

# United States Government Notes to the Financial Statements for the Fiscal Years Ended September 30, 2023, and 2022

## Note 1. Summary of Significant Accounting Policies

### A. Reporting Entity

The government includes the executive branch, the legislative branch, and the judicial branch. This *Financial Report* includes the financial status and activities related to the operations of the government. SFFAS No. 47, *Reporting Entity* provides criteria for identifying organizations that are included in the *Financial Report* as consolidation entities or disclosure entities. The determination as to whether an organization is a consolidation entity or disclosure entity is based on the assessment of the following characteristics as a whole, the organization: a) is financed through taxes and other non-exchange revenues; b) is governed by the Congress or the President; c) imposes or may impose risks and rewards to the government; and d) provides goods and services on a non-market basis.

Consolidation entities are organizations that are consolidated in the financial statements. For disclosure entities, data is not consolidated in the financial statements, instead information is disclosed in the notes to the financial statements concerning: a) the nature of the government's relationship with the disclosure entities; b) the nature and magnitude of relevant activity with the disclosure entities during the period and balances at the end of the period; and c) a description of financial and non-financial risks, potential benefits and, if possible, the amount of the government's exposure to gains and losses from the past or future operations of the disclosure entity or entities.

SFFAS No. 47 also provides guidance for identifying related parties and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude such information.

Based on the criteria in GAAP for federal entities, the assets, liabilities, and results of operations of Fannie Mae and Freddie Mac are not consolidated into the government's consolidated financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the government's consolidated financial statements. Although federal investments in Fannie Mae and Freddie Mac are significant, these entities do not meet the GAAP criteria for consolidation entities.

Under SFFAS No. 47 criteria, Fannie Mae and Freddie Mac were owned or controlled by the government as a result of: a) regulatory actions (such as organizations in receivership or conservatorship); or b) other government intervention actions. Under the regulatory or other intervention actions, the relationship with the government is not expected to be permanent. These entities are classified as disclosure entities based on their characteristics as a whole (see Note 27—Disclosure Entities and Related Parties for additional information on these disclosure entities).

Also, under GAAP criteria, the FR System and SPVs are not consolidated into the government's consolidated financial statements (see Note 7—Investments for additional information on SPVs and Note 27—Disclosure Entities and Related Parties for additional information concerning the FR System).

For additional information regarding Reporting Entity, see Appendix A—Reporting Entity.

### B. Basis of Accounting and Revenue Recognition

#### Consolidated Financial Statements

The consolidated financial statements of the government are prepared in accordance with the standards established by FASAB. As permitted by FASAB standards, certain components of the federal government prepare their financial statements following the standards established by FASB. Information from those components is included within the government's consolidated financial statements without conversion to FASAB standards. Intra-governmental transactions are eliminated in

consolidation, except as described in the Other Information—Unmatched Transactions and Balances. See Note 1.T—Unmatched Transactions and Balances for additional information. The consolidated financial statements include accrual-based financial statements and sustainability financial statements, which are discussed in more detail below, and the related notes to the consolidated financial statements. Collectively, the accrual-based financial statements, the sustainability financial statements, and the notes represent information that is deemed essential for the financial statements and notes to be presented in conformity with GAAP.

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. Accordingly, modifications may have been made to certain presentations and disclosures.

### Accrual-Based Financial Statements

The accrual-based financial statements were prepared under the following principles:

- Expenses are generally recognized when incurred.
- Non-exchange revenue, including taxes, duties, fines, and penalties, are recognized when collected and adjusted for the change in amounts receivable (modified cash basis). Related refunds and other offsets, including those that are measurable and legally payable, are netted against non-exchange revenue.
- Exchange (earned) revenue is recognized when the government provides goods and services to the public for a price. Exchange revenue includes user charges such as admission to federal parks and premiums for certain federal insurance.

The basis of accounting used for budgetary purposes, which is primarily on a cash basis (budget deficit) and follows budgetary concepts and policies, differs from the basis of accounting used for the financial statements which follow GAAP. See the Reconciliations of Net Operating Cost and Budget Deficit in the Financial Statements section and Note 29—COVID-19 Activity in the notes to the financial statements.

### Sustainability Financial Statements

The sustainability financial statements were prepared based on the projected PV of the estimated future revenue and estimated future expenditures, primarily on a cash basis, for a 75-year period. The sustainability financial statements consist of the: 1) SLTFP, covering all federal government programs and all sources of federal revenue; 2) SOSI; and 3) SCSIA.

### New Standards Issued in Prior and Current Years and Implemented in Current Year

In FY 2016, the government began implementing the requirements of new standards related to the reporting for inventory and related property, net and general PP&E. These standards are available to each reporting entity once per line item addressed in the standard. The standards being implemented are:

- FASAB issued SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. SFFAS No. 48 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements, or one or more line items addressed by this statement. SFFAS No. 48 was effective beginning in FY 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in FY 2017 through FY 2023. DOD has not declared full implementation yet; therefore, this standard continues to be partially implemented each year.
- FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*. SFFAS No. 50 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements, or one or more line items addressed by this statement. SFFAS No. 50 was effective beginning in FY 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in FY 2017 through FY 2023. DOD has not declared full implementation yet; therefore, this standard continues to be partially implemented each year.

In July 2021, FASAB issued SFFAS No. 59, *Accounting and Reporting of Government Land*. Per SFFAS No. 59, starting in FY 2026, land and permanent land rights will no longer be capitalized, and the previously capitalized amounts will be removed from the Balance Sheet. Also, starting in FY 2026, SFFAS No. 59 requires certain disclosures in the notes to the financial statements, including estimated acreage of land and permanent land rights and its predominant use. For FY 2022 through FY 2025, such disclosures are required to be presented as RSI. These include:

- Estimated acres of general PP&E land and stewardship land using three predominant use sub-categories:
  - Conservation and preservation land;
  - Operational land; and
  - Commercial use land.

- Estimated acres of land held for disposal or exchange.

## New Standards Issued and Not Yet Implemented

As of September 2023, FASAB has issued the following new standards that are applicable to the *Financial Report*, but are not yet implemented at the government-wide level for FY 2023:

In April 2018, FASAB issued SFFAS No. 54, *Leases: An Amendment of SFFAS No. 5, Accounting for Liabilities of the Federal Government, and SFFAS No. 6, Accounting for Property, Plant, and Equipment*. SFFAS No. 54 revises the financial reporting standards for federal lease accounting. It provides a comprehensive set of lease accounting standards to recognize federal lease activities in the reporting entity's financial statements and includes appropriate disclosures. This statement requires that federal lessees recognize a lease liability and a right-to-use lease asset at the commencement of the lease term, unless it meets any of the scope exclusions or meets the definition/criteria of short-term leases, contracts or agreements that transfer ownership, or intra-governmental leases. A federal lessor would recognize a lease receivable and deferred revenue, unless it meets any of the scope exclusions or meets the definition/criteria of short-term leases, contracts or agreements that transfer ownership, or intra-governmental leases. SFFAS No. 58, *Deferral of the Effective Date of SFFAS No. 54, Leases*, issued in June 2020, defers the effective date of SFFAS No. 54 to FY 2024 and early implementation is not permitted. The following standards were issued to amend SFFAS No. 54, *Leases*: SFFAS No. 60, *Omnibus Amendments 2021, Leases-Related Topics*, SFFAS No. 61, *Omnibus Amendments 2023, Leases Related Topics II*, and SFFAS No. 62, *Transitional Amendment to SFFAS 54*. These amendments are effective for FY 2024.

## C. Accounts Receivable, Net

Accounts receivable include the amount of taxes receivable that consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed, or a court has determined, the assessments are owed. Taxes receivable do not include unpaid assessments when taxpayers or a court have not agreed that the amounts are owed (compliance assessments) or the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible.

Other accounts receivable represent claims to cash or other assets from entities outside the government that arise from the sale of goods or services, duties, fines, certain license fees, recoveries, or other provisions of the law. Accounts receivable are reported net of an allowance for uncollectible amounts. An allowance is established when it is more likely than not the receivables will not be totally collected. The allowance method varies among the entities in the government and is usually based on past collection experience and is reestimated periodically as needed. Methods may include statistical sampling of receivables, specific identification and intensive analysis of each case, aging methodologies, and percentage of total receivables based on historical collection. See Note 3—Accounts Receivable, Net for additional information.

## D. Loans Receivable, Net

Direct loans committed after FY 1991 are valued at their gross amounts less an allowance for the PV of the amounts not expected to be recovered, and thus having to be subsidized is called an "allowance for subsidy."

Direct loans obligated before FY 1992 are valued under the PV method. Under the PV method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the PV of the expected net cash flows. See Note 4—Loans Receivable, Net and Loan Guarantee Liabilities for additional information.

## E. Loan Guarantee Liabilities

Loan guarantees committed after FY 1991 are valued at the PV of the cash outflows less the PV of the related inflows. The estimated PV of net long-term cash outflows of an entity for subsidized costs is net of recoveries, interest supplements, and offsetting fees. The loan guarantee liabilities present the net PV of all future cash flows from loans.

Loan guarantees committed before FY 1992 are valued under the allowance-for-loss method. The allowance for loan losses is recognized when it is more likely than not that the direct loans will not be totally collected. The allowance of the uncollectible amounts is reestimated each year. See Note 4—Loans Receivable, Net and Loan Guarantee Liabilities for additional information.

Generally, loan guarantees are recorded as a liability except when cash inflows are expected to exceed cash outflows on a PV basis. This results in a negative loan guarantee that is reported as an asset on the Balance Sheet.

## F. Inventory and Related Property, Net

Inventory is tangible personal property that is categorized as: 1) held for current sale; 2) held in reserve for future sale; 3) held for repair; or 4) excess, obsolete, and unserviceable. Inventory held for current sale and held in reserve for future sale are valued by the main contributing entities at historical cost using the MAC flow assumption. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring the items to their current condition and location. Any abnormal costs, such as excessive handling or rework costs, are charged to operations of the period. Inventory held for repair is accounted for by the main contributors using the allowance method which values inventory at the same value as a serviceable item. However, an allowance for repairs contra-asset account (e.g., allowance for loss) is established to recognize estimated repair costs in the current period operating expenses. Excess, obsolete, and unserviceable inventory is valued at its net realizable value.

Related property includes OM&S, stockpile materials, and other miscellaneous related property. OM&S is tangible personal property to be consumed in normal operations. Stockpile materials are strategic and critical materials being held due to statutory requirements for use in national defense, conservation, or national emergencies. The main contributing entities value OM&S and stockpile materials using various methods including MAC, standard price, historical cost, replacement price, and direct method. The entities also use both the consumption method and purchase method. The consumption method expenses OM&S when consumed, while the purchase method expenses OM&S when purchased. If OM&S are not significant amounts, are in the hands of the end user for use in normal operations, or if it is not cost beneficial to apply the consumption method; then the purchases method is applied.

FASAB issued additional guidance, SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, which permits a reporting entity to apply an alternative valuation method (e.g., deemed cost) in establishing opening balances for inventory, OM&S, and stockpile materials. This guidance is intended to provide an alternative valuation method when historical records and systems do not provide a basis for valuation of opening balances in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*. Please refer to Note 5—Inventory and Related Property, Net, for additional information.

## G. General Property, Plant, and Equipment, Net

General PP&E consists of tangible assets (e.g., buildings, structures and facilities, furniture and fixtures, equipment, and land) that have an estimated useful life of two or more years, are not intended for sale in the ordinary course of business and are intended for use or available for use by the entity. General PP&E also includes internal use software, land rights, assets acquired through capital leases, and leasehold improvements.

At the government-wide level, SFFAS No. 6, *Accounting for Property, Plant, and Equipment* is followed and requires that general PP&E is recorded at cost and includes all costs incurred to bring the general PP&E to a form and location suitable for its intended use. The main contributing entities use estimated historical cost for general PP&E. Costs to acquire general PP&E, extend the useful life of an existing asset, or enlarge or improve its capacity are capitalized and depreciated or amortized over the remaining useful life. Depreciation expense is recognized on all capitalized general PP&E, except land and land rights of unlimited duration. In the case of constructed general PP&E, the asset is recorded as construction work in process until it is placed in service, at which time the balance is transferred to a major class of general PP&E. See Note 6—General Property, Plant, and Equipment, Net, for additional information.

FASAB issued additional guidance, SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, which states that a reporting entity may choose one of three alternative methods for establishing an opening balance for general PP&E. The alternative methods include using deemed cost to establish opening balances of general PP&E, selecting between deemed cost and prospective capitalization of internal use software, and allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions. An entity electing to exclude land and land rights from its general PP&E opening balances must disclose, with a reference on the Balance Sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. Some consolidating DOD contributors used the alternative valuation methods from SFFAS No. 50

based on historical records such as expenditure data, contracts, budget information, and engineering documentation. When applicable, DOD will continue to adopt SFFAS No. 50.

For financial reporting purposes, heritage assets (excluding multi-use heritage assets) and stewardship land are not recorded as part of general PP&E. Since heritage assets are intended to be preserved as national treasures, it is anticipated that they will be maintained in reasonable repair and that there will be no diminution in their usefulness over time. Many assets are clearly heritage assets. For example, the National Park Service manages the Washington Monument, the Lincoln Memorial and the Mall. Heritage assets that are predominantly used in general government operations are considered multi-use heritage assets and are included in general PP&E. Stewardship land is also consistent with the treatment of heritage assets in that much of the government's land is held for the general welfare of the nation and is intended to be preserved and protected. Stewardship land is land owned by the government but not acquired for or in connection with general PP&E. Because most federal land is not directly related to general PP&E, it is deemed to be stewardship land and accordingly, it is not reported on the Balance Sheet. Examples of stewardship land include national parks and forests. For additional information on stewardship assets, see Note 26—Stewardship Property, Plant, and Equipment.

## H. Investments

Most investments are reported at FV. FV is the estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. Market or observable inputs are used as the preferred source of values, followed by assumptions based on hypothetical transactions in absence of market inputs. Certain investments rely on NAV as a practical expedient (i.e., priced without adjustments) to estimate their FV. NAV is derived from the FV of the underlying investments as of the reporting date. See Note 7—Investments for additional information.

## I. Investments in Government-Sponsored Enterprises

The senior preferred stock and associated warrants for the purchase of common stock in the GSEs (Fannie Mae and Freddie Mac) are presented at their FV. SPSPAs, which Treasury entered into with each GSE when they were placed under conservatorship, can result in payments to the GSEs when, at the end of any quarter, the FHFA, acting as the conservator, determines that the liabilities of either GSE exceed its respective assets. Such payments result in an increase to the liquidation preference of investment in the GSEs' senior preferred stock, with a corresponding decrease to cash held by Treasury for government-wide operations. In addition, the liquidation preference of investments in the GSEs will increase, based on the quarterly earnings of the GSEs, up to the adjusted capital reserve amounts set for each GSE.

The valuation to estimate the investment's FV incorporates forecasts, projections, and cash flow analyses. Changes in valuation, including impairments, are deemed usual and recurring and thus are recorded as exchange transactions on the Statement of Net Cost (as earned revenue) and investments in GSEs on the Balance Sheet. The government also records dividends related to these investments as exchange transactions (as earned revenue) which are accrued when declared.

The potential liabilities to the GSEs, if any, are assessed annually and recorded at the gross estimated amount. For additional information on investments in GSEs, refer to Note 8—Investments in Government-Sponsored Enterprises.

## J. Federal Debt and Interest Payable

Federal debt is primarily comprised of Treasury securities, which are debt instruments issued to the public to raise money needed to operate the federal government and pay off maturing obligations. Treasury issues these debt instruments to the public in the form of marketable bills, notes, bonds, TIPS and FRNs, and in the form of nonmarketable securities including Government Account Series securities, U.S. Savings Securities, and SLGS securities. The amount of the debt, or principal, is also called the security's face value or par value. To accurately reflect the federal debt, Treasury records principal transactions with the public at par value at the time of the transaction. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities (term greater than one year) and the straight-line method for short-term securities (term of one year or less). In addition, the principal for TIPS is adjusted daily based on the CPI for all Urban Consumers. Certain Treasury securities also pay interest. For marketable securities, Treasury issues notes and bonds that pay semi-annual interest based on the security's stated interest rate. For FRNs, which accrue interest daily and pay the aggregated interest on a quarterly basis,

the interest rate is based on two components; the index rate tied to the highest accepted discount rate of the most recent 13-week marketable bill auction and the spread rate, which is the highest accepted discount rate determined at auction when the FRN is first offered. TIPS, on the other hand, pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. However, for all security types accrued interest is recorded as an expense when incurred, instead of when paid. See Note 12—Federal Debt and Interest Payable for additional information.

## K. Federal Employee and Veteran Benefits Payable

Generally, federal employee and veteran benefits payable are recorded during the time employee services are rendered. The related liabilities for defined benefit pension plans, veterans' compensation, burial, education and training benefits, post-retirement health benefits, and life insurance benefits, are recorded at estimated PV of future benefits, less any estimated PV of future normal cost contributions. Normal cost is the portion of the actuarial PV of projected benefits allocated as an expense for employee services rendered in the current year. Actuarial gains and losses (as well as prior service cost, if any) are recognized immediately in the year they occur without amortization.

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled for nonservice-related causes. The pension program for veterans is not accounted for as a "federal employee pension plan" under SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, due to differences between its eligibility conditions and those of federal employee pensions. Therefore, a future liability for pension benefits is not recorded. These benefits are recognized as expenses when benefits are paid rather than when employee services are rendered.

In accordance with 38 CFR § 17.36(c), the VA makes an annual enrollment decision that identifies which veterans, by priority, will be treated for that fiscal year based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of this amount cannot be reasonably made. These medical care expenses are recognized in the period the medical care services are provided.

The actuarial liability for FECA benefits is recorded at estimated PV of future benefits for injuries and deaths that have already been incurred.

Gains and losses from changes in long-term assumptions used to estimate federal employee pensions, ORB, and OPEB liabilities are reflected separately on the Statement of Net Cost and the components of the expense related to federal employee pension, ORB, and OPEB liabilities are disclosed in Note 13—Federal Employee and Veteran Benefits Payable as prescribed by SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. In addition, SFFAS No. 33 also provides a standard for selecting the discount rate assumption for PV estimates of federal employee pension, ORB, and OPEB liabilities. See Note 13—Federal Employee and Veteran Benefits Payable for additional information.

## L. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for anticipated remediation, cleanup, and disposal costs resulting from the use of the governments assets or operations. Estimated costs for environmental and disposal liabilities can change over time because of laws and regulation updates, technology updates, inflation or deflation factors, and disposal plan revisions. Accruals for environmental cleanup costs are the cost of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment. Cleanup costs include, but are not limited to decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. PP&E recognition of an anticipated environmental disposal liability begins when the asset is placed in service. See Note 14—Environmental and Disposal Liabilities for additional information.

## M. Benefits Due and Payable

A liability for social insurance programs (including but not limited to: Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due and payable to beneficiaries or service providers as of the end of the reporting period. See Note 15—Benefits Due and Payable for additional information.

## N. Insurance and Guarantee Program Liabilities

Insurance programs are authorized by law to financially compensate a designated population of beneficiaries by accepting all or part of the risk for losses incurred as a result of an adverse event. Certain consolidation entities with significant insurance and guarantee programs (e.g., PBGC and FDIC) apply FASB standards and are not converted to FASAB standards in consolidation, as permitted by SFFAS No. 47.

PBGC values its liabilities at the PV of future benefits and PV of nonrecoverable future financial assistance using assumptions derived from market-based (FV) annuity prices from insurance companies. Assumptions are selected in accordance with PBGC's best estimate of anticipated experience for expected retirement ages and the cost of administrative expenses.

The PV of future benefits is the estimated liability for future pension benefits that PBGC is or will be obligated to pay the participants of trustee plans and the net liability for plans pending termination and trusteeship. PBGC recognizes a single-employer program liability for trustee or terminated plans and probable plan terminations. The liability is PBGC's best estimate of the losses, net of plan assets, and the PV of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. PBGC uses assumptions to adjust the value of those future payments to reflect the time value of money (by discounting) and the probability of payment (by means of decrements, such as for death or retirement). PBGC also includes anticipated expenses to settle the benefit obligation in the determination of the PV of future benefits. Significant unobservable inputs are incorporated in the calculation of the PV of future benefits as well. Refer to PBGC's financial statements for additional information.

PBGC recognizes a multiemployer program liability for future financial assistance to insolvent plans and to plans deemed probable to becoming insolvent. Projecting a future insolvency requires considering several complex factors, such as an estimate of future cash flows, future mortality rates, and age of participants not in pay status. In general, if a terminated plan's assets are less than the PV of its liabilities, PBGC considers the plan a probable risk of requiring financial assistance in the future.

FDIC records a liability for FDIC-insured institutions that are likely to fail when the liability is probable and reasonably estimable, absent some favorable event such as obtaining additional capital or merging. The FDIC liability is derived by applying expected failure rates and loss rates to the institutions based on supervisory ratings, balance sheet characteristics, and projected capital levels.

PBGC's exposure to losses from plan terminations and FDIC's exposure to losses from insured institutions that are classified as reasonably possible are disclosed in Note 21—Contingencies.

All other insurance and guarantee programs are accounted for in the consolidated financial statements in accordance with SFFAS No. 51, *Insurance Programs*.

Insurance programs exclude programs that administer direct loans and loan guarantees; qualify as social insurance; are authorized to engage in disaster relief activities; provide grants; provide benefits or assistance based on an individual's or a household's income and/or assets; assume the risk of loss arising from federal government operations; pay claims through an administrative or judicial role for individuals or organizations who claim they have been harmed by a federal entity; indemnify contractors, agreement partners, and other third parties for loss or damage incurred while or caused by work performed for a federal entity; or are workers' or occupational illness compensation programs that compensate current or former employees (or survivors) and certain third parties for injuries and occupational diseases obtained while working for a federal entity.

Per SFFAS No. 51, there are three categories of insurance programs: 1) exchange transaction insurance programs other than life insurance; 2) non-exchange transaction insurance programs; and 3) life insurance programs.

For exchange transaction insurance programs other than life insurance, revenues are recognized when earned over the insurance arrangement period and liabilities are recognized for unearned premiums, unpaid insurance claims, and for losses on remaining coverage. Losses on remaining coverage represent estimated amounts to be paid to settle claims for the period after year-end through the end of insurance coverage in excess of the summation of unearned premiums and premiums due after the end of the reporting period.

For non-exchange transaction insurance programs, revenue is recognized the same as other non-exchange transaction revenue, no unearned premium liability is recorded, and a liability is only recognized for unpaid insurance claims.

For life insurance programs, revenue is recognized when due, and liabilities are recognized for unpaid insurance claims and future policy benefits. The liability for future policy benefits represents the expected PV of future claims to be paid to, or on behalf of, existing policyholders, less the expected PV of future net premiums to be collected from those policyholders. Life insurance programs are disclosed in Note 13—Federal Employee and Veteran Benefits Payable. See Note 16—Insurance and Guarantee Program Liabilities for additional information.

## O. Deferred Maintenance and Repairs

DM&R are maintenance and repairs that were not performed when they should have been or scheduled maintenance and repairs that were delayed or postponed. Maintenance is the act of keeping fixed assets in acceptable condition, including preventative maintenance, normal repairs, and other activities needed to preserve the assets, so they continue to provide acceptable service and achieve their expected life. Maintenance and repairs exclude activities aimed at expanding the capacity of assets or otherwise upgrading them to serve needs different from those originally intended. DM&R are not expensed in the Statements of Net Cost or accrued as liabilities on the Balance Sheet. However, DM&R information is presented in the unaudited RSI section of this report. Please see unaudited RSI—Deferred Maintenance and Repairs for additional information including measurement methods.

## P. Commitments

Commitments reflect binding agreements that may result in the future expenditure of financial resources that are not recognized or not fully recognized on the Balance Sheet and should be disclosed. Examples of commitments include certain long-term leases, undelivered orders, P3s, international or other agreements in support of international economic development, or agreements in support of financial market stability. See Note 20—Commitments for additional information.

## Q. Contingencies

Liabilities for contingencies are recognized on the Balance Sheet when both:

- A past transaction or event has occurred, and
- A future outflow or other sacrifice of resources is probable and measurable.

The estimated contingent liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, then that amount is recognized. If no amount within the range is a better estimate than any other amount, then the minimum amount in the range is recognized and the range and a description of the nature of the contingency is disclosed.

A contingent liability is disclosed if any of the conditions for liability recognition do not meet the above criteria and there is at least a reasonable possibility that a loss may be incurred. See Note 21—Contingencies for additional information.

## R. Funds from Dedicated Collections

Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources that 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 must be accounted for separately from the government's general revenues. The three required criteria for a fund from dedicated collections are:

- A statute committing the government to use specifically identified revenues and/or other financing sources that are originally provided to the government by a non-federal source only for designated activities, benefits, or purposes;
- Explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the government's general revenues.

Funds from dedicated collections on the Statement of Operations and Changes in Net Position are presented on the consolidated basis. The consolidated dedicated collections presentation eliminates balances and transactions between funds from dedicated collections held by the entity. For additional information on funds from dedicated collections, see Note 22—Funds from Dedicated Collections.



## S. Sustainability Financial Statements

The sustainability financial statements are estimates based on economic as well as demographic assumptions presented in Note 24—Long-Term Fiscal Projections and 25—Social Insurance. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are designed to illustrate the relationship between receipts and expenditures, if current policy is continued. For this purpose, the projections assume, among other things, that scheduled social insurance benefit payments would continue after related trust funds are projected to be depleted, contrary to current law, and that debt could continue to rise indefinitely without severe economic consequences.

SOSI and SCSIA are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions and expectations of future conditions. Actual results could differ materially from the estimated amounts. Each statement includes information to assist in understanding the effect of changes in assumptions to the related information.

By accounting convention, General Fund transfers to Medicare Parts B and D reported in the SOSI are eliminated when preparing the government-wide consolidated financial statements. The SOSI shows the projected General Fund transfer(s) as eliminations that, under current law, would be used to finance the remainder of the expenditures in excess of revenues for Medicare Parts B and D that is reported in the SOSI. The SLTFP include all revenues (including general revenues) of the federal government.

## T. Unmatched Transactions and Balances

The reconciliation of the change in net position requires that the difference between ending and beginning net position equals the difference between revenue and cost, plus or minus prior-period adjustments. The unmatched transactions and balances includes unmatched intra-governmental balances on the Balance Sheet and includes unmatched intra-governmental current year transactions on the Statement of Net Cost and the Statement of Operations and Changes in Net Position to reconcile the change in net position to ensure beginning and ending net position equals the difference between revenue and cost, plus or minus prior-period adjustments. Unresolved intra-governmental differences (i.e., unmatched transactions and balances) result in errors in the consolidated financial statements.

The unmatched transactions and balances are needed to balance the accrual-based financial statements. The Statement of Net Cost, the Statement of Operations and Changes in Net Position and the Balance Sheet include specific lines for the unmatched transactions and balances. The primary factors affecting this out of balance situation are:

- Unmatched intra-governmental transactions and balances between federal entities; and
- Errors and restatements in federal entities' reporting.

As intra-governmental transactions and balances reduce to immaterial amounts, the corresponding individual lines in the "Unmatched Transactions and Balances" table are adjusted to remove the differences for the fiscal year. Please refer to the table of "Unmatched Transactions and Balances" in Other Information (Unaudited) for examples of the individual lines.

Refer to the Other Information (unaudited)—Unmatched Transactions and Balances for additional information.

## U. Changes in Accounting Principles

A change in accounting principle results from either adopting a new accounting pronouncement or an entity adopting an allowable alternative accounting principle on the basis that is preferable. Generally, as applicable, changes in accounting principles are shown as an adjustment to beginning net position in the Statement of Operations and Changes in Net Position of the period in which the change is implemented.

Adjustments to beginning net position in FY 2023 and FY 2022 for changes in accounting principles were (\$0.8) billion and (\$4.3) billion, respectively, mostly due to DOD's continued implementation of SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* and SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.

## V. Corrections of Errors

Corrections of errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time financial statements were prepared. When preparing comparative financial statements, if the material error occurred in the prior period presented and the effect is known, then the affected line items of the prior period are restated. There were no material corrections of errors identified for fiscal years ending September 30, 2023, and 2022.

## W. Changes in Presentation

Changes in presentation are done to improve clarity of the presentation of the *Financial Report* and include changes since the prior year that are not the result of corrections of errors or changes in accounting principles. In FY 2023, due to a change in presentation of the reported unmatched transactions and balances on the Statement of Net Cost, Statement of Operations and Changes in Net Position, and Unmatched Transactions and Balances in Other Information (unaudited), the FY 2022 Statement of Net Cost was adjusted by \$.1 billion to report the associated unmatched transactions and balances that were previously reported on the Statement of Operations and Changes in Net Position unmatched transactions and balances line and the buy/sell costs that were previously included in the gross cost recorded on the Statement of Net Cost. They are now reported on the standalone unmatched transaction and balances line on the Statement of Net Cost. Additionally, the Unmatched Transactions and Balances in Other Information (unaudited) was updated to show the details of the unmatched transactions and balances by statement. For more information refer to the Statement of Net Cost, Statement of Operations and Changes in Net Position, Reconciliation of Net Operating Cost and Budget Deficit, and Unmatched Transactions and Balances in Other Information (unaudited). The FY 2022 presentation was modified to conform to the FY 2023 presentation.

## X. Fiduciary Activities

Fiduciary activities are the collection or receipt, as well as the management, protection, accounting, investment and disposition by the government of cash or other assets in which non-federal individuals or entities have an ownership interest that the government must uphold. Fiduciary cash and other fiduciary assets are not assets of the government and are not recognized on the Balance Sheet. See Note 23—Fiduciary Activities, for additional information.

## Y. Use of Estimates

The government has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. There are a large number of factors that affect these assumptions and estimates, which are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, actual results will differ from these estimates and such differences may be material.

Significant transactions subject to estimates are included in the balance of loans receivable, net, federal employee and veteran benefits payable, investments, investments in SPVs, investments in GSEs, tax receivables, receivables from resolution activities, loan guarantee liabilities, depreciation, other actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities.

The government recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and uses regular review of model factors, statistical modeling, and annual reestimates to reflect the most current cost estimate of the credit programs to the U.S. government. *Federal Credit Reform Act of 1990* loan receivables and loan guarantees are disclosed in Note 4—Loans Receivable, Net and Loan Guarantee Liabilities.

Estimates are also used to determine the FV of investments in SPVs and GSEs. The FV of the SPV preferred equity investments is estimated based on a discounted cash flow valuation methodology, whereby the primary input is the PV of the projected annual cash flows associated with these investments. The FV of the GSE senior preferred stock considers forecasted cash flows to equity holders and the traded prices of the other equity securities, including the GSE's common stock and junior preferred stock. The value of the GSE senior preferred stock is estimated by first estimating the FV of the

total equity of each GSE (which, in addition to the GSE senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock). The FV of the GSE total equity is based on a discounted cash flow valuation methodology, whereby the primary input is the PV of the projected quarterly cash flows to equity holders. The FV of the GSEs' other equity instruments are then deducted from its total equity, with the remainder representing the FV of the GSE senior preferred stock.

Factors impacting the FV of the GSE warrants include the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the FV of the GSE warrants include, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. For additional information on investments in SPVs and GSEs, see Note 7—Investments and Note 8—Investments in Government-Sponsored Enterprises, respectively.

Treasury performs annual calculations, as of September 30, to assess the need for recording an estimated liability in accordance with SFFAS No. 5, *Accounting for Liabilities of The Federal Government*, and to the government's funding commitment to the GSEs under the SPSPAs. For additional information on investments in GSEs and the amended SPSPAs, see Note 8—Investments in Government-Sponsored Enterprises.

## Z. Credit Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. The government takes on credit risk when it makes direct loans or guarantees to non-federal entities, provides credits to foreign entities, or becomes exposed to institutions that engage in financial transactions with foreign countries.

The government also takes on credit risk related to committed, but undisbursed direct loans, CARES Act Section 4003 COVID-19 credit program receivables, funding commitments to GSEs, CARES Act Section 4003 Section 13(3) funding provided to Corporate Credit Facility LLC, MSF, MLF, TALF, and other activities. Many of these programs were developed or provided credit support to the pandemic emergency relief programs of the Federal Reserve Board, to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. These programs expose the government to potential costs and losses. The extent of the risk assumed is described in more detail in the notes to the financial statements, and where applicable, is factored into credit reform models and reflected in FV measurements.

## AA. Treaties and Other International Agreements

For financial reporting purposes, treaties and other international agreements may be understood as falling into three broad categories:

- No present or contingent obligation to provide goods, services, or financial support;
- Present obligation to provide goods, services, or financial support; or
- Contingent obligation to provide goods, services, or financial support.

The proper financial reporting of treaties and other international agreements depends on the probable future outflow or other sacrifice of resources as a result of entering into the agreement.

In many cases, treaties and other international agreements establish frameworks that govern cooperative activities with other countries, but leave to the discretion of the parties whether to engage in any such activities. In other cases, the agreements may contemplate specific cooperative activities, but create no present or contingent obligations to engage in them. Cooperative activities relevant to these treaties and other international agreements fall under the first category, which does not result in the U.S. government incurring any financial liability. Since these treaties and other international agreements have no financial impact, they are not reported or disclosed in this *Financial Report*.

Some treaties and other international agreements fall under the second category, and involve a present obligation, and therefore result in liability recognition. Such present obligation may relate to the U.S. government providing financial and in-kind support, including assessed contributions, voluntary contributions, grants, and other assistance to international organizations in which it participates as a member. Examples of such agreements include those that establish international organizations under which the U.S. government undertakes obligations to pay assessed dues to the organization; grant agreements under which the U.S. government provides foreign assistance funds to other countries; and claims settlement agreements under which the U.S. government agrees to pay specific sums of money to settle claims.

The last category encompasses those treaties or other international agreements which result in contingencies that may require recognition or disclosure in the financial statements. Such contingencies may stem from commitments in a treaty or other international agreement to provide goods, services, or financial support when a future event occurs, or from litigation, claims, or assessments forged by other parties to the agreement. For additional information related to treaties and other international agreements that fall under the last category, refer to Note 21—Contingencies.

## **AB. Public-Private Partnerships**

SFFAS No. 49, *Public-Private Partnerships* establishes principles to ensure that disclosures about applicable P3s are presented in the government's notes to the financial statements. The principles guide entity financial reporting disclosure by establishing a P3 definition and identifying risk-based characteristics that need to exist before considering the P3 arrangement or transaction for disclosure. The standard exempts certain arrangements or transactions from the P3 disclosure requirements, as such exempt arrangements or transactions are subject to existing disclosure requirements in other accounting standards. The P3s that are deemed material to the consolidated financial statements and have met the criteria of SFFAS No. 49, *Public-Private Partnerships* are disclosed. See Note 28—Public-Private Partnerships for additional information.