related transactions	(43)
Borrowing from the public	8,704
Repayment of debt held by the public	(8,226)
Other	(3)
Change in cash balance	(197)
Beginning cash balance	468
Ending cash balance	\$271

Source: GAO. | GAO-18-239SP

Interest on Treasury securities held by the public, unlike most other budget transactions, is recorded on an accounting basis other than a cash basis. To calculate the change in the balance of cash and other monetary assets, the budget results are adjusted to exclude interest accrued and to include only the cash paid for interest on Treasury securities held by the public.

Credit-related transactions, such as student loans and housing-related guarantees, are also recorded on an accounting basis other than a cash basis. Accordingly, this item is needed to reconcile the budget deficit to the cash balance.

Borrowing from the public and repayment of debt held by the public show the major financing activities. Net borrowings provide operating cash needed primarily to finance the budget deficit.

Financial Statements

Statement of Net Cost

Statement of Operations and Changes in Net Position

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

Statement of Changes in Cash Balance from Budget and Other Activities

Balance Sheet

Statement of Long-Term Fiscal Projections

Statement of Social Insurance

Statement of Changes in Social Insurance Amounts

Balance Sheet

The Balance Sheet shows an end-of-year view of the federal government’s overall financial condition and position—its assets (what it owns), its liabilities (what it owes), and the difference between the two (its net position). The information on the Balance Sheet presents a more comprehensive understanding of the federal government’s financial condition and position when it is combined with stewardship information (e.g., national parks and monuments), which is disclosed in the notes to the financial statements. The Balance Sheet does not include the value of the sovereign powers of the federal government to tax, regulate commerce, or set monetary policy. In addition, the federal government’s responsibilities are much broader than the liabilities reported on the Balance Sheet, including the commitments related to social insurance programs, such as Social Security and Medicare, and the impact of these programs over the long term. These resources and responsibilities are described in the Statement of Social Insurance, Notes to the Financial Statements, and the Required Supplementary Information sections of the Financial Report.

Readers can use this statement to find such information as

- the makeup of the federal government’s assets and liabilities,
- which assets and liabilities increased or decreased the most from the previous fiscal year,
- the amount of debt held by the public,
- the amount of benefits owed to civilian employees and military personnel, and
- whether the federal government has a positive net position—more assets than liabilities—or a negative net position—more liabilities than assets.

Illustrative Balance Sheet Information

(In billions of dollars)	
Assets:	
Cash and other monetary assets	\$271
Loans receivable, net	1,349
Inventories and related property, net	327
Property, plant and equipment, net	1,035
Other	499
Total assets	\$3,481
Stewardship land and heritage assets	
Liabilities:	
Federal debt securities held by the public and accrued interest	\$14,724
Federal employee and veteran benefits payable	7,700
Environmental and disposal liabilities	465
Other	1,008
Total liabilities	23,897
Contingencies and Commitments	
Net Position:	
Funds from Dedicated Collections	3,420
Funds other than those from Dedicated Collections	(23,836)
Total net position	(20,416)
Total liabilities and net position	\$3,481

Source: GAO. | GAO-18-239SP

Assets are the operational resources the federal government has available as of the end of the fiscal year. These include the following:

- **Cash and other monetary assets** include cash held by Treasury for government-wide operations and by other federal entities, as well as other monetary assets, such as gold, silver, and foreign currency.
- **Loans receivable, net** are primarily student loans, after subtracting an allowance to reduce the outstanding principal to the present value of the expected net cash flows.
- **Inventories and related property, net** include goods held for sale or future consumption and stockpiles of strategic and critical materials for defense, conservation, or national emergencies, after subtracting an allowance for losses.
- **Property, plant, and equipment, net** include land and buildings and the federal government's military equipment, such as ships, aircraft, and tanks, after subtracting accumulated depreciation.

Stewardship land and heritage assets are assets with no assigned financial value for which cost is often not determinable or relevant to their significance. Stewardship land is federally owned land, including national parks. Heritage assets include national monuments, such as the Washington Monument.

Liabilities are the financial responsibilities of the federal government as of the end of the fiscal year. These include the following:

- **Federal debt securities held by the public and accrued interest** include primarily Treasury securities, and accrued interest on them, held outside of the federal government by individuals, corporations, state and local governments, Federal Reserve Banks, foreign governments, and other entities.
- **Federal employee and veteran benefits payable** include the amount the federal government estimates that it owes or will owe its military and civilian employees and veterans under its life and health insurance and pension plans.
- **Environmental and disposal liabilities** include liabilities for cleanup and other costs for contaminated and hazardous sites.

Not all **Contingencies and Commitments** of the federal government require recognition as liabilities on the Balance Sheet. Loss contingencies that are assessed to be at least reasonably possible, and commitments that require the future use of resources, such as the value of goods and services ordered that have not yet been received, are disclosed in the notes to the financial statements.

Net Position is the difference between the federal government's assets and liabilities.

Financial Statements

Statement of Net Cost

Statement of Operations and Changes in Net Position

Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit)

Statement of Changes in Cash Balance from Budget and Other Activities

Balance Sheet

Statement of Long-Term Fiscal Projections

Statement of Social Insurance

Statement of Changes in Social Insurance Amounts

Statement of Long-Term Fiscal Projections

The Statement of Long-Term Fiscal Projections is intended to assist readers in assessing the financial condition of the federal government and how the federal government's long-term financial condition has changed (improved or deteriorated) during the year and may change in the future, assuming that current policy for federal government public services and taxation is continued without change. It displays the present value of 75-year projections by major category of the federal government's receipts and non-interest spending. Non-interest spending includes all federal spending except for interest spending on debt held by the public. These projections are presented both in terms of present value dollars and in terms of present value dollars as a percentage of present value GDP. The projections are based on policies currently in place and are neither forecasts nor predictions. These projections are generally consistent with the projections for Social Security and Medicare presented in the Statement of Social Insurance and are based on the same economic and demographic assumptions. Key information regarding the underlying assumptions for these projections can be found in the Notes to the Financial Statements and Required Supplementary Information sections of the Financial Report.

This statement also presents the fiscal gap, which measures how much spending reductions, revenue increases, or a combination of both are needed to achieve a sustainable fiscal policy. A sustainable fiscal policy is one where the ratio of federal debt held by the public to GDP is ultimately stable or declining.

Readers can use this statement to find such information as

- projected receipts, projected non-interest spending, and those amounts expressed as a percentage of projected GDP;
- whether total projected receipts are sufficient to cover total projected non-interest spending;
- changes in the present value of projected receipts and non-interest spending from the prior year; and
- the size and description of the fiscal gap.

**Illustrative Long-Term Fiscal Projections Information
Present Value of 75-Year Projections**

	In trillions of dollars	Percent of GDP
Receipts:		
Social Security Payroll Taxes	\$58.0	4.3%
Medicare Payroll Taxes	19.4	1.4%
Individual Income Taxes	141.9	10.5%
Other Receipts	49.1	3.7%
Total Receipts	268.4	19.9%
Non-interest spending:		
Social Security	78.7	5.8%
Medicare Part A	26.6	2.0%
Medicare Parts B & D	32.3	2.4%
Medicaid	32.1	2.4%
Other Mandatory	40.5	3.0%
Defense Discretionary	39.1	2.9%
Non-defense Discretionary	35.3	2.6%
Total Non-interest Spending	284.6	21.1%
Receipts less non-interest spending	\$(16.2)	(1.2%)
Fiscal gap		(2.0%)

Source: GAO. | GAO-18-239SP

Receipts represent the 75-year present value of receipts for the entire federal government, such as payroll taxes and individual income taxes.

Non-interest spending represents the 75-year present value of all non-interest spending of the federal government. This includes amounts from mandatory programs that are generally paid to all persons who qualify, such as persons receiving Social Security benefits, and from discretionary programs, which are specifically limited to the amounts authorized by law.

Fiscal gap measures how much spending reductions, revenue increases, or a combination of both are needed to achieve a sustainable fiscal policy.

**Financial
Statements**

Statement
of
Net Cost

Statement of
Operations and
Changes in
Net Position

Reconciliation of
Net Operating
Revenue (or Cost)
and Budget
Surplus (or Deficit)

Statement of
Changes in
Cash Balance
from Budget
and Other
Activities

Balance
Sheet

Statement of
Long-Term
Fiscal
Projections

**Statement
of Social
Insurance**

Statement
of Changes
in Social
Insurance
Amounts

Statement of Social Insurance

The Statement of Social Insurance illustrates the relationship between the estimated receipts and expenditures of social insurance programs (almost entirely Social Security and Medicare). The estimates presented in this statement are based on actuarial projections of persons who are or will be participants in these programs and are projected out 75 years. Assumptions are made about many economic and demographic factors, including GDP; earnings; the unemployment rate; the fertility rate; immigration; mortality; health care cost growth; and the Consumer Price Index (CPI), which is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Key information regarding the underlying assumptions for these projections can be found in the Notes to the Financial Statements and Required Supplementary Information sections of the Financial Report.

Readers can use this statement to find such information as

- the projected present value of the estimated future revenue and estimated future expenditures for each of the major social insurance programs;
- whether estimated future revenue will be sufficient to cover estimated future expenditures or each of the major social insurance programs; and
- how much the total present value of future revenue in excess of future expenditures or the total present value of future expenditures in excess of future revenue has changed from prior years.

**Illustrative Social Insurance Information
Present Value of 75-Year Actuarial Projections**

(In trillions of dollars)	
Federal Old-age, Survivors and Disability Insurance (Social Security):	
Revenue (Contributions and Dedicated Taxes)	\$62.1
Expenditures for Scheduled Future Benefits	(77.5)
Present value of future expenditures in excess of future revenue	(15.4)
Federal Hospital Insurance (Medicare Part A):	
Revenue (Contributions and Dedicated Taxes)	21.8
Expenditures for Scheduled Future Benefits	(25.3)
Present value of future expenditures in excess of future revenue	(3.5)
Federal Supplementary Medical Insurance (Medicare Part B):	
Revenue (Premiums)	8.4
Expenditures for Scheduled Future Benefits	(30.8)
Present value of future expenditures in excess of future revenue	(22.4)
Federal Supplementary Medical Insurance (Medicare Part D):	
Revenue (Premiums and State Transfers)	3.2
Expenditures for Scheduled Future Benefits	(10.8)
Present value of future expenditures in excess of future revenue	(7.6)
Other – Present value of future expenditures in excess of future revenue	(0.1)
Total	\$(49.0)

Source: GAO. | GAO-18-239SP

Social Security includes **Federal Old-Age and Survivors Insurance and Disability Insurance**. Both programs are primarily financed by a payroll tax on employees and employers, including the self-employed, and are administered by the Social Security Administration.

Federal Hospital Insurance (Medicare Part A) covers inpatient hospital and related care. It is financed primarily by a payroll tax on employees and employers, including the self-employed, and a portion of the income taxes paid on Social Security benefits. Federal Hospital Insurance is administered by the Department of Health and Human Services.

Federal Supplementary Medical Insurance, which also is administered by the Department of Health and Human Services, consists of two parts, called Medicare Part B and Medicare Part D. Medicare Part B covers hospital outpatient services, physicians’ services, and other assorted products and services. Medicare Part D covers the federal government’s prescription drug program. Both Part B and Part D are financed primarily by transfers from the General Fund, which by accounting convention are eliminated in the consolidation of the Statement of Social Insurance, and premiums from participants.

**Financial
Statements**

Statement
of
Net Cost

Statement of
Operations and
Changes in
Net Position

Reconciliation of
Net Operating
Revenue (or Cost)
and Budget
Surplus (or Deficit)

Statement of
Changes in
Cash Balance
from Budget
and Other
Activities

Balance
Sheet

Statement of
Long-Term
Fiscal
Projections

Statement
of Social
Insurance

Statement
of Changes
in Social
Insurance
Amounts

Statement of Changes in Social Insurance Amounts

The Statement of Changes in Social Insurance Amounts presents a reconciliation of the change (between the current valuation period and the prior valuation period) in the present value of estimated future revenue less estimated future expenditures for current and future participants over a 75-year period. This reconciliation identifies those components of the change that are significant and provides reasons for the changes. For example, the changes in present values shown for economic data, assumptions, and methods represent the additional effects of these new data, assumptions, and methods after considering the effects from demography and the change in the valuation period. Key information regarding the underlying assumptions for the changes in the net present value can be found in the Notes to the Financial Statements and Required Supplementary Information sections of the Financial Report.

Readers can use this statement to find such information as

- the reasons, such as demographic and economic factors, including GDP, CPI, the unemployment rate, the fertility rate, immigration, and mortality, for the changes in the net present value as compared to the prior year and
- whether the net present value increased or decreased from the previous valuation period.

Illustrative Information on Changes in Social Insurance Amounts

(In trillions of dollars)					
	Social Security	Medicare Part A	Medicare Parts B&D	Other	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants over the next 75 years, beginning of the year	\$(14.1)	\$(3.8)	\$(28.7)	\$(0.1)	\$(46.7)
Reasons for changes in the NPV during the year:					
Changes in valuation period	(0.6)	(0.1)	(1.2)	-	(1.9)
Changes in demographic data, assumptions, and methods	(0.1)	(0.1)	-	-	(0.2)
Changes in economic data, assumptions, and methods	(0.6)	-	-	-	(0.6)
Changes in law or policy	-	-	-	-	-
Changes in economic and other health care assumptions	-	0.2	(0.5)	-	(0.3)
Changes in projection base	-	0.3	0.4	-	0.7
Net change	(1.3)	0.3	(1.3)	-	(2.3)
End of year	\$(15.4)	\$(3.5)	\$(30.0)	\$(0.1)	\$(49.0)

Source: GAO. | GAO-18-239SP

The **beginning of the year** amount matches the prior year's end of year amount by program on the Statement of Social Insurance.

Net change represents the 75-year present value effect resulting from the different types of changes, which include the

- effect of changing the valuation period (for example, a prior 75-year valuation period could be years 2016 through 2090 changed to a current 75-year valuation period for years 2017 through 2091);
- changes in demographic assumptions, including birth rates and mortality data; and
- changes in economic assumptions, including inflation and GDP.

The **end of year** amount matches the end of year amount by program on the Statement of Social Insurance.

Notes to the Financial Statements

The notes to the financial statements are an important source of information about the financial operations and condition of the federal government. As stated on the bottom of each page of the statements, notes are considered an integral part of the financial statements. Moreover, most of the consolidated financial statements contain references to one or more notes. The following is an illustrative list of the types of notes to the federal government's consolidated financial statements, which provide important disclosures and details about the line items in the financial statements.

Illustrative List of Notes to the Financial Statements

- Note 1. Summary of Significant Accounting Policies
- Note 2. Cash and Other Monetary Assets
- Note 3. Accounts and Taxes Receivable, Net
- Note 4. Loans Receivable and Loan Guarantee Liabilities, Net
- Note 5. Inventories and Related Property, Net
- Note 6. Property, Plant, and Equipment, Net
- Note 7. Debt and Equity Securities
- Note 8. Investments in Government-Sponsored Enterprises
- Note 9. Other Assets
- Note 10. Accounts Payable
- Note 11. Federal Debt Securities Held by the Public and Accrued Interest
- Note 12. Federal Employee and Veteran Benefits Payable
- Note 13. Environmental and Disposal Liabilities
- Note 14. Benefits Due and Payable
- Note 15. Insurance and Guarantee Program Liabilities
- Note 16. Other Liabilities
- Note 17. Collections and Refunds of Federal Revenue
- Note 18. Contingencies
- Note 19. Commitments
- Note 20. Funds from Dedicated Collections
- Note 21. Fiduciary Activities
- Note 22. Social Insurance
- Note 23. Long-Term Fiscal Projections
- Note 24. Stewardship Land and Heritage Assets
- Note 25. Subsequent Events

Source: GAO. | GAO-18-239SP

The note disclosures below illustrate examples of information that are significant to the federal government.

Summary of Significant Accounting Policies

This is the first note in the Financial Report, and it summarizes the significant accounting policies used in accounting for and reporting on the federal government’s consolidated financial information.

Loans Receivable and Loan Guarantee Liabilities, Net

The federal government has two types of loan programs: direct loans and loan guarantees. Direct loans provided by the Department of Education’s (Education) Federal Direct Student Loans represent the largest direct loan program. Mortgage insurance provided by the Department of Housing and Urban Development’s Federal Housing Administration is the largest loan guarantee program. The table below is illustrative of note information for loans receivable.

Illustrative Note Information for Loans Receivable, Net

(In billions of dollars)	
Federal Direct Student Loans - Education	\$1,042
Federal Family Education Loans - Education	102
Electric Loans – USDA	46
Export-Import Bank Loans	20
All other programs	139
Total loans receivable, net	\$1,349

Source: GAO. | GAO-18-239SP

The note disclosure also includes a table that provides information on loan guarantees by major loan guarantee program, including information on the principal amount of loans under guarantee, the principal amount guaranteed by the U.S. government, and the corresponding loan guarantee liabilities.

Federal Debt Securities Held by the Public and Accrued Interest

Federal debt securities are held both outside the federal government (federal debt held by the public) and within the federal government (intragovernmental debt holdings). This note in the Financial Report provides information on the types of Treasury securities held by the public (e.g., bills, notes, and bonds) as well as average interest rates on these securities. The federal government also discloses in this note the amounts of intragovernmental debt holdings that represent the portion of the gross federal debt held as investments by federal government accounts, such as trust funds. For example, a large portion of the intragovernmental debt held by the Social Security Administration is for the Federal Old-Age and Survivors Insurance Trust Fund. The total intragovernmental debt holdings are eliminated in the consolidation of the federal government's financial statements because those debt holdings represent debt that the federal government owes to itself; only federal debt securities held by the public and accrued interest is shown as a line item on the Balance Sheet. It is important to note that when the intragovernmental securities are redeemed (for example, to pay Social Security benefits), the U.S. government will need to obtain the resources necessary to reimburse the trust funds. This note also provides information concerning the statutory debt limit, which is the debt limit established by statute and represents the total amount of Treasury debt obligations that could be outstanding at any one time. The table below is illustrative of note information for federal debt securities held by the public and accrued interest.

Illustrative Note Information for Federal Debt Securities Held by the Public and Accrued Interest

(In billions of dollars)	
Treasury securities (public):	
Marketable securities:	
Treasury bills	\$1,800
Treasury notes	8,799
Treasury bonds	1,948
Treasury inflation-protected securities	1,286
Treasury floating rate notes	343
Total marketable Treasury securities	14,176
Nonmarketable securities	497
Net unamortized premiums/(discounts)	(39)
Total Treasury securities, net (public)	14,634
Agency securities	24
Accrued interest payable	66
Total federal debt securities held by the public and accrued interest	\$14,724

Source: GAO. | GAO-18-239SP

Federal Employee and Veteran Benefits Payable

Federal Employee and Veteran Benefits Payable shows how much the federal government estimates it owes civilian and military employees in various categories of benefits. The full note also provides additional tables depicting the details of the changes in the pension and postretirement health benefits categories for both civilian and military employees and discusses the various categories. The table below is illustrative of note information for federal employee and veteran benefits payable.

Illustrative Note Information for Federal Employee and Veteran Benefits Payable

(In billions of dollars)	Civilian	Military	Total
Pension and accrued benefits	\$2,014	\$1,568	\$3,582
Veterans compensation and burial benefits	N/A	2,810	2,810
Post-retirement health and accrued benefits	376	781	1,157
Veterans education benefits	N/A	51	51
Life insurance and accrued benefits	53	7	60
Federal Employees' Compensation Act (FECA) benefits	29	8	37
Liability for other benefits	1	2	3
Total federal employee and veteran benefits payable	\$2,473	\$5,227	\$7,700

Source: GAO. | GAO-18-239SP

Social Insurance

This note in the Financial Report provides key information about the estimated projections over the next 75 years of the present value of the revenues and expenditures of the federal government's social insurance programs, almost entirely Social Security and Medicare.

The note disclosure includes

- a description of the social insurance programs, including how such programs are financed;
- a table that displays a 5-year comparison of Social Security and Medicare trust fund balances;
- tables that display for both Social Security and Medicare certain demographic and economic assumptions used for the most recent projections;
- an explanation of how current law and federal policies affect Social Security and Medicare; and
- a description of the reasons for the changes in the data, assumptions, and methods underlying the projections during the reporting period from the end of the previous reporting period.

Long-Term Fiscal Projections

This note in the Financial Report provides key information to readers about projections going out 75 years for receipts, such as individual income taxes and payroll taxes; expenditures for programs that are mandatory and set by formula, such as Social Security and Medicare; and discretionary programs where Congress sets spending through the federal budget.

The note disclosure includes

- a table that displays the components of changes from the prior year to the current year as a result of changes in the assumptions, data, and other factors underlying the 75-year projections;
- a description of the fiscal gap, which measures how much spending reductions, revenue increases, or a combination of both are needed to achieve a sustainable fiscal policy;
- a description of assumptions and factors underlying the methodology to estimate the 75-year projections; and
- an explanation of the differences between current law and the assumptions that underlie the 75-year projections.

Sections of the Financial Report

Executive Summary

Management's Discussion and Analysis

Financial Statements

Notes to the Financial Statements

Required Supplementary Information

Other Information

Required Supplementary Stewardship Information

Government Accountability Office Report

Required Supplementary Information (Unaudited)

This section is not part of the basic financial statements; however, FASAB considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Required supplementary information is intended to provide additional information to enhance the understanding of the federal government's operations or financial condition. Topics covered in this section consist of the sustainability of fiscal policy, social insurance, deferred maintenance and repairs, other claims for tax refunds, tax assessments, federal oil and gas resources, and federal natural resources other than oil and gas. The information in this section of the Financial Report is not required to be audited.

Readers can use this section to further understand the following:

The sustainability of fiscal policy, specifically,

- how estimated projections under current law and policy affect the primary surplus or deficit (difference between non-interest spending and receipts) and debt-to-GDP ratio;
- the effect of delay in closing the 75-year fiscal gap; and
- the sensitivity to changes in certain key assumptions because of inherent uncertainty in the long-term outlook for the
 - health care cost growth rate,
 - interest rates,
 - discretionary spending growth, and
 - individual income tax "bracket creep," which is the slow shift of individuals into higher tax brackets caused by real wage growth.

Social Insurance, specifically, the following:

- How Social Security and Medicare trust funds are financed, including the Hospital Insurance Trust Fund (Medicare Part A) and the Supplementary Medical Insurance Trust Fund (Medicare Part B and Part D), under current law. For example, the combined Social Security trust funds (Federal Old Age and Survivors Insurance Trust Fund and Federal Disability Insurance Trust Fund) are financed primarily through payroll taxes, and the disclosure indicates the trust funds' solvency. Similarly, Medicare Part A is used to pay for inpatient hospital stays, skilled nursing care, hospice services, and certain home health services. This trust fund is financed primarily through payroll taxes, and the disclosure indicates the trust fund's solvency. Actuarial projections of the solvency of these trust funds are updated annually.
- The sensitivity of changes in the assumptions used to determine estimated cash flow projections for these trust funds. For example, the Social Security trust funds use assumptions such as the changes in the average annual death rates, fertility rates, and net immigration to determine the present values of estimated future expenditures in excess of future revenue.

- The sustainability of Social Security and Medicare trust funds.

Other topics, such as

- the estimated cost of maintenance needed to bring property owned by the federal government to an acceptable condition, called deferred maintenance, and
- the estimated quantities and present value of future federal royalty receipts from leasing of, and production from, onshore and offshore federal oil and gas reserves.

Sections of the Financial Report

Executive Summary

Management's Discussion and Analysis

Financial Statements

Notes to the Financial Statements

Required Supplementary Information

Other Information

Required Supplementary Stewardship Information

Government Accountability Office Report

Other Information (Unaudited)

The Other Information section is not required by federal accounting standards, but is also intended to provide additional information to enhance the understanding of the federal government's operations or financial condition. Other information is financial and nonfinancial information that excludes required supplementary information. Topics covered in this section consist of tax burden, tax gap, and unmatched transactions and balances. The information in this section of the Financial Report is not required to be audited.

Readers can use this section to understand

- the amount of federal taxes paid (or tax burden) by individuals grouped by income level, and by corporations grouped by size of assets, and
- the size of the tax gap, which is the difference between what taxpayers should pay and what they actually pay on time and arises from three types of noncompliance:
 - not filing required tax returns on time or at all (the nonfiling gap),
 - underreporting the correct amount of tax on timely filed returns (the underreporting gap), and
 - not paying on time the full amount reported on timely filed returns (the underpayment gap).

The table below is illustrative of the tax burden of a tax year for individuals by income level.

Illustrative Other Information for Individual Income Tax Liability

Adjusted Gross Income (AGI)	Number of Taxable Returns (in thousands)	AGI (in millions of dollars)	Total Income Tax (in millions of dollars)	Average AGI Per Return (in whole dollars)	Average Income Tax Per Return (in whole dollars)	Income Tax as a Percentage of AGI
Under \$15,000	35,824	\$61,630	\$2,033	\$1,720	\$57	3.3%
\$15,000 under \$30,000	30,043	662,661	18,468	22,057	615	2.8%
\$30,000 under \$50,000	26,539	1,040,372	57,698	39,202	2,174	5.5%
\$50,000 under \$100,000	32,802	2,339,474	205,693	71,321	6,271	8.8%
\$100,000 under \$200,000	18,533	2,506,498	316,350	135,245	17,070	12.6%
\$200,000 under \$500,000	5,428	1,546,515	299,832	284,914	55,238	19.4%
\$500,000 or more	1,324	2,053,160	557,817	1,550,725	421,312	27.2%
Total	150,493	\$10,210,310	\$1,457,891			

Source: GAO. | GAO-18-239SP

**Sections
of the
Financial
Report**

Executive
Summary

Management's
Discussion and
Analysis

Financial
Statements

Notes to the
Financial
Statements

Required
Supplementary
Information

Other
Information

Required
Supplementary
Stewardship
Information

Government
Accountability
Office Report

Required Supplementary Stewardship Information (Unaudited)

This section is not part of the basic financial statements; however, FASAB considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Required supplementary stewardship information describes how much the federal government spent for programs that provide long-term benefits to the public, or stewardship investments. These programs include grants for construction and major renovation of state and local government property, such as bridges and roads, and grants for education and training. This section also describes the expenses the federal government has incurred in its basic and applied research and in development programs. The information in this section is not required to be audited.

Readers can use this section to find such information as

- how much the federal government spent on nonfederal physical property, such as state and local bridges and roads, and whether such spending has increased or decreased;
- how much the federal government spent on educating and training the public and whether such spending has increased or decreased; and
- how much the federal government spent on research and development, and whether such spending has increased or decreased.

The table below is illustrative of required supplementary stewardship information about the federal government's stewardship investments for a given fiscal year.

Illustrative Required Supplementary Stewardship Information for Stewardship Investments

(In billions of dollars)	
Investments in non-federal physical property	\$65
Investments in human capital	112
Research and development:	
Investments in basic research	36
Investments in applied research	33
Investments in development	68
Total investments	\$314

Source: GAO. | GAO-18-239SP

Sections of the Financial Report

Executive Summary

Management's Discussion and Analysis

Financial Statements

Notes to the Financial Statements

Required Supplementary Information

Other Information

Required Supplementary Stewardship Information

Government Accountability Office Report

Government Accountability Office Report

Audit reports are intended to tell readers whether the information provided in the financial statements is reliable. GAO conducts its audit of the consolidated financial statements in accordance with U.S. generally accepted government auditing standards and obtains and evaluates evidence, with the objective of expressing opinions on whether the accrual-based consolidated financial statements and the sustainability financial statements (both of which include the related notes to the statements) are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. The Executive Summary, MD&A, Required Supplementary Information, Other Information, and Required Supplementary Stewardship Information sections in the Financial Report are not required to be audited.

The auditor may express an unmodified opinion or a modified opinion. A modified opinion can be further categorized as a qualified opinion, an adverse opinion, or a disclaimer of opinion on the fairness of the financial statements taken as a whole. In an unmodified opinion, the auditor states that the information in the financial statements and accompanying notes is presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles. A modified opinion provides a description of the matter giving rise to the modification.

Generally, in a qualified opinion, the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements. In an adverse opinion, the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. A disclaimer of opinion results when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Since fiscal year 1997, GAO has disclaimed an opinion on the federal government's accrual-based consolidated financial statements. When GAO has disclaimed an opinion on the federal government's accrual-based consolidated financial statements, it has been primarily because of the effects of (1) serious financial management problems at the Department of Defense (DOD) that have prevented DOD's financial statements from being auditable, (2) the federal government's inability to adequately account for and reconcile intragovernmental activity and balances between federal entities, and (3) the federal government's ineffective process for preparing the consolidated financial statements.

For the sustainability financial statements, the opinions have varied. GAO issued an unmodified opinion on the 2009, 2008, and 2007 Statements of Social Insurance, the only sustainability financial statement existing under federal accounting standards at the time. However, after 2009, GAO has disclaimed an opinion on the Statement of Social Insurance because of the magnitude of certain significant uncertainties, which primarily relate to the achievement of projected reductions in Medicare cost growth. Since the first time that the Statement of Changes in Social Insurance Amounts was presented in 2011, GAO has disclaimed an opinion on that statement because of the significant uncertainties mentioned above. Further, because the significant uncertainties mentioned above also affect the long-term fiscal projections, and because of a material weakness that hampers the federal government's ability to demonstrate the reliability of certain historical budget information

used for certain key inputs to the financial statement, GAO has disclaimed an opinion on the Statement of Long-Term Fiscal Projections beginning in fiscal year 2015, when that financial statement was first required.

GAO's report has also contained a section with matters of emphasis in order to put information contained in the consolidated financial statements and MD&A into context. These matters have included the sustainability of the federal government's long-term fiscal path based on current policies.

GAO considers internal control over financial reporting to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal controls over financial reporting. In addition, GAO reports any material weaknesses or significant deficiencies in internal control over financial reporting that come to its attention as a result of the audit. Further, based on government auditing standards, GAO reports on the results of tests for compliance with provisions of applicable laws, regulations, contracts, and grant agreements.

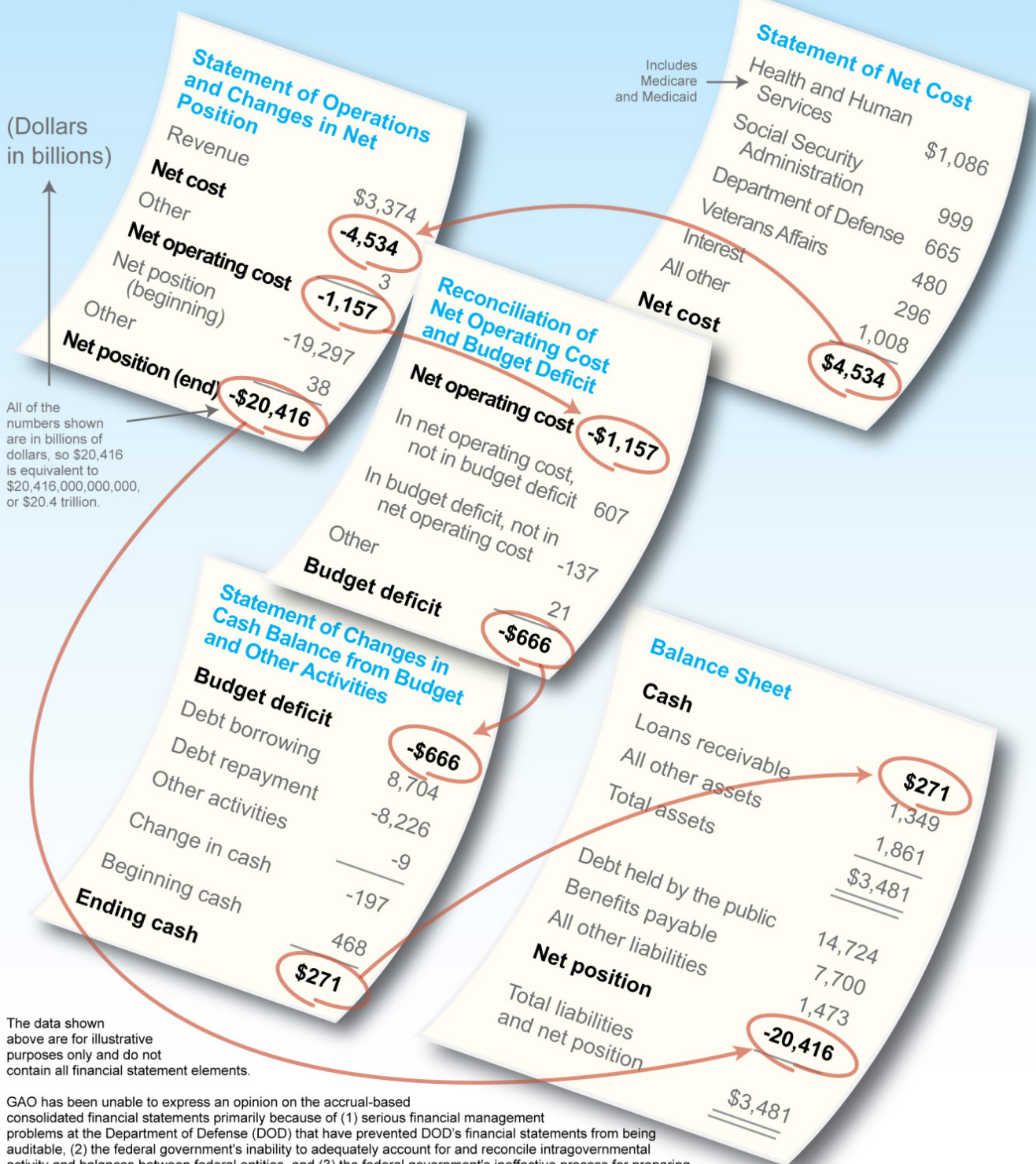
How the Federal Government's Accrual-Based Consolidated Financial Statements Relate to One Another

The federal government's consolidated financial statements include five interrelated accrual-based financial statements. The figure below provides an overview of the five accrual-based consolidated financial statements and how selected components of those statements are related.

- The operating result, called net operating revenue (or cost), from the Statement of Operations and Changes in Net Position explains the change in the federal government's net position. The federal government's net position is presented on the Balance Sheet. Also, the net operating revenue (or cost) is the beginning amount in the Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit).
- The total operating expense, called net cost, presented in the Statement of Net Cost presents cost and other financial information by federal entity and is used in the Statement of Operations and Changes in Net Position to determine whether the federal government's financial operations (revenue less expenses) resulted in net operating cost or net operating revenue for the year.
- The budget result is used in the Reconciliation of Net Operating Revenue (or Cost) and Budget Surplus (or Deficit) and the Statement of Changes in Cash Balance from Budget and Other Activities to show how the federal government's financial operations and changes in cash and other monetary assets are related to the budget results.
- The federal government's ending cash and other monetary assets balance from the Statement of Changes in Cash Balance from Budget and Other Activities is the same as the cash and other monetary assets line on the Balance Sheet.
- The net position from the Statement of Operations and Changes in Net Position agrees to the net position on the Balance Sheet, which is based on the difference between the federal government's reported assets and liabilities.

What are the interrelationships between the accrual-based consolidated financial statements of the U.S. government?

The five statements shown below (known as the accrual-based consolidated financial statements) show the federal government's results of operations and financial position.



How the Federal Government's Sustainability Financial Statements Relate to One Another

The federal government's consolidated financial statements include three interrelated sustainability financial statements. The figure below provides an illustrative overview of the three sustainability financial statements and how selected components of those statements are related.

The Statement of Long-Term Fiscal Projections presents 75-year projections for the entire federal government. It incorporates, with certain adjustments, the projected revenue and expenditures for Social Security and Medicare detailed in the Statement of Social Insurance. In addition to the types of revenue and expenditures presented in the Statement of Social Insurance, the Statement of Long-Term Fiscal Projections reports all other types of receipts, such as individual income taxes, and all other non-interest spending, such as defense spending.

The Statement of Long-Term Fiscal Projections relates to the Statement of Social Insurance in that

- the revenue reported on the Statement of Social Insurance for Social Security and Medicare Part A is included, with certain adjustments, in the receipts for Social Security and Medicare payroll taxes reported on the Statement of Long-Term Fiscal Projections and
- the expenditures reported on the Statement of Social Insurance for Social Security, Medicare Part A, Medicare Part B, and Medicare Part D are included, with certain adjustments, in the non-interest spending for Social Security, Medicare Part A and Medicare Parts B and D reported on the Statement of Long-Term Fiscal Projections.

Key differences between the Statement of Long-Term Fiscal Projections and the Statement of Social Insurance include the following:

- The Statement of Long-Term Fiscal Projections includes all the federal government's projected revenues and non-interest expenditures, while the Statement of Social Insurance only includes those relating to social insurance programs. As a result, the Statement of Long-Term Fiscal Projections includes additional line items—such as individual income taxes, other receipts, and other spending—that are not reflected on the Statement of Social Insurance.
- The Statement of Social Insurance includes “taxation on benefits” within revenues for Social Security and Medicare Part A, while such amounts are presented within individual income taxes on the Statement of Long-Term Fiscal Projections.
- By accounting convention, the Statement of Social Insurance does not include the general revenue transfers that finance most of Medicare Parts B and D, while the Statement of Long-Term Fiscal Projections includes all federal revenues.
- The valuation date for Social Security and Medicare projections in the Statement of Social Insurance is as of January 1, while the valuation date for the Statement of Long-Term Fiscal Projections is as of September 30.

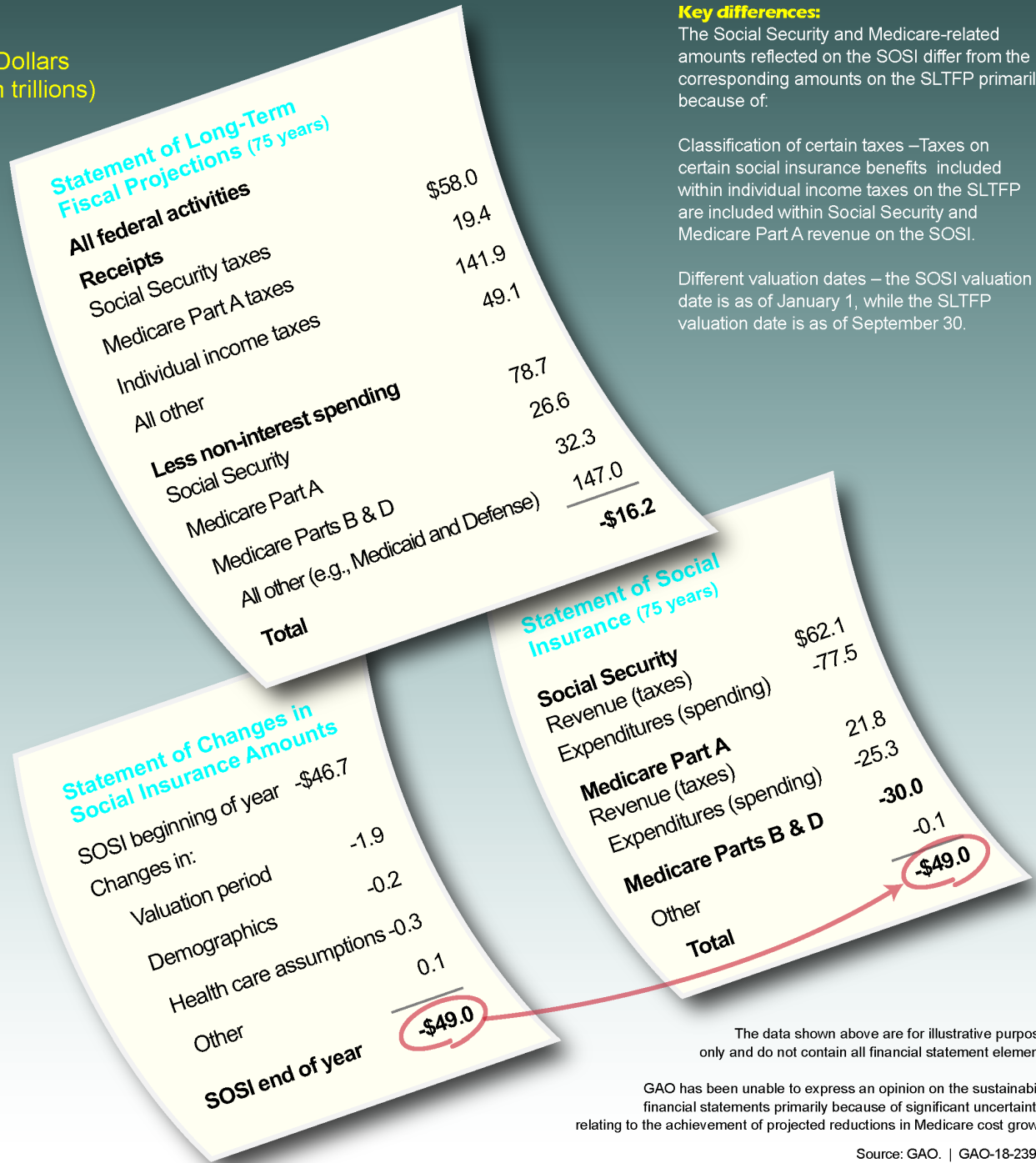
- For consistency, certain assumptions relating to the Statement of Social Insurance information are adjusted to conform to the assumptions used in the Statement of Long-Term Fiscal Projections.

The Statement of Social Insurance relates to the Statement of Changes in Social Insurance Amounts in that the Statement of Changes in Social Insurance Amounts provides details as to the reasons for the changes during the year. This statement's beginning and ending balances match the amounts reflected on the Statement of Social Insurance.

What are the interrelationships between the sustainability financial statements of the U.S. government?

The Statement of Long-Term Fiscal Projections (SLTFP) includes all the federal government's projected revenues and non-interest expenditures, while the Statement of Social Insurance (SOSI) only includes those relating to Social Insurance programs. As a result, the SLTFP includes additional line items, such as individual income taxes, all other receipts, and all other spending that are not reflected on the SOSI. The Statement of Changes in Social Insurance Amounts provides the reasons for the SOSI changes during the year.

(Dollars in trillions)



Key differences:

The Social Security and Medicare-related amounts reflected on the SOSI differ from the corresponding amounts on the SLTFP primarily because of:

Classification of certain taxes – Taxes on certain social insurance benefits included within individual income taxes on the SLTFP are included within Social Security and Medicare Part A revenue on the SOSI.

Different valuation dates – the SOSI valuation date is as of January 1, while the SLTFP valuation date is as of September 30.

The data shown above are for illustrative purposes only and do not contain all financial statement elements.

GAO has been unable to express an opinion on the sustainability financial statements primarily because of significant uncertainties relating to the achievement of projected reductions in Medicare cost growth.

Source: GAO. | GAO-18-239SP

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