MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The FY 2024 *Financial Report* provides the President, Congress, and the American people with a comprehensive view of the federal government's financial position and condition; and discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability over the long-term.

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

The *Financial Report* is prepared from the financial information provided by 167 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 27 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2024, and 2023. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2024 and 2023 SLTFP; the 2024, 2023, 2022, 2021, and 2020 SOSI; and the 2024 and 2023 SCSIA. A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with GAAP. In FY 2024, 31[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2024 *Financial Report* consists of:

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

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2024, and 2023. Note 29—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

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

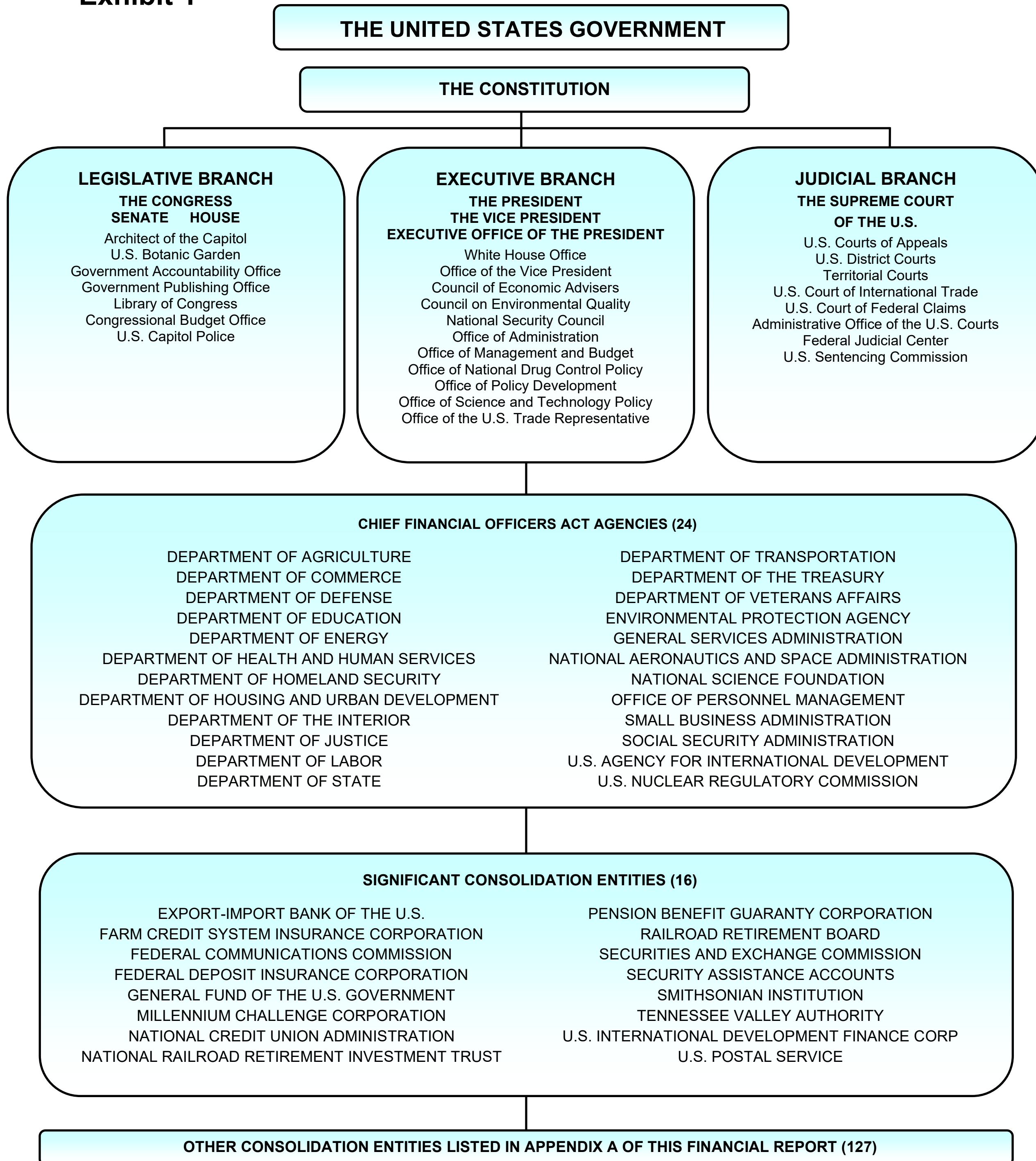
Mission & Organization

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

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

[2] The 31 entities include the HHS, which received disclaimers of opinion on its 2024, 2023, 2022, 2021, and 2020 SOSI and on its 2024 and 2023 SCSIA.

Exhibit 1



The Government's Financial Position and Condition

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

Table 1
The Federal Government's Financial Position and Condition

	2024	2023*	Increase / (Decrease) $	Increase / (Decrease) %
FINANCIAL MEASURES (Dollars in Billions)				
Gross Cost	**$ (7,772.2)**	**$ (7,661.7)**	**$ 110.5**	**1.4%**
Less: Earned Revenue	$ 652.9	$ 539.5	$ 113.4	21.0%
Gain/(Loss) from Changes in Assumptions	$ (283.6)	$ (760.6)	$ (477.0)	(62.7%)
Net Cost	**$ (7,402.9)**	**$ (7,882.8)**	**$ (479.9)**	**(6.1%)**
Less: Total Tax and Other Unearned Revenues	**$ 4,977.9**	**$ 4,465.6**	**$ 512.3**	**11.5%**
Net Operating Cost	**$ (2,425.0)**	**$ (3,417.2)**	**$ (992.2)**	**(29.0%)**
Budget Deficit	**$ (1,832.8)**	**$ (1,695.2)**	**$ 137.6**	**8.1%**
Assets:				
Cash & Other Monetary Assets	$ 1,177.7	$ 922.2	$ 255.5	27.7%
Inventory and Related Property, Net	$ 447.3	$ 423.0	$ 24.3	5.7%
Loans Receivable, Net	$ 1,751.0	$ 1,695.1	$ 55.9	3.3%
Property, Plant & Equipment, Net	$ 1,313.0	$ 1,235.0	$ 78.0	6.3%
Other	$ 973.1	$ 1,143.8	$ (170.7)	(14.9%)
Total Assets	**$ 5,662.1**	**$ 5,419.1**	**$ 243.0**	**4.5%**
Liabilities:				
Federal Debt and Interest Payable	$ (28,338.9)	$ (26,347.7)	$ 1,991.2	7.6%
Federal Employee and Veteran Benefits Payable	$ (15,033.4)	$ (14,347.6)	$ 685.8	4.8%
Other	$ (2,173.6)	$ (2,203.0)	$ (29.4)	(1.3%)
Total Liabilities	**$ (45,545.9)**	**$ (42,898.3)**	**$ 2,647.6**	**6.2%**
Net Position	**$ (39,883.8)**	**$ (37,479.2)**	**$ 2,404.6**	**6.4%**
SUSTAINABILITY MEASURES (Dollars in Trillions)				
Social Insurance Net Expenditures:				
Social Security (OASDI)	$ (25.4)	$ (25.2)	$ 0.2	0.8%
Medicare (Parts A, B, & D)	$ (52.8)	$ (53.1)	$ (0.3)	(0.6%)
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Net Expenditures	**$ (78.3)**	**$ (78.4)**	**$ (0.1)**	**(0.1%)**
Total Federal Non-Interest Net Expenditures	**$ (72.7)**	**$ (73.2)**	**$ (0.5)**	**(0.7%)**
75-Year Fiscal Gap (Percent of Gross Domestic Product)[1]	**(4.3%)**	**(4.5%)**	**(0.1%)**	**(2.2%)**

[1] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.3 percent of GDP on average is needed (4.5 percent of GDP on average in FY 2023). Totals may not equal sum of components due to rounding. See Financial Statement Note 24.

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

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

- During FY 2024, the budget deficit increased by $137.6 billion (8.1 percent) to $1.8 trillion. However, net operating cost decreased by $992.2 billion (29.0 percent) to $2.4 trillion. The primary contributor to the difference between the deficit and net operating cost is an increase in the liability for federal employee and veteran benefits payable that affects the government's current year costs but does not affect the current year budget deficit.
- The government's gross costs of $7.8 trillion, less $652.9 billion in revenues earned for goods and services provided to the public (e.g., Medicare premiums, national park entry fees, and postal service fees), plus $283.6 billion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of $7.4 trillion, a decrease of $479.9 billion or 6.1 percent compared to FY 2023.
- Net cost decreased but is subject to both cost increases and decreases across the government. For example, the largest decrease was due to significant decreases in losses stemming from changes in assumptions affecting cost and liability estimates for the government's employee and veteran benefits. The largest increase was to interest on the federal debt.
- Total tax and other revenues increased $512.3 billion to $5.0 trillion. Deducting these revenues from net cost results in a "bottom line" net operating cost of $2.4 trillion for FY 2024, a decrease of $992.2 billion or 29.0 percent compared to FY 2023.
- Comparing total FY 2024 government assets of $5.7 trillion (including $1.8 trillion of loans receivable, net and $1.3 trillion of PP&E) to total liabilities of $45.5 trillion (including $28.3 trillion in federal debt and interest payable[3], and $15.0 trillion of federal employee and veteran benefits payable) yields a negative net position of $39.9 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2024, debt held by the public, excluding accrued interest, was $28.3 trillion. This amount, plus intra-governmental debt ($7.1 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2024, the government's total debt subject to the debt limit was $35.4 trillion. On June 3, 2023, P.L. 118-5 was enacted, suspending the debt limit through January 1, 2025. See Note 29—Subsequent Events, for developments since the end of the fiscal year.

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

- The SLTFP shows that the PV[4] of total non-interest spending, including Social Security, Medicare, Medicaid, defense, and education, etc., over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $72.7 trillion (total federal non-interest net expenditures from Table 1).
- The SOSI shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues[5] by about $78.3 trillion, remaining largely unchanged, decreasing by approximately $100.0 billion compared to the social insurance projections presented in the 2023 *Financial Report*.
- The Social Insurance and Total Federal Non-Interest Net Expenditures measures in Table 1 differ primarily because total non-interest net expenditures from the SLTFP include the effects of general revenues and non-social insurance spending, neither of which is included in the SOSI.

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

- The budget deficit increased from $1.7 trillion in FY 2023 to $1.8 trillion in FY 2024. The deficit-to-GDP ratio also increased from 6.3 percent in FY 2023 to 6.4 percent in 2024.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2024, the $28.3 trillion in debt held by the public, excluding accrued interest, equates to 98 percent of GDP.
- The 2024 SOSI projection of $78.3 trillion net PV excess of expenditures over receipts over 75 years represents about 4.2 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of $72.7 trillion from the SLTFP represents 3.6 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in policy can, in turn, have a significant impact on projected debt as a percent of GDP.

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

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

[5] Social Security is funded by the payroll taxes and revenue from taxation of benefits. Medicare Part A is funded by the payroll taxes, revenue from taxation of benefits, and premiums that support those programs. Medicare Parts B and D are primarily financed by transfers from the General Fund, which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2024 and 2023 SOSI, the amounts eliminated totaled $50.2 trillion and $48.5 trillion, respectively. In addition, the SOSI programs include DOL's Black Lung Program, the projection period for which is 25 years.

- The debt-to-GDP ratio was approximately 98 percent at the end of FY 2024. Under current policy and based on this report's assumptions, it is projected to reach 535 percent by 2099. The projected continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable. To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 4.3 percent of GDP on average is needed (4.5 percent of GDP on average in the 2023 projections).

FY 2024 Financial Statement Audit Results

For FY 2024, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 27 years, due to certain material weaknesses in internal control over financial reporting and other limitations on the scope of its work. In addition, GAO issued a disclaimer of opinion on the sustainability financial statements due to significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. GAO's audit report on page 208 of this *Financial Report*, discusses GAO's findings.

In FY 2024, 18 of the 24 entities required to issue audited financial statements under the CFO Act received unmodified audit opinions, as did 13 of 16 additional significant consolidation entities (see Table 10 and Appendix A).[6]

The Government-wide Reporting Entity

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

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

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

The following pages contain a more detailed discussion of the government's financial results for FY 2024, the *Budget*, the economy, the debt, and a long-term perspective about fiscal sustainability, including the government's ability to meet its social insurance benefits obligations. The information in this *Financial Report*, when combined with the *Budget*, collectively presents information on the government's financial position and condition.

Accounting Differences Between the Budget and the Financial Report

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

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

[6] The 18 entities include the HHS, which received disclaimers of opinions on its 2024, 2023, 2022, 2021, and 2020 SOSI and its 2024 and 2023 SCSIA. The 13 additional significant entities include the FDIC, the NCUA, and the FCSIC, which report their audited financial statements on a calendar year basis (December 31 year-end). Statistic reflects 2023 audit results for these organizations if 2024 results are not available.

[7] See Note 23—Fiduciary Activities.

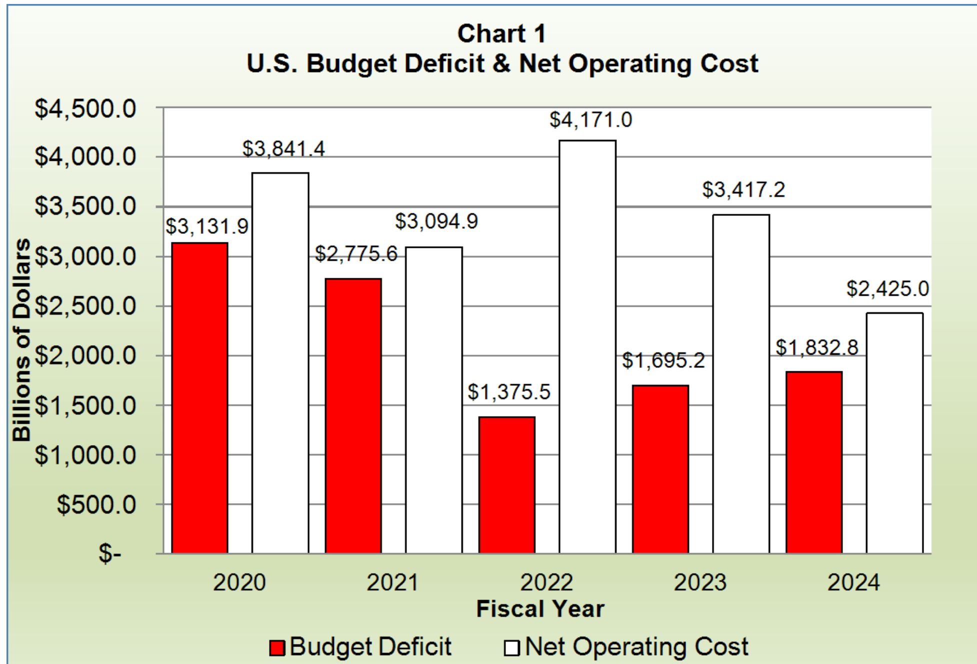
[8] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The SOSI presents the PV of the estimated future revenues and expenditures for scheduled benefits over the next 75 years for the Social Security, Medicare, RRP; and 25 years for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

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

Budget Deficit vs. Net Operating Cost

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

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



The government's primarily cash-based[9] budget deficit increased by $137.6 billion (8.1 percent) from approximately $1.7 trillion in FY 2023 to about $1.8 trillion in FY 2024 due to a $479.4 billion increase in receipts which was more than offset by a $617.0 billion increase in outlays in FY 2024. The increase in receipts can be attributed to increases in individual and corporation income tax receipts and in social insurance and retirement receipts. The increase in outlays in part reflects the reduction in FY 2023 outlays due to the Supreme Court's 2023 decision in Biden v. Nebraska regarding certain student loan programs. It also reflects increases in spending on Interest on the Public Debt, largely due to an increase in the outstanding debt held by the public and an increase in the average interest rates, as well as spending increases for Social Security, defense, and Medicare. These were offset by significant spending decreases at FDIC, the Pension Guaranty Fund, and SNAP.[10]

Treasury's September 2024 MTS provides FY 2024 receipts, spending, and deficit information for this *Financial Report*. The MTS presents primarily cash-based spending, or outlays, for the fiscal year in a number of ways, including by month, by entity, and by budget function classification. The *Budget* is divided into approximately 20 categories, or budget

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

[10] 10/18/24 press release – Joint Statement of Janet L. Yellen, Secretary of the Treasury, and Shalanda D. Young, Director of the Office of Management and Budget, on Budget Results for Fiscal Year 2024. Note that some amounts in this *Financial Report* reflect updates subsequent to publication of the press release.

functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2024 MTS.[11]

The government's largely accrual-based net operating cost decreased by $992.2 billion (29.0 percent) to $2.4 trillion during FY 2024. As discussed in this *Financial Report*, as the deficit is affected by changes in both receipts and outlays, so too are the government's net operating costs affected by changes in both revenues and costs.

The *Reconciliation of Net Operating Cost and Budget Deficit* statement articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. The difference between the government's budget deficit and net operating cost is typically impacted by many variables. For example, as shown in Table 2, most of the $592.2 billion net difference for FY 2024 is attributable to a $685.8 billion net increase in liabilities for federal employee and veteran benefits payable (see Note 13—Federal Employee and Veteran Benefits Payable). Other differences include: 1) a $106.3 billion decrease in advances and prepayments made by the federal government (see Note 9—Advances and Prepayments); 2) a $65.4 billion non-cash earned revenue related to investments in government-sponsored enterprises (see Note 7—Investment in Government-Sponsored Enterprises); and 3) a $145.6 billion timing difference when credit reform costs are recorded in the budget versus net operating cost (see Note 4—Loans Receivable, Net and Loan Guarantees).

Table 2: Net Operating Cost vs. Budget Deficit

Dollars in Billions	2024	2023*
Net Operating Cost	**$ (2,425.0)**	**$ (3,417.2)**
Changes in:		
Federal Employee and Veteran Benefits Payable	$ 685.8	$ 1,535.7
Advances and Prepayments	$ 106.3	$ 45.4
Investments in Government-Sponsored Enterprises	$ (65.4)	$ (16.7)
Timing Differences - Credit Reform Costs	$ (145.6)	$ 24.5
Other, Net	$ 11.1	$ 133.1
Subtotal - Net Difference:	$ 592.2	$ 1,722.0
Budget Deficit	**$ (1,832.8)**	**$ (1,695.2)**

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

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

The government's financial position and condition have traditionally been expressed through the *Budget*, focusing on surpluses, deficits, and debt. However, this primarily cash-based discussion of the government's net outlays (deficit) or net receipts (surplus) tells only part of the story. The government's accrual-based net position, (the difference between its assets and liabilities), and its "bottom line" net operating cost (the difference between its revenues and costs) are also key financial indicators.

Costs and Revenues

The government's Statement of Operations and Changes in Net Position, much like a corporation's income statement, shows the government's "bottom line" and its impact on net position (i.e., assets net of liabilities). To derive the government's "bottom line" net operating cost, the Statement of Net Cost first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the government's net cost or the net of: 1) gross costs, or the costs of goods produced and services rendered by the government; 2) the earned revenues generated by those goods and services during the fiscal year; and 3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is reduced by the government's taxes and other revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.

[11] Final MTS for FY 2024 through September 30, 2024 and Other Periods.

Table 3: Gross Cost, Revenues, Net Cost, and Net Operating Cost				
Dollars in Billions	2024	2023	Increase / (Decrease) $	%
Gross Cost	**$ (7,772.2)**	**$ (7,661.7)**	**$ 110.5**	**1.4%**
Less: Earned Revenue	$ 652.9	$ 539.5	$ 113.4	21.0%
Gain/(Loss) from Changes in Assumptions	$ (283.6)	$ (760.6)	$ (477.0)	(62.7%)
Net Cost	**$ (7,402.9)**	**$ (7,882.8)**	**$ (479.9)**	**(6.1%)**
Less: Tax and Other Revenues	**$ 4,977.9**	**$ 4,465.6**	**$ 512.3**	**11.5%**
Net Operating Cost	**$ (2,425.0)**	**$ (3,417.2)**	**$ (992.2)**	**(29.0%)**

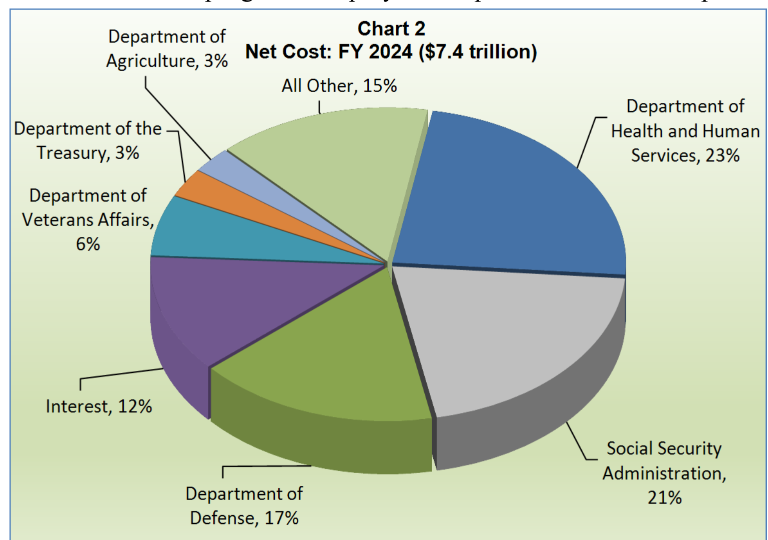
Table 3 shows that the government's "bottom line" net operating cost decreased $992.2 billion (29.0 percent) during 2024 from $3.4 trillion to $2.4 trillion. This decrease is due mostly to a $479.9 billion (6.1 percent) decrease in net costs, combined with a $512.3 billion (11.5 percent) increase in tax and other revenues over the past fiscal year as discussed in the following.

Gross Cost and Net Cost

The FY 2024 Statement of Net Cost starts with the government's total gross costs of $7.8 trillion, subtracts $652.9 billion in revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities ($283.6 billion loss), including federal employee and veteran benefits to derive its net cost of $7.4 trillion, a $479.9 billion (6.1 percent) decrease compared to FY 2023.

Typically, the annual change in the government's net cost is the result of a variety of offsetting increases and decreases across entities. Offsetting changes in federal entity net cost during FY 2024 included:

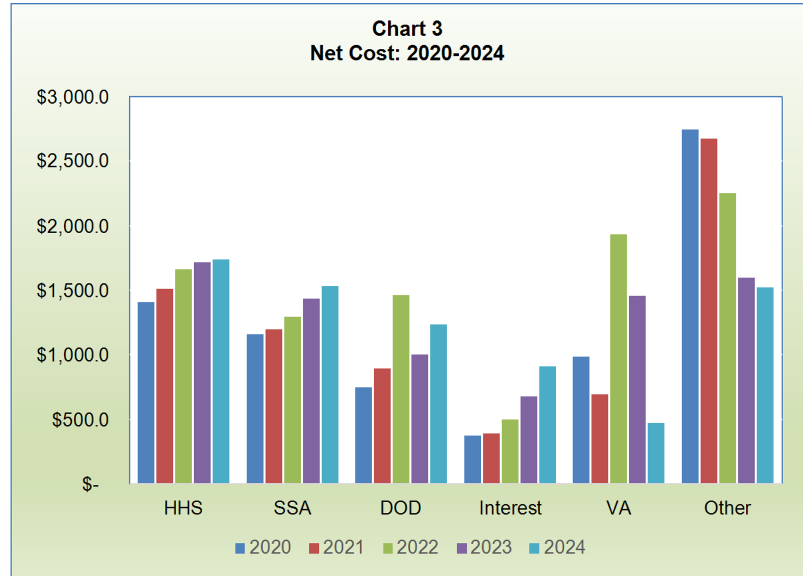
- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $283.6 billion in FY 2024, a net loss (and a corresponding net cost) decrease of $477.0 billion compared to FY 2023. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the VA, DOD, and OPM. VA recorded a gain from changes in assumptions of $37.7 billion and DOD and OPM recorded losses in the amounts of $236.7 billion and $83.8 billion, respectively. These actuarial estimates and the resulting gains or losses from changes in assumptions can sometimes cause significant swings in total entity costs from year to year. For example, for FY 2024, net cost decreases at OPM ($6.9 billion) and VA ($983.3 billion), and a net cost increase at DOD ($229.0 billion), were significantly impacted by the corresponding changes in gains or losses from assumption changes at these entities. For example:



  - A $983.3 billion decrease in VA net cost was impacted largely by a $37.7 billion gain from changes in assumptions for FY 2024 as referenced above, compared to a $558.8 billion loss for FY 2023, which combine to result in a cost decrease effect of $596.5 billion. VA net costs also decreased because the actuarial present value cost of the Sergeant First Class Heath Robinson Honoring our Promise to Address Comprehensive Toxins (PACT) Act, which expanded and extended eligibility for veterans' benefits, was recognized as an expense for 2023 and there was no similar expense in 2024.
  - The $229.0 billion increase in DOD net cost is primarily due to a $147.4 billion increase in losses from changes in assumptions referenced above. While losses from changes in assumptions represented the largest increase, the majority (more than 80 percent) of DOD costs are attributable to a wide range of functions, including military operations, readiness, and support; procurement; military personnel; and R&D.
- The $81.4 billion decrease in Treasury net costs is largely due to a decrease in costs associated with Treasury's pandemic relief programs and a $48.7 billion increase in earned revenue associated with the GSE (Fannie Mae and

Freddie Mac) investments. GSE earned revenue is driven by fair value changes to Treasury's GSE investments and changes to the liquidation preference of Treasury's GSE senior preferred stock. The asset value of these investments grew by $65.4 billion during FY 2024, reflecting a fair value valuation gain in senior preferred stock and warrants of $36.7 billion, coupled with a $28.7 billion growth in the liquidation preference of the senior preferred stock.

- A $173.2 billion increase at Education, due primarily to a large increase in subsidy expenses for Education's student loan programs, resulting from differences in the amounts of loan modifications and subsidy reestimates that occurred during FYs 2023 and 2024. Education's costs can fluctuate significantly each year as a result of changes in estimated subsidy expenses—primarily subsidy expenses for direct loans. The primary components of subsidy expenses include year-end subsidy reestimates and loan modifications. Education's FY 2024 costs were also impacted by: 1) a $16.9 billion net upward loan reestimate of the costs of its existing loan portfolio; and 2) $2.1 billion in upward modifications. Modifications and reestimates affecting FY 2023 net cost reflect the reversal of the proposed broad-based student loan debt relief as a result of the Supreme Court's ruling in *Biden v Nebraska*.

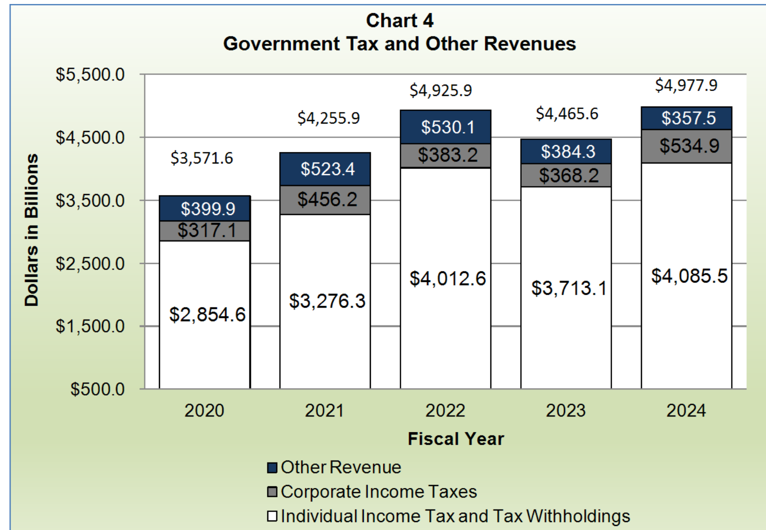


- A $24.1 billion net cost increase at HHS was primarily due to a $21.4 billion net increase in Medicare benefit expenses, which includes increases in Medicare SMI and HI.
- A $97.4 billion increase at SSA, due to a 2.9 percent increase in the number of OASI beneficiaries, and the 3.2 percent COLA provided to beneficiaries in 2024. The OASI, DI, and SSI net cost increased by 5.7 percent, 7.4 percent, and 4.8 percent, respectively. Total benefit expenses increased by $96.4 billion or 6.8 percent.
- A $231.1 billion increase in interest on debt held by the public to $909.1 trillion for FY 2024 (the largest increase for FY 2024), primarily attributable to an increase in the outstanding debt held by the public and increase in the average interest rates.

Chart 2 shows the composition of the government's net cost for FY 2024, and Chart 3 shows the five-year trend in the largest agency cost components. In FY 2024, approximately 85 percent of the federal government's total net cost came from only six agencies (HHS, SSA, DOD, VA, Treasury, USDA), and interest on the debt. The other 150-plus entities included in the government's FY 2024 Statement of Net Cost accounted for a combined 15 percent of the government's total net cost for FY 2024. HHS and SSA net costs for FY 2024 ($1.7 trillion and $1.5 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of $472.0 billion support health, education and other benefits programs for our nation's veterans. DOD net costs of $1.2 trillion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $222.3 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our nation's financial system, and effectively managing the U.S. government's finances and resources. USDA net costs of $203.1 billion support a wide range of programs that provide effective, innovative, science-based public policy leadership in agriculture, food and nutrition, natural resource protection and management, rural development, and related issues with a commitment to deliver equitable and climate-smart opportunities that inspire and help America thrive.

Tax and Other Revenues

As noted earlier, tax and other revenues from the Statement of Operations and Changes in Net Position are deducted from total net cost to derive the government's "bottom line" net operating cost. Chart 4 shows that total tax and other revenue increased by $512.3 billion or 11.5 percent to $5.0 trillion for FY 2024. This increase is attributable mainly to an overall growth in income tax collections, primarily from individuals and corporations. Earned revenues from Table 3 are not considered "taxes and other revenue" and, thus, are not shown in Chart 4. Individual income tax and tax withholdings and corporate income taxes accounted for about 82.1 percent and 10.7 percent of total tax and other revenue, respectively in FY 2024; other revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.



As previously shown in Table 3, the increase in tax and other revenue combined with the decrease in net cost, to yield a $992.2 billion decrease to the government's bottom line net operating cost of $2.4 trillion for FY 2024.

Tax Expenditures

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

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

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

Assets and Liabilities

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

Table 4: Assets and Liabilities

Dollars in Billions	2024	2023*	Increase / (Decrease) $	%
Assets				
Cash & Other Monetary Assets	$ 1,177.7	$ 922.2	$ 255.5	27.7%
Inventory and Related Property, Net	$ 447.3	$ 423.0	$ 24.3	5.7%
Loans Receivable, Net	$ 1,751.0	$ 1,695.1	$ 55.9	3.3%
Property, Plant & Equipment, Net	$ 1,313.0	$ 1,235.0	$ 78.0	6.3%
Other	$ 973.1	$ 1,143.8	$ (170.7)	(14.9%)
Total Assets	**$ 5,662.1**	**$ 5,419.1**	**$ 243.0**	**4.5%**
Less: Liabilities, comprised of:				
Federal Debt and Interest Payable	$(28,338.9)	$(26,347.7)	$ 1,991.2	7.6%
Federal Employee and Veteran Benefits Payable	$(15,033.4)	$(14,347.6)	$ 685.8	4.8%
Other	$ (2,173.6)	$ (2,203.0)	$ (29.4)	(1.3%)
Total Liabilities	**$(45,545.9)**	**$(42,898.3)**	**$ 2,647.6**	**6.2%**
Net Position	**$(39,883.8)**	**$(37,479.2)**	**$ 2,404.6**	**6.4%**

*Change in Presentation (See Note 1.W)

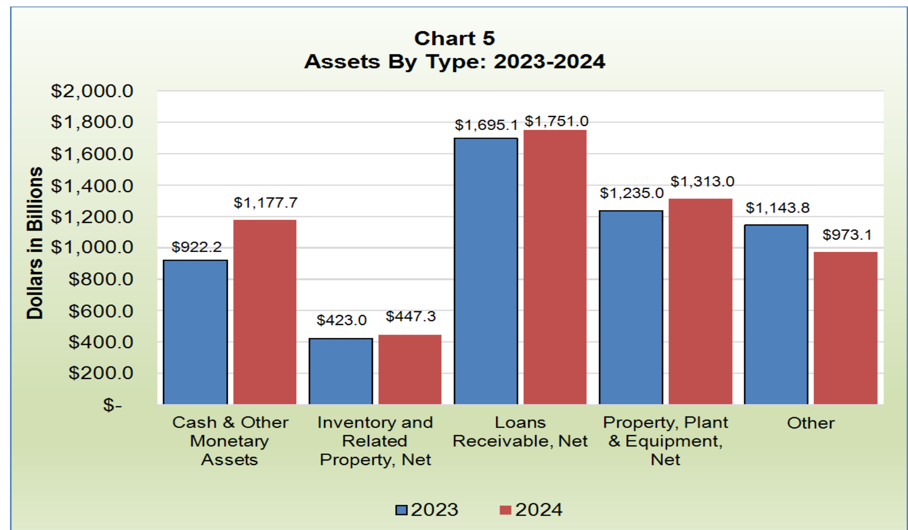
Assets

From Table 4, as of September 30, 2024, 82.8 percent of the government's $5.7 trillion in reported assets is comprised of: 1) cash and other monetary assets ($1.2 trillion); 2) inventory and related property, net ($447.3 billion); 3) loans receivable, net ($1.8 trillion); and 4) net PP&E ($1.3 trillion).[12] Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2024, and 2023.

Cash and other monetary assets ($1.2 trillion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury, which represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments and other payments, increased $231.9 billion (36.3 percent) to $870.8 billion (see Note 2—Cash and Other Monetary Assets).

Inventory and related property ($447.3 billion) is comprised of inventory; OM&S; stockpile materials; commodities; and seized, forfeited, and foreclosed property. Inventory is tangible personal property that is either held for sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee (e.g., raw materials, finished goods, spare and repair parts, clothing and textiles, and fuels). OM&S consists of tangible personal property to be consumed in normal operations (e.g., spare and repair parts, ammunition, and tactical missiles). Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation, or local/national emergencies. Contributing agencies include DOD and DOE, (see Note 5—Inventory and Related Property, Net).

The federal government's direct loans and loan guarantee programs are used to promote the nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. For example, Education supports individuals engaged in education programs through a variety of student



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

loan, grant and other assistance programs. USDA administers loan programs to support the nation's farming and agriculture community. HUD loan programs support affordable homeownership, as well as the construction and rehabilitation of housing projects for the elderly and persons with disabilities. SBA loan programs enable the establishment and vitality of small businesses and assist in the economic recovery of communities after disasters. Loans receivable consists primarily of direct loans disbursed by the government, receivables related to guaranteed loans that have defaulted, and certain receivables for guaranteed loans that the government has purchased from lenders. The federal government's loan receivable, net increased by $55.9 billion (3.3 percent) to $1.8 trillion during FY 2024, with Education and SBA together accounting for nearly three-fourths of the total.

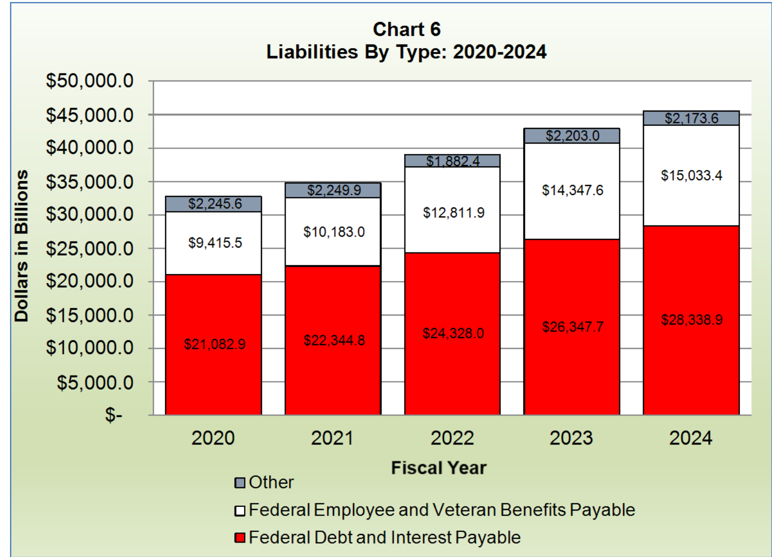
Loan guarantee programs are another form of federal lending. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. Significant changes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

- Education has loan programs that are authorized by Title IV of the *Higher Education Act of 1965*. The William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), was established in FY 1994 and offers four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. Education's net loans receivable for its Direct Loan Program totaled $1.0 trillion, slightly greater than FY 2023 and 59.5 percent of total loans receivable, net.
- SBA makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters. SBA's Disaster Assistance Loan Program makes direct loans to disaster survivors under four categories: 1) physical disaster loans to repair or replace damaged homes and personal property; 2) physical disaster loans to businesses of any size; 3) EIDLs to eligible small business and nonprofit organizations without credit available elsewhere; and 4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. In FY 2024 SBA's credit program receivables decreased by $14.5 billion from FY 2023 due to collections of existing balances exceeding new loans.
- Loans Receivable also includes Treasury's $94.5 billion in notes issued by trusts created by FDIC in its receivership capacity and backed by a guarantee from the FDIC in its corporate capacity.

Federal government PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general-purpose land. DOD comprises approximately 64.7 percent of the government's reported PP&E of $1.3 trillion as of September 30, 2024. See Note 6—Property, Plant, and Equipment, Net.

"Other" assets of $1.0 trillion in Table 4 and Chart 5 includes: 1) $278.7 billion in accounts receivable, net; 2) $146.4 billion in "Advances and Prepayments"; and 3) $305.8 billion in Investments in GSEs. Taxes Receivable, which comprises approximately 52.7 percent of the government's reported accounts receivable, net, consist of uncollected tax assessments, penalties, and interest when taxpayers have agreed, or a court has determined the assessments are owed and unpaid taxes related to IRC section 965. Taxes receivable, net, decreased by $43.7 billion during FY 2024, primarily due to the reduction in IRC 965(h). See Note 3—Accounts Receivable, Net. Advances and Prepayments represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. The $106.3 billion decrease in this amount was largely attributable to a large decrease at Treasury due to advance liquidations related to the Coronavirus State and Local Fiscal Recovery Funds and the Community Development Financial Institutions Rapid Response and Equitable Recovery Programs Fund. A significant HHS decrease was due to Prescription Drug and Medicare Advantage benefit payments for October 1, 2023, that occurred on September 29, 2023 instead of October 1, 2023 (See Note 9—Advances and Prepayments). Investments in GSEs refers to actions taken by Treasury in the wake of the 2008 financial crisis to maintain the solvency of the GSEs (Fannie Mae and Freddie Mac) so they can continue to fulfill their vital roles in the mortgage market while the administration and Congress determine what structural changes should be made to the housing finance system. (See Note 7—Investment in Government-Sponsored Enterprises).

Liabilities



As indicated in Table 4 and Chart 6, of the government's $45.5 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by $2.0 trillion (7.6 percent) to $28.3 trillion as of September 30, 2024.

The other major component of the government's liabilities is federal employee and veteran benefits payable (i.e., the government's pension and other benefit plans for its military and civilian employees), which increased $0.7 trillion (4.8 percent) during FY 2024, to about $15.0 trillion. This total amount is comprised of $3.5 trillion in benefits payable for the current and retired civilian workforce, and $11.6 trillion for the military and veterans. OPM administers the largest civilian pension plan, covering nearly 2.8 million active employees, including the Postal Service, and more than 2.7 million annuitants, including survivors. The DOD military pension plan covers about 2.1 million current military personnel (including active service, reserve, and National Guard) and approximately 2.4 million retirees and survivors.

Federal Debt

The budget surplus or deficit is the difference between total federal spending and receipts (e.g., taxes) in a given year. The government borrows from the public (increases federal debt levels) to finance deficits. During a budget surplus (i.e., when receipts exceed spending), the government typically uses those excess funds to reduce the debt held by the public. The Statement of Changes in Cash Balance from Budget and Other Activities reports how the annual budget surplus or deficit relates to the federal government's borrowing and changes in cash and other monetary assets. It also explains how a budget surplus or deficit normally affects changes in debt balances.

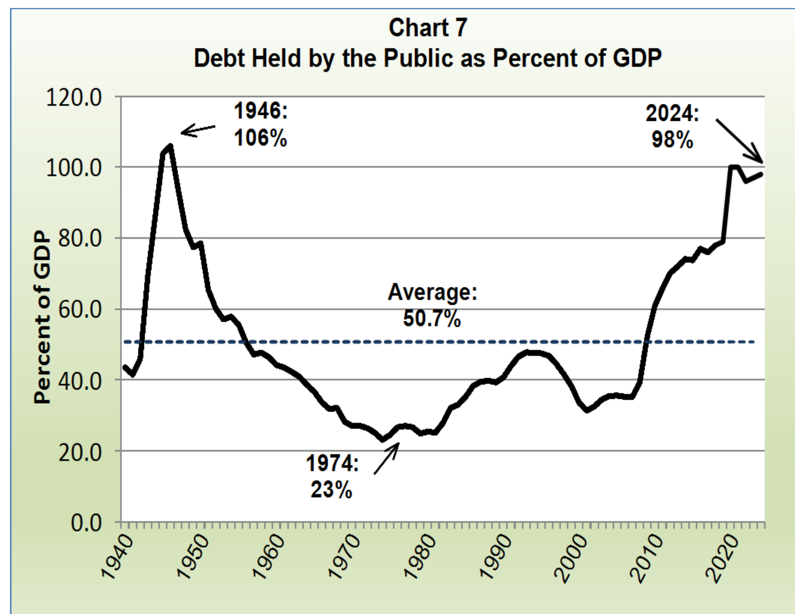
> Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President established a dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (P.L. 77-7), Congress and the President set an overall limit of $65 billion on Treasury debt obligations that could be outstanding at any one time. Since then, Congress and the President have enacted a number of measures affecting the debt limit, including several in recent years. Congress and the President most recently suspended the debt limit from June 3, 2023 through January 1, 2025. It is important to note that increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the U.S. to continue to honor pre-existing commitments to its citizens, businesses, and investors domestically and around the world.

The government's federal debt and interest payable (Balance Sheet liability), which is comprised of publicly-held debt and accrued interest payable, increased $2.0 trillion (7.6 percent) to $28.3 trillion as of September 30, 2024. It is comprised of Treasury securities, such as bills, notes, and bonds, net of unamortized discounts and premiums issued or sold to the public; and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government. As indicated above, budget surpluses have typically resulted in borrowing reductions, and budget deficits have conversely yielded borrowing increases. However, the government's debt operations are generally much more complex. Each year, trillions of dollars of debt matures and new debt is issued to take its place. In FY 2024, new borrowings were $28.8 trillion, and repayments of maturing debt held by the public were $26.9 trillion, both increases over FY 2023. The $2.0 trillion increase in publicly held debt and accrued interest payable is largely attributable to the need to finance the government's operations.

In addition to debt held by the public, the government has about $7.1 trillion in intra-governmental debt outstanding, which arises when one part of the government borrows from another. It represents debt issued by Treasury and held by government accounts, including the Social Security ($2.8 trillion) and Medicare ($399.4 billion) Trust Funds. Intra-governmental debt is primarily held in government trust funds in the form of special nonmarketable securities by various parts of the government. Laws establishing government trust funds generally require excess trust fund receipts (including interest earnings) over disbursements to be invested in these special securities. Because these amounts are both liabilities of Treasury and assets of the government trust funds, they are eliminated as part of the consolidation process for the government-wide financial statements (see Financial Statement Note 12—Federal Debt and Interest Payable). When those securities are redeemed, e.g., to pay Social Security benefits, the government must obtain the resources necessary to reimburse the trust funds. The sum of debt held by the public and intra-governmental debt equals gross federal debt, which

(with some adjustments), is subject to a statutory ceiling (i.e., the debt limit). Note that when intra-governmental debt decreases, debt held by the public will increase by an equal amount (if the general account of the U.S. government is in deficit), so that there is no net effect on gross federal debt. At the end of FY 2024, debt subject to the statutory limit was $35.4 trillion.[13]

The federal debt held by the public measured as a percent of GDP (debt-to-GDP ratio) (Chart 7) compares the country's debt to the size of its economy, making this measure sensitive to changes in both. Over time, the debt-to-GDP ratio has varied widely:



- For most of the nation's history, through the first half of the 20th century, the debt-to-GDP ratio has tended to increase during wartime and decline during peacetime.
- Chart 7 shows that wartime spending and borrowing pushed the debt-to-GDP ratio to an all-time high of 106 percent in 1946, soon after the end of World War II, but it decreased rapidly in the post-war years.
- The ratio grew rapidly from the mid-1970s until the early 1990s. Strong economic growth and fundamental fiscal decisions, including measures to reduce the federal deficit and implementation of binding PAYGO rules (which require that new tax or spending laws not add to the deficit), generated a significant decline in the debt-to-GDP ratio, from a peak of 48 percent in FYs 1993-1995, to 31 percent in 2001.
- The debt-to-GDP ratio rose significantly in 2008-2009 during the financial crisis and again in 2020-2021 during the pandemic reflecting the government's responses to both events and the resulting significant spending and deficit increases, as well as the economic challenges experienced during both periods.
- During the first decade of the 21st century, PAYGO rules were allowed to lapse, significant tax cuts were implemented, entitlements were expanded, and spending related to defense and homeland security increased. By September 2008, the debt-to-GDP ratio was 39 percent of GDP.
- PAYGO rules were reinstated in 2010, but the extraordinary demands of the 2008 economic and financial crisis and the consequent actions taken by the federal government, combined with slower economic growth in the wake of the crisis, pushed the debt-to-GDP ratio up to 74 percent by the end of FY 2014.
- The extraordinary demands of the pandemic, the government's response, and pressures on the economy contributed to a rise in the debt-to-GDP ratio to approximately 100 percent during FY 2020 and FY 2021.
- The debt was approximately 98 percent of GDP at the end of FY 2024. This ratio increased during FY 2024 because debt grew faster than GDP.[14,15] From Chart 7, since 1940, the average debt-to-GDP ratio is 51 percent.

See Note 29—Subsequent Events for information about events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

[13] In FY 2023, Treasury faced a delay in raising the debt limit that required it to depart from its normal debt management procedures and invoke legal authorities to avoid exceeding the statutory debt limit. During this period, extraordinary measures taken by Treasury resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored, including lost interest, to the affected government accounts subsequent to the end of the delay period. Due to the delay in raising the statutory debt limit, Treasury took extraordinary measures from January 19, 2023, through June 2, 2023. On June 3, 2023, P.L. 118-5 was enacted suspending the debt limit through January 1, 2025. Effective January 2, 2025, the statutory debt limit was set at $36,104.0 billion. On December 27, 2024, the Secretary of the Treasury notified the Congress that the statutory debt limit is expected to be reached between January 14, 2025, and January 23, 2025, at which time it will be necessary for Treasury to start taking extraordinary measures to prevent the U.S. government from defaulting on its obligations. See Note 12—Federal Debt and Interest Payable and Note 29—Subsequent Events.

[14] GDP, in this context, refers to nominal GDP.

[15] The increase in debt of $2.0 trillion was greater than the FY 2024 deficit of $1.8 trillion primarily because of the additional $229 billion in borrowing that was used to increase the federal government's cash balance partially offset by federal direct loan financing activity.

The Economy in FY 2024

An evaluation of U.S. macroeconomic performance helps to illuminate many aspects of the government's financial statements. In FY 2024, the economy maintained a solid, if somewhat slower, pace of growth; labor markets further rebalanced toward pre-pandemic norms; and inflation continued to ease, nearing the Federal Reserve's 2-percent target. Despite slower nominal wage growth, easing inflation led to stronger real wage gains and improved purchasing power for production and nonsupervisory workers.

Table 5: National Economic Indicators*

	2024	2023
Real GDP Growth[1] (4-quarter percent change)	2.7%	3.2%
Real Personal Consumption Expenditures[1] (4-quarter percent change)	3.0%	2.4%
Average monthly payroll job change (thousands)[2]	197	261
Unemployment rate[2] (percent, September of fiscal year shown)	4.1%	3.8%
CPI (12-month percent change)[2] (not seasonally adjusted, NSA)	2.4%	3.7%
CPI, excluding food and energy[2] (12-month percent change, NSA)	3.3%	4.1%
Real Disposable Personal Income[1] (12-month percent change)	2.6%	4.5%
Real Average Hourly Earnings[2] Production and Non-Supervisory (12-month percent change)	1.9%	1.2%

[1] Source: Bureau of Economic Analysis
[2] Source: Bureau of Labor Statistics
* Some FY 2023 data may differ from the FY 2023 Financial Report due to updates and revisions.

As summarized in Table 5, the real GDP grew by 2.7 percent over the four quarters of FY 2024. Growth of real PCE accounted for the majority of total economic growth. Over the four quarters of FY 2024, PCE rose 3.0 percent—alone accounting for 2.0 percentage points of GDP growth. This pace of growth was over a half percentage point faster than PCE growth in the previous fiscal year. Public expenditures and business fixed investment also made solid additions to economic growth. Total government spending and investment added 0.6 percentage points to fiscal year growth—moderately softer than the 0.8 percentage point contribution in FY 2023—while business fixed investment accounted for 0.6 percentage points of real GDP growth in FY 2024, or just 0.1 percentage points less than the addition in the previous fiscal year. Notably, given solid contributions to growth in the first half of FY 2024, residential investment turned from a 0.2 percentage point subtraction from growth in FY 2023 to a 0.1 percentage point addition to growth this last fiscal year. Net exports (exports less imports) declined and reduced GDP growth[16] by 0.5 percentage points in FY 2024, as imports rose 7.1 percent, exceeding the 4.6 percent rise of exports. In contrast net exports rose in FY 2023, contributing 0.2 percentage points to GDP growth. Finally, firms continued to build up inventories, but at a pace little changed from FY 2023, yielding an essentially flat contribution to GDP growth this year.

Labor markets saw in FY 2024 further normalization from pandemic-recovery tightness. Job creation, while substantial, slowed further. On average during FY 2024, employers added 197,000 payroll jobs per month—a pace that would have been considered strong before the pandemic but marked easing labor demand from the previous three fiscal years: in FY 2021, markets added 491,000 jobs on average per month; job growth stepped down to 486,000 in FY 2022 and fell to 261,000 on average per month throughout FY 2023. Meanwhile, the unemployment rate trended up during FY 2024. In the previous fiscal year, the unemployment rate fell to a 54-year low of 3.4 percent in January and April 2023. After April, this rate began to slowly increase, rising to 3.8 percent by the fiscal year's end and advancing another 0.3 percentage points to 4.1 percent by September 2024. Despite the uptrend, the unemployment rate at the end of FY 2024 was still historically low and 0.3 percentage points below the Congressional Budget Office's estimate of the noncyclical unemployment rate for 2024, suggesting the uptrend may have been an inevitable normalization of labor market conditions. Labor force participation held relatively steady between FY 2023 and FY 2024, though this masked some compositional change among age cohorts. Overall labor force participation ticked down 0.1 percentage points over the course of FY 2024, although the participation rate among prime age (ages 25 to 54) workers rose. The prime-age labor force participation rate rose from 83.5 percent at the end of FY 2023, reaching a 23-year high of 84.0 percent in July 2024 before ending FY 2024 at 83.8 percent. The prime-age participation rate was 0.4 percentage points above the pre-pandemic peak. By contrast, the labor force participation rate among older workers remained substantively lower from before the pandemic: at the end of FY 2024, the labor force participation rate for the ages 55 or older population was 38.6 percent, down 0.1 percentage points from the end of FY 2023 and 1.7 percentage points below the rate at the end of FY 2019.

Inflation continued to ease during FY 2024—albeit more gradually than in FY 2023. As measured by the CPI, inflation was 2.4 percent over the 12 months of FY 2024, down from 3.7 percent over FY 2023 and 8.2 percent over FY 2022. Energy prices deflation and food price disinflation helped pull headline inflation readings lower. While core inflation (which excludes food and energy) also slowed, progress was more muted given the persistence of price growth for shelter services and non-housing core services. Core inflation was 3.3 percent over the fiscal year ending September 2024, down from 4.1

[16] As a component of GDP, net exports can either add to or subtract from GDP growth, depending upon the relative growth rates of exports and imports. Imports are subtracted from GDP because they may also be included in the other expenditure components of GDP and because they are produced abroad should not be counted in GDP.

percent at the end of FY 2023 and 6.6 percent at the end of FY 2022. Meanwhile, the Federal Reserve's preferred measure of inflation, the PCE price index, was just above its target 2-percent rate at the end of FY 2024.

Gains in nominal wages and DPI slowed in FY 2024, but workers nonetheless realized solid increases in purchasing power after adjusting for inflation. Nominal hourly wages for production and supervisory workers grew by 4.0 percent over FY 2024, slowing modestly from the 4.7 percent pace over the previous fiscal year. Despite the slowdown in nominal growth, inflation slowed more. As a result, (real) wages rose 1.9 percent in FY 2024, stepping up from 1.2 percent in FY 2023. Meanwhile, nominal DPI growth slowed sharply to 4.8 percent in the latest fiscal year, down from 8.0 percent over FY 2023. After adjusting for inflation, real DPI growth was a still-solid 2.6 percent, though slower than the 4.5 percent advance in real DPI over FY 2023.

An Unsustainable Fiscal Path

An important purpose of the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. This *Financial Report* includes the SLTFP and a related note disclosure (Note 24). The Statements display the PV of 75-year projections of the federal government's receipts and non-interest spending[17] for FY 2024 and FY 2023.

Fiscal Sustainability

A sustainable fiscal policy is defined in this *Financial Report* as one where the debt-to-GDP ratio is stable or declining over the long term. The projections based on the assumptions in this *Financial Report* indicate that current policy is not sustainable. This *Financial Report* presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The debt-to-GDP ratio was approximately 98 percent at the end of FY 2024, up slightly from approximately 97 percent at the end of FY 2023. The long-term fiscal projections in this *Financial Report* are based on the same economic and demographic assumptions that underlie the 2024 SOSI, which is as of January 1, 2024. As discussed below, if current policy is left unchanged and based on this *Financial Report's* assumptions, the debt-to-GDP ratio is projected to exceed 200 percent by 2049 and reach 535 percent in 2099. By comparison, under the 2023 projections, the debt-to-GDP ratio exceeded 200 percent two years earlier in 2047 and reached 531 percent in 2098. Preventing the debt-to-GDP ratio from rising over the next 75 years is estimated to require some combination of spending reductions and revenue increases that amounts to 4.3 percent PV of GDP over the period. While this estimate of the "75-year fiscal gap" is highly uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

Delaying action to reduce the fiscal gap increases the magnitude of spending and/or revenue changes necessary to stabilize the debt-to-GDP ratio as shown in Table 6 below.

The estimates of the cost of policy delay assume policy does not affect GDP or other economic variables. Delaying fiscal adjustments for too long raises the risk that growing federal debt would increase interest rates, which would, in turn, reduce investment and ultimately economic growth.

The projections discussed here assume current policy[18] remains unchanged, and hence, are neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes must be enacted to move towards fiscal sustainability.

The Primary Deficit, Interest, and Debt

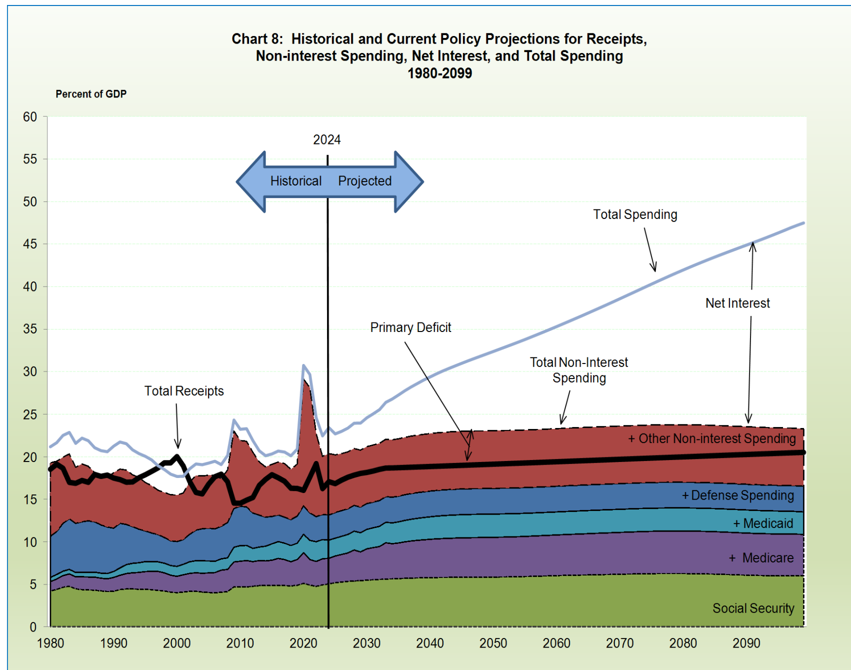
The primary deficit – the difference between non-interest spending and receipts – is the determinant of the debt-to-GDP ratio over which the government has the greatest control (the other determinants include interest rates and growth in GDP). Chart 8 shows receipts, non-interest spending, and the difference – the primary deficit – expressed as a share of GDP. The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the 2008-09 financial crisis and the ensuing severe recession, and rose again in 2020 due to the COVID-19 pandemic and ensuing economic downturn. Increased spending and temporary tax reductions enacted to stimulate the economy and support recovery contributed to elevated primary deficits over both periods, resulting in sharp increases in the ratio of debt to GDP. The debt-to-GDP ratio rose from 39 percent at the end of 2008 to 70 percent at the end of 2012 and then from 79 percent at the end of 2019 to approximately 100 percent at the end of 2020.

[17] For the purposes of the SLTFP and this analysis, spending is defined in terms of outlays. In the context of federal budgeting, spending can either refer to: 1) budget authority – the authority to commit the government to make a payment; 2) obligations – binding agreements that will result in either immediate or future payment; or 3) outlays, or actual payments made.

[18] Current policy in the projections is based on current law, but includes certain adjustments, such as extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue (e.g., reauthorization of the Supplemental Nutrition Assistance Program). See Note 24 for additional discussion of departures of current policy from current law.

The primary deficit-to-GDP ratio in 2024 was 3.3 percent, a decrease of 0.5 percentage points from the primary deficit-to-GDP ratio reported for 2023 in last year's *Financial Report*, due to higher receipts, partially offset by higher non-interest spending. The primary deficit-to-GDP ratio is projected to average 3.1 percent over the next 10 years, based on the technical assumptions in this *Financial Report*, and projected changes in receipts and outlays. After 2034, increased spending for Social Security and health programs due to the aging of the population, is projected to result in increasing primary deficit ratios that peak at 4.0 percent of GDP in 2045. Primary deficits as a share of GDP gradually decrease beyond that point and reach 2.8 percent of GDP in 2099, the last year of the projection period.

Trends in the primary deficit are heavily influenced by tax receipts. The receipt share of GDP was markedly depressed in 2009 through 2012 because of the recession and tax reductions enacted as part of the *American Recovery and Reinvestment Act* and the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.* The share subsequently increased to almost 18.0 percent of GDP by 2015, before falling to nearly 16.0 percent in 2020, following the enactment of the TCJA (P.L. 115-97) and COVID-19 pandemic-induced economic downturn.



Receipts were 17.1 percent of GDP in 2024, an increase of 0.6 percentage points relative to the share of GDP reported for 2023 in last year's *Financial Report*. Receipts are projected to fall slightly to 16.8 percent of GDP in 2025 and gradually increase to 18.7 percent of GDP in 2034. After 2034, receipts grow slightly more rapidly than GDP over the projection period as increases in real (i.e., inflation-adjusted) incomes cause more taxpayers and a larger share of income to fall into the higher individual income tax brackets.[19]

On the spending side, the non-interest spending share of GDP was 20.4 percent in 2024, 0.1 percentage points above the share of GDP reported for 2023, last year's *Financial Report*, which was 20.3 percent. The ratio of non-interest spending to GDP is projected to rise gradually, reaching 23.8 percent of GDP in 2079. The ratio of non-interest spending to GDP then declines to 23.3 percent in 2099, the end of the projection period. These increases are principally due to faster growth in Social Security, Medicare, and Medicaid spending (see Chart 8). The aging of the population, among other factors, is projected to increase the spending shares of GDP of Social Security and Medicare by about 0.6 and 1.4 percentage points, respectively, from 2025 to 2040. After 2040, the Social Security and Medicare spending shares of GDP continue to increase in most years, albeit at a slower rate, due to projected increases in health care costs and population aging, before declining toward the end of the projection period.

On a PV basis, deficit projections reported in this year's *Financial Report* decreased in both present-value terms and as a percent of the current 75-year PV of GDP. As shown in the SLTFP, this year's estimate of the 75-year PV imbalance of receipts less non-interest spending is 3.6 percent of the current 75-year PV of GDP ($72.7 trillion), compared with 3.8 percent ($73.2 trillion) as was projected in last year's *Financial Report*. As discussed in Note 24, these decreases are attributable to the net effect of the following factors:

- The largest factor affecting the projections is the update to economic and demographic assumptions that decreases the fiscal imbalance by 0.3 percentage points ($4.8 trillion). Contributing to this improvement in the imbalance are higher wages that increase receipts and higher GDP levels that reduce spending as a percentage of GDP. The 75-year PV of GDP for this year's projections is $2,002.6 trillion, greater than last year's $1,919.1 trillion.
- The second largest factor affecting the projections is due to updated budget data that increases the fiscal imbalance by 0.1 percentage points ($2.5 trillion). This change stems from actual budget results for FY 2024 and baseline estimates published in the FY 2025 President's Budget. This deterioration in the fiscal position is largely a result of a higher 75-year PV of discretionary spending on non-defense programs due in part to adjustments to accord with FY 2024 appropriations. In addition, actual budget results for FY 2024 contribute to an increase in the fiscal imbalance by raising the 75-year PV of spending for Medicaid and mandatory spending on programs other than Social Security and Medicare. Partially offsetting those changes is a higher 75-year PV of individual income tax receipts, which represent a larger share of wages and salaries relative to the previous year's projections.

[19] Other possible paths for the receipts-to-GDP ratio and projected debt held by the public are shown in the "Alternative Scenarios" RSI section of this *Financial Report*.

- The third largest factor affecting the projected imbalance is the change in reporting period–the effect of shifting calculations from 2024 through 2098 to 2025 through 2099. The update increases the imbalance of the 75-year PV of receipts less non-interest spending by $1.4 trillion, which has a negligible effect on the 75-year PV of GDP.
- The fourth largest factor affecting the projections is a technical update to the model's assumptions for growth in enrollees for health insurance marketplace subsidies. The technical update increases the 75-year fiscal imbalance by $0.6 trillion and has a trivial impact on the projections as a share of the 75-year PV of GDP.
- The smallest factor affecting the projections is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which decrease the fiscal imbalance by $0.3 trillion and negligibly affect the imbalance as of the 75-year PV of GDP.[20]

The net effect of these changes equal to the penultimate row in the SLTFP, shows that this year's estimate of the overall 75-year PV of receipts less non-interest spending is negative 3.6 percent of the 75-year PV of GDP (negative $72.7 trillion, as compared to a GDP of $2,002.6 trillion).

One of the most important assumptions underlying the projections is that current federal policy does not change. The projections are therefore neither forecasts nor predictions, and do not consider large infrequent events such as natural disasters, military engagements, or economic crises. By definition, they do not build in future changes to policy. If policy changes are enacted, perhaps in response to projections like those presented here, then actual fiscal outcomes will be different than those projected.

Another important assumption is the future growth of health care costs. As discussed in Note 25, these future growth rates – both for health care costs in the economy generally and for federal health care programs such as Medicare, Medicaid, and PPACA exchange subsidies – are highly uncertain. In particular, enactment of the PPACA in 2010 and the MACRA in 2015 lowered payment rate updates for Medicare hospital and physician payments whose long-term effectiveness of which is not yet clear. The Medicare spending projections in the long-term fiscal projections are based on the projections in the 2024 Medicare Trustees Report, which assume the PPACA and MACRA cost control measures will be effective in producing a substantial slowdown in Medicare cost growth.

As discussed in Note 25, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. Certain features of current law may result in some challenges for the Medicare program including physician payments, payment rate updates for most non-physician categories, and productivity adjustments. Payment rate updates for most non-physician categories of Medicare providers are reduced by the growth in economy-wide private nonfarm business total factor productivity although these health providers have historically achieved lower levels of productivity growth. Should payment rates prove to be inadequate for any service, beneficiaries' access to and the quality of Medicare benefits would deteriorate over time, or future legislation would need to be enacted that would likely increase program costs beyond those projected under current law. For the long-term fiscal projections, that uncertainty also affects the projections for Medicaid and exchange subsidies, because the cost per beneficiary in these programs is assumed to grow at the same reduced rate as Medicare cost growth per beneficiary. Other key assumptions, as discussed in greater detail in Note 24—Long-Term Fiscal Projections, include the following:

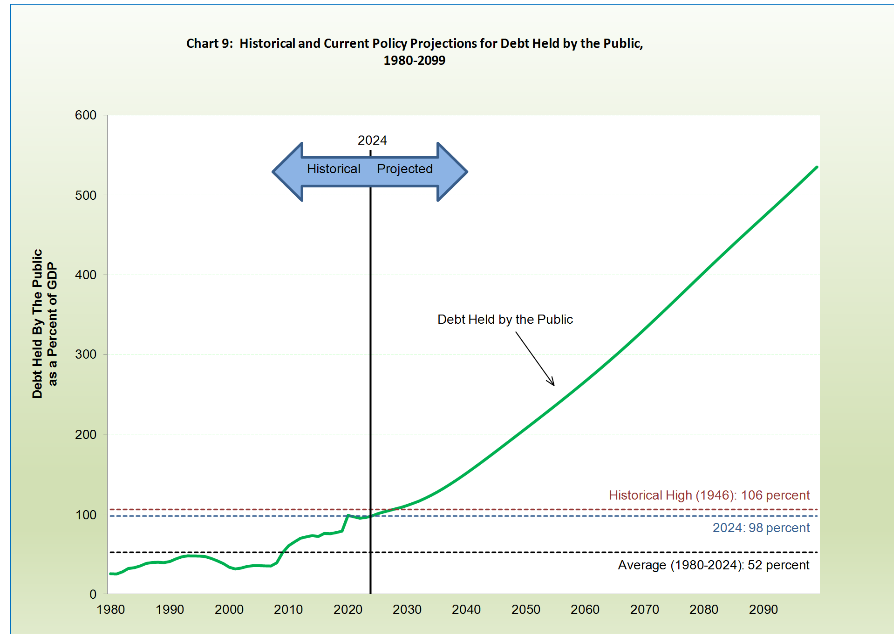
- Social Security spending and payroll taxes are based on future spending and payroll taxes projected in the 2024 Social Security Trustees Report, adjusted for presentational differences and converted to a fiscal year basis.
- Projected Medicare spending and Medicare Part A payroll taxes are based on Medicare spending and payroll taxes in the Medicare Trustees Report, adjusted for presentational differences and converted to a fiscal year basis.
- Medicaid spending projections start with the NHE projections which are based on recent trends in Medicaid spending, and the demographic, economic, and health cost growth assumptions in the Medicare Trustees Report. NHE projections, which end in 2032, are adjusted to accord with the actual Medicaid spending in FY 2024. After 2032, the number of beneficiaries is projected to grow at the same rate as total population. Medicaid cost per beneficiary after 2032 is assumed to transition over a four-year period to growth at the same rate as Medicare benefits per beneficiary.
- Other mandatory spending includes federal employee retirement, veterans' disability benefits, and means-tested entitlements other than Medicaid. Current mandatory spending components that are judged permanent under current policy are assumed to increase by the rate of growth in nominal GDP starting in 2025, implying that such spending will remain constant as a percent of GDP.[21]
- Defense and non-defense discretionary spending in 2025 follows the FRA (P.L. 118-5) caps with adjustments to accord with FY 2024 appropriations. Discretionary spending in 2025 also reflects previously enacted appropriations that are exempted from FRA caps. After 2025, discretionary spending grows with GDP.
- Interest spending is determined by projected interest rates and the level of outstanding debt held by the public. The long-run interest rate assumptions accord with those in the 2024 Social Security Trustees Report. The average interest rate over this year's projection period is 4.5 percent, approximately the same as in the 2023 *Financial*

[20] For more information on Social Security and Medicare actuarial estimates, refer to Note 25—Social Insurance.
[21] This assumed growth rate for other mandatory programs after 2025 is slightly higher than the average growth rate in the most recent OMB and Congressional Budget Office 10-year budget baselines.

Report. Debt at the end of each year is projected by adding that year's deficit and other financing requirements to the debt at the end of the previous year.

- Receipts (other than Social Security and Medicare payroll taxes) is comprised of individual income taxes, corporate income taxes and other receipts.
  - Individual income taxes are based on the share of individual income taxes of salaries and wages in the current law baseline projection in the FY 2025 President's Budget, and the salaries and wages projections from the Social Security 2024 Trustees Report. That baseline accords with the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep") and the expiration dates of individual income and estate and gift tax provisions of the TCJA. Individual income taxes are projected to increase gradually from 21 percent of wages and salaries in 2025, to 30 percent of wages and salaries in 2099 as real taxable incomes rise over time and an increasing share of total income is taxed in the higher tax brackets.
  - Corporation tax receipts as a percent of GDP reflect the economic and budget assumptions used in developing the FY 2025 President's Budget ten-year baseline budgetary estimates through the first ten projection years, after which they are projected to grow at the same rate as nominal GDP. Corporation tax receipts fall from 1.6 percent of GDP in 2025 to 1.3 percent of GDP in 2034, where they stay for the remainder of the projection period.
  - Other receipts, including excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts, also reflect the FY 2025 President's Budget baseline levels as a share of GDP throughout the budget window, and grow with GDP outside of the budget window. The ratio of other receipts, to GDP is estimated to increase from 1.0 percent in 2025 to 1.2 percent by 2030 where it remains through the projection period.

The primary deficit-to-GDP projections in Chart 8, projections for interest rates, and projections for GDP together determine the debt-to-GDP ratio projections shown in Chart 9. That ratio was approximately 98 percent at the end of FY 2024 and under current policy is projected to be approximately 100 percent in 2025, exceed 200 percent by 2049 and reach 535 percent by 2099. The change in debt held by the public from one year to the next generally represents the budget deficit, the difference between total spending and total receipts. The debt-to-GDP ratio rises continually in great part because primary deficits lead to higher levels of debt, which lead to higher net interest expenditures, and higher net interest expenditures lead to higher debt.[22] The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.



These debt-to-GDP projections are lower than the corresponding projections in both the 2023 and 2022 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2022 *Financial Report* is 2097. In the FY 2024 *Financial Report*, the debt-to-GDP ratio for 2097 is projected to be 521 percent, which compares with 525 and 566 percent for the 2097 projection year in the FY 2023 *Financial Report* and the FY 2022 *Financial Report,* respectively.[23]

The Fiscal Gap and the Cost of Delaying Policy Reform

The 75-year fiscal gap is one measure of the degree to which current policy is unsustainable. It is the amount by which primary surpluses over the next 75 years must, on average, rise above current-policy levels in order for the debt-to-GDP ratio in 2099 to remain at its level in 2024. The projections show that projected primary deficits average 3.6 percent of GDP over the next 75 years under current policy. If policies were adopted to eliminate the fiscal gap, the average primary surplus over the next 75 years would be 0.7 percent of GDP, 4.3 percentage points higher than the projected PV of receipts less non-interest spending shown in the financial statements. Hence, the 75-year fiscal gap is estimated to equal to 4.3 percent of GDP. This amount is, in turn, equivalent to 22.5 percent of 75-year PV receipts and 19.0 percent of 75-year PV non-interest spending. This estimate of the fiscal gap was slightly less than the amount estimated in the FY 2023 *Financial Report*.

[22] The change in debt each year is also affected by certain transactions not included in the budget deficit, such as changes in Treasury's cash balances and the nonbudgetary activity of federal credit financing accounts. These transactions are assumed to hold constant at about 0.3 percent of GDP each year, with the same effect on debt as if the primary deficit was higher by that amount.

[23] See the Note 24 of the *FY 2023 Financial Report of the U.S. Government* for more information about changes in the long-term fiscal projections between FYs 2023 and 2022.

In these projections, closing the fiscal gap requires running a positive primary surpluses, rather than simply eliminating the primary deficit. The primary reason is that the projections assume future interest rates will exceed the growth rate of nominal GDP. Achieving primary balance (that is, running a primary surplus of zero) implies that the debt grows each year by the amount of interest spending, which under these assumptions would result in debt growing faster than GDP.

Table 6	
Cost of Delaying Fiscal Reform	
Period of Delay	**Change in Average Primary Surplus**
Reform in 2025 (No Delay)	4.3 percent of GDP between 2025 and 2099
Reform in 2035 (Ten-Year Delay)	5.1 percent of GDP between 2035 and 2099
Reform in 2045 (Twenty-Year Delay)	6.3 percent of GDP between 2045 and 2099

Table 6 shows the cost of delaying policy reform to close the fiscal gap by comparing policy reforms that begin in three different years. Immediate reform would require increasing primary surpluses by 4.3 percent of GDP on average between 2025 and 2099 (i.e., some combination of reducing spending and increasing revenue by a combined 4.3 percent of GDP on average over the 75-year projection period). Table 6 shows that delaying policy reform forces larger and more abrupt policy reforms over shorter periods. For example, if policy reform is delayed by 10 years, closing the fiscal gap requires increasing the primary surpluses by 5.1 percent of GDP on average between 2035 and 2099. Similarly, delaying reform by 20 years requires primary surplus increases of 6.3 percent of GDP on average between 2045 and 2099. The differences between the required primary surplus increases that start in 2035 and 2045 (5.1 and 6.3 percent of GDP, respectively) and that which starts in 2025 (4.3 percent of GDP) is a measure of the additional burden that delay would impose on future generations. Future generations are harmed by policy reform delay, because the higher the primary surplus is during their lifetimes the greater the difference is between the taxes they pay and the programmatic spending from which they benefit.

Conclusion

The debt-to-GDP ratio is projected to rise over the 75-year projection period and beyond if current policy is unchanged, based on this *Financial Report's* assumptions, which implies that current policy is not sustainable and must ultimately change. If policy changes are not so abrupt as to slow economic growth, then the sooner policy changes are adopted to avert these trends, the smaller the changes to revenue and/or spending that would be required to achieve sustainability over the long term. While the estimated magnitude of the fiscal gap is subject to a substantial amount of uncertainty, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

These long-term fiscal projections and the topic of fiscal sustainability are discussed in further detail in Note 24 and the RSI section of this *Financial Report*. The fiscal sustainability under alternative scenarios for the growth rate of health care costs, interest rates, discretionary spending, and receipts are illustrated in the "Alternative Scenarios" section within the RSI.

Social Insurance

The long-term fiscal projections reflect government receipts and spending as a whole. The SOSI focuses on the government's "social insurance" programs: Social Security, Medicare, Railroad Retirement, and Black Lung.[24] For these programs, the SOSI reports: 1) the actuarial PV of all future program revenue (mainly taxes and premiums) – excluding interest – to be received from or on behalf of current and future participants; 2) the estimated future scheduled expenditures to be paid to or on behalf of current and future participants; and 3) the difference between 1) and 2). Amounts reported in the SOSI and in the RSI section in this *Financial Report* are based on each program's official actuarial calculations.

This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2024 Social Security and Medicare Trustees Reports and the 2024 SOSI, while comparative information presented from last year's report is based on the 2023 Social Security and Medicare Trustees Reports and the 2023 SOSI. Table 7 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be $78.3 trillion over 75 years as of January 1, 2024 for the open group, remaining largely unchanged, decreasing by approximately $100.0 billion compared to net expenditures of $78.4 trillion projected in the FY 2023 *Financial Report*.[25]

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[24] *The Black Lung Benefits Act* provides for monthly payments and medical benefits to coal miners totally disabled from pneumoconiosis (black lung disease) arising from their employment in or around the nation's coal mines. See https://www.dol.gov/owcp/regs/compliance/ca_main.htm. RRB's projections are based on economic and demographic assumptions that underlie the *29th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2022 with Technical Supplement,* which also serves as the Annual Report for 2024, and the 2023 Annual Report on the Railroad Retirement System required by Section 502 of the *Railroad Retirement Solvency Act of 1983* (P.L. 98-76).

[25] Closed group and open group differ by the population included in each calculation. From the SOSI, the closed group includes: 1) participants who have attained eligibility; and 2) participants who have not attained eligibility. The open group adds future participants to the closed group. See 'Social Insurance' in the RSI section in this *Financial Report* for more information.

The current-law 2024 amounts reported for Medicare reflect the physician payment levels expected under the MACRA payment rules and the PPACA-mandated reductions in other Medicare payment rates, but not the payment reductions and/or delays that would result from trust fund depletion.[26] Similarly, current-law projections for Social Security do not reflect benefit payment reductions and/or delays that would result from fund depletion. By accounting convention, the transfers from the General Fund to Medicare Parts B and D are eliminated in the consolidation of the SOSI at the government-wide level and as such, the General Fund transfers that are used to finance Medicare Parts B and D are not included in Table 7. For the FYs 2024 and 2023 SOSI, the amounts eliminated totaled $50.2 trillion and $48.5 trillion, respectively. SOSI programs and amounts are included in the broader fiscal sustainability analysis in the previous section, although on a slightly different basis (as described in Note 24).

In addition, the Medicare projections have been significantly affected by the enactment of the IRA of 2022. This legislation has wide-ranging provisions, including those that restrain price growth and negotiate drug prices for certain Part B and Part D drugs and that redesign the Part D benefit structure to decrease beneficiary out-of-pocket costs. The law takes several years to implement, resulting in very different effects by year. The total effect of the IRA of 2022 is to reduce government expenditures for Part B, to increase expenditures for Part D through 2030, and to decrease Part D expenditures beginning in 2031.

The amounts reported in the SOSI provide perspective on the government's long-term estimated exposures for social insurance programs. These amounts are not considered liabilities in an accounting context. Future benefit payments will be recognized as expenses and liabilities as they are incurred based on the continuation of the social insurance programs' provisions contained in current law. The social insurance trust funds account for all related program income and expenses. Medicare and Social Security taxes, premiums, and other income are credited to the funds; fund disbursements may only be made for benefit payments and program administrative costs. Any excess revenues are invested in special nonmarketable U.S. government securities at a market rate of interest. The trust funds represent the accumulated value, including interest, of all prior program surpluses, and provide automatic funding authority to pay cover future benefits.

Table 7: Social Insurance Future Expenditures in Excess of Future Revenues

Dollars in Trillions	2024	2023	Increase / (Decrease) $	Increase / (Decrease) %
Open Group (Net):				
Social Security (OASDI)	$ (25.4)	$ (25.2)	$ 0.2	0.8%
Medicare (Parts A, B, & D)	$ (52.8)	$ (53.1)	$ (0.3)	(0.6%)
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Expenditures, Net (Open Group)	**$ (78.3)**	**$ (78.4)**	$ (0.1)	(0.1%)
Total Social Insurance Expenditures, Net (Closed Group)	**$ (105.8)**	**$ (104.2)**	$ 1.6	1.5%
Social Insurance Net Expenditures as a % of GDP*				
Open Group				
Social Security (OASDI)	(1.3%)	(1.4%)		
Medicare (Parts A, B, & D)	(2.9%)	(3.0%)		
Total (Open Group)	**(4.2%)**	**(4.4%)**		
Total (Closed Group)	**(5.6%)**	**(5.7%)**		

Source: SOSI. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years of certain Social Insurance programs (e.g., Social Security, Medicare). Open group totals reflect all current and projected program participants during the 75-year projection period. Closed group totals reflect only current participants.

* GDP values used are from the 2024 & 2023 Social Security and Medicare Trustees Reports and represent the present value of GDP over the 75-year projection period. As the GDP used for Social Security and Medicare differ slightly in the Trustees Reports, the two values are averaged to estimate the Other and Total Net Social Insurance Expenditures as a percent of GDP. As a result, totals may not equal the sum of components due to rounding.

[26] MACRA permanently replaces the Sustainable Growth Rate formula, which was used to determine payment updates under the Medicare physician fee schedule with specified payment updates through 2025. The changes specified in MACRA also establish differential payment updates starting in 2026 based on practitioners' participation in eligible APM; payments are also subject to adjustments based on the quality of care provided, resource use, use of certified electronic health records, and clinical practice improvement.

Table 8 identifies the principal reasons for the changes in projected social insurance amounts during 2024 and 2023. NPV-Open Group is the PV of estimated future expenditures in excess of estimated future revenue, which represents net cash outflows.

Table 8: Changes in Social Insurance Projections		
Dollars in Trillions	2024	2023
NPV - Open Group (Beginning of the Year)	**$ (78.4)**	**$ (75.9)**
Changes In:		
Valuation Period	$ (2.3)	$ (2.0)
Demographic data, assumptions, and methods	$ (2.3)	$ (0.2)
Economic data, assumptions, and methods[1]	$ 0.4	$ (0.8)
Law or policy	$ -	$ 1.1
Methodology and programmatic data[1]	$ 1.4	$ (0.3)
Economic and healthcare assumptions[2]	$ 2.7	$ (2.6)
Change in projection base[2]	$ 0.2	$ 2.3
Net Change in Open Group measure	$ 0.1	$ (2.5)
NPV - Open Group (End of the Year)	**$ (78.3)**	**$ (78.4)**

[1] Relates to Social Security Program.

[2] Relates to Medicare Program.

The following briefly summarizes the significant changes for the current valuation (as of January 1, 2024) as disclosed in Note 25—Social Insurance. Note 25 is compiled from disclosures included in the financial statements of those entities administering these programs, including SSA and HHS. See Note 25 for additional information.

- Change in valuation period caused the PV of the estimated future net cash outflows to increase (became more negative) by $0.8 trillion and $1.5 trillion for Social Security and Medicare, respectively. The effect of this change on the 75-year PV of estimated future net cash flows is to replace a small negative net cash flow for 2023 with a much larger negative net cash flow for 2098.
- Changes in demographic data, assumptions, and methods caused the PV of the estimated future net cash outflows to increase (became more negative) by $1.2 trillion and $1.1 trillion for Social Security and Medicare, respectively. The most significant changes affecting these results included: 1) lowering the ultimate TFR; 2) slightly lower assumed birth rates; 3) updated mortality, historical population data, LPR immigration, and divorce data; and 4) modified fertility rate projection methods.
- Changes in economic data, assumptions, and methods caused the PV of the estimated future net cash outflows for Social Security to decrease (become less negative) by $0.4 trillion. For the current valuation, the ultimate economic assumptions are the same as those for the prior valuation. However, the starting economic value and the way these values transition to the ultimate assumptions were changed. In addition, the most significant changes included: 1) updates to educational data, which caused changes in labor force participation rates; 2) higher than assumed historical OASDI-covered employment; and 3) higher than assumed economic growth, which led to higher than assumed labor productivity over the projection period.
- Changes in law or policy: The monetary effect of the changes in law or policy on the PV of estimated future net cash outflows of the OASDI and Medicare programs was not significant at the consolidated level.
- Changes in methodology and programmatic data caused the PV of the estimated future net cash outflows to decrease (become less negative) by $1.4 trillion for Social Security. The most significant changes were: 1) lower disability incidence rate; 2) modified long-range model to improve the alignment of simulated fully insured rates with historical fully insured rates; 3) higher near-term and ultimate levels of revenue from income taxation of OASDI benefits than projected in the prior valuation; 4) adjusted sample size to project average benefit levels of retired-worker and disabled-worker beneficiaries; and 5) updates to post-entitlement benefit adjustment factors.
- Changes in economic and healthcare assumptions caused the PV of estimated future net cash outflows to decrease (become less negative) by $2.7 trillion for Medicare. The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above); and the healthcare assumptions are specific to the Medicare projections. Changes include lower Part A projected spending growth due to a policy change to exclude medical education expenses and lower projected spending for hospital and home health agency services, and lower Part D growth mainly beyond the short-range period.
- Change in projection base caused the PV of estimated future cash outflows to decrease (become less negative) by $0.2 trillion for Medicare Parts A, B, and D. Part A income was higher and expenditures were lower than estimated based on experience. Part B and Part D income and expenditures were both higher than estimated based on experience. Actual experience of the Medicare Trust Funds between January 1, 2023, and January 1, 2024, is incorporated in the current valuation and is less than projected in the prior valuation.

As reported in Note 25—Social Insurance, uncertainty remains about whether the projected cost savings and productivity improvements will be sustained in a manner consistent with the projected cost growth over time. Note 25 includes an alternative projection to illustrate the uncertainty of projected Medicare costs. As indicated earlier, GAO

disclaimed opinions on the 2024, 2023, 2022, 2021 and 2020 SOSI because of these significant uncertainties. Please refer to Note 25 and SSA's and HHS's financial statements for additional information.

Costs as a percent of GDP of both Medicare and Social Security, which are analyzed annually in the Medicare and Social Security Trustees Reports, are projected to increase substantially through the mid-2030s because: 1) the number of beneficiaries rises rapidly as the baby-boom generation retires; and 2) the lower birth rates that have persisted since the baby boom cause slower growth of employment and GDP.[27] According to the Medicare Trustees Report, spending on Medicare is projected to rise from its current level of 3.8 percent of GDP in 2023 to 5.8 percent in 2048 and then rise more slowly before leveling off at around 6.2 percent in the final 25 years of the projection period.[28] As for Social Security, combined spending is projected to generally increase from 5.2 percent of GDP in 2024 to a peak of about 6.4 percent for 2078, and then decline to 6.1 percent by 2098. The government collects and maintains funds supporting the Social Security and Medicare programs in trust funds. A scenario in which projected funds expended exceed projected funds received, as reported in the SOSI, will cause the balances in those trust funds to deplete over time. Table 9 summarizes additional current status and projected trend information, including years of projected depletion, for the Medicare HI and Social Security Trust Funds.

Table 9: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance *	2036	In 2036, trust fund income is projected to cover 89 percent of scheduled benefits, decreasing to 87 percent in 2048, then returning to 100 percent by 2098.
Combined Old-Age Survivors and Disability Insurance **	2035	In 2035, trust fund income is projected to cover 83 percent of scheduled benefits, decreasing to 73 percent by 2098.

* Source: 2024 Medicare Trustees Report ** Source: 2024 OASDI Trustees Report
This Report's projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

As previously discussed, and as noted in the Trustees Reports, these programs are on a fiscally unsustainable path. Additional information from the Trustees Reports may be found in the RSI section of this *Financial Report*.

Reporting on Climate Change

At the beginning of the Biden-Harris Administration, President Biden tasked agencies with leading a whole-of-government effort to address climate change through Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*. The Biden-Harris Administration continues to lead the most ambitious climate, conservation, and environmental justice agenda in history. With more than 300,000 buildings and 600,000 vehicles, the federal government is the nation's largest energy consumer. The federal government is on a path towards 100 percent CFE on a net annual basis by 2030, a zero-emission vehicles fleet by 2035, and a net-zero building portfolio by 2045.

During the past three years, the federal government has signed agreements to provide Federal facilities in 16 states with 100 percent CFE by 2030. The Bipartisan Infrastructure Law and the IRA dedicate more than $50 billion to advance climate resilience strategies across every community in the U.S. Because of these two laws, roads and bridges are being elevated above projected flood zones; the grid is being made cleaner, more flexible, and more reliable; housing and buildings are being constructed and retrofitted to better withstand extreme weather; and public lands, forests, and waters are being managed to mitigate and withstand wildfires and droughts.[29]

In coordination with the White House Council on Environmental Quality and the OMB, federal agencies updated their Climate Adaptation Plans for 2024 through 2027 to better integrate climate risk across their operations. The magnitude of challenges posed by the climate crisis was underscored in the prior year when the U.S. endured a record 28 individual billion-dollar extreme weather and climate disasters that caused more than $90 billion in aggregate damage.[30]

Many CFO Act entities are engaged in a wide array of climate-related activities and have, per federal reporting guidance, discussed their responses to the climate crisis in their FY 2024 Agency Financial Reports. The breadth of these

[27] A Summary of the 2024 Annual Social Security and Medicare Trust Fund Reports, page 8.
[28] Percent of GDP amounts are expressed in gross terms (including amounts financed by premiums and state transfers).
[29] White House National Climate Resilience Framework, September 2023
[30] FACT SHEET: Biden-Harris Administration Releases Agency Climate Adaptation Plans, Demonstrates Leadership in Building Climate Resilience | The White House

important efforts is expansive, and the examples immediately below from federal Agency Financial Reports discuss both the physical impacts of climate change on entities (physical risk) and the broader challenges entities face in transitioning to a lower-carbon economy (transition risk). Many entity climate adaptation and resiliency efforts emphasize the federal government's physical assets and infrastructure and discuss transition risks in the context of transitioning their infrastructure so as to reduce Greenhouse Gases emissions. Both of these risks are important and affect government operations in unique ways, as illustrated below.

The following illustrates the wide range of federal entity efforts to mitigate the risks of climate change on federal entity infrastructure:

- According to DOD's financial statements, the Air Force has expended more than $4 billion in Natural Disaster Recovery funds for recovery from extreme weather events at Tyndall Air Force Base, Offutt Air Force Base, and Langley Air Force Base (FY 2019-2023). The Air Force is expending an estimated $2 billion to address direct typhoon impacts at Andersen Air Force Base. DOD's Tyndall Air Force Base is working with local, state, and national partners to build an "Installation of the Future," which includes using updated building codes that capture future conditions, and constructing living shorelines adjacent to the base to preserve water quality, enhance overall ecosystem health, and strengthen flood resilience.
- GSA is integrating localized flood risk information into its asset management systems, asset planning processes, and site acquisition guidance for GSA-controlled, federally owned buildings. In addition, GSA's FAS has integrated climate risks and adaptation considerations into the FAS Acquisition Council review process for five critical offerings with the greatest exposure and sensitivity to climate risks: telecommunications, motor vehicles and fleet, professional services, information technology hardware, and information technology services. In FY 2024, climate risk and adaptation requirements were integrated into many government-wide acquisition vehicles as a result of the FAS review process.
- In FY 2024, DOE developed a Vulnerability Assessment and Resilience Plan that includes detailed analyses on DOE's hazards, critical assets, and resilience solutions. DOE identified wildfire, heat waves, and extreme storm events as the most common climate impacts across the complex. DOE is also enhancing communication systems to alert employees to climate hazards in the workplace and improving air filtration standards to manage health impacts of wildfire smoke.
- DOC has devoted an entire strategic goal to addressing climate change - *Address the Climate Crisis Through Mitigation*, *Adaptation*, and *Resilience Efforts*, and a separate strategic objective to make the Department's facilities and operations more sustainable and efficient. By September 30, 2025, the National Oceanic and Atmospheric Administration will improve climate resilience in coastal communities by completing 100 percent of programmatic milestones: to improve fish passage for threatened and endangered species; support coastal habitat restoration priorities of tribes and underserved communities, remove marine debris; and protect and conserve coastal and Great Lakes habitats.
- State maintains over 25,000 building assets at 287 locations overseas with a 2024 replacement value estimated at $75.2 billion. To facilitate managing the natural hazard risks to these facilities, in 2022 the Bureau of Overseas Buildings Operations created a desktop portfolio screening methodology that assesses relative risk for seven natural hazards: flooding, extreme heat, extreme wind, water stress, earthquake, tsunami, and landslide; then added volcano and wildfire in 2024.

In-line with several Biden-Harris administration executive orders, including Executive Order 14008, Tackling the Climate Crisis at Home and Abroad, and other broad performance goals, entities have made strides towards a whole-of-government approach to the climate crisis affecting the nation. This section summarizes some of the actionable plans that federal entities are putting in place, and progress that they have seen. It illustrates the broader programmatic efforts that some entities are undertaking which support the growth of America's clean energy and clean technology industries.

- Combatting climate change is one of five key strategic goal areas at Treasury. In FY 2024, Treasury achieved its goal to develop and disseminate a climate literacy program by offering climate literacy webinars featuring subject matter experts, organizing the Department's first Earth Week in April, distributing a monthly Sustainability Newsletter, and organizing an Employee Resource Group focused on sustainability. Also in FY 2024, Treasury issued approximately 34 guidance items (i.e., IRS Notices, Revenue Procedures and Announcements), and through the IRS administering the IRA incentives, Treasury was able to support the objective to accelerate clean energy deployment.
- DOI continues to protect, connect, and conserve federal lands and waters to provide strongholds for species and enhance community wellbeing in a changing climate. On April 4, 2024, DOI announced a $19 million investment from President Biden's Investing in America agenda to install solar panels over irrigation canals in California, Oregon, and Utah, simultaneously decreasing evaporation of critical water supplies and advancing clean energy goals. The *Charybdis* is slated to be the first U.S. built and *Jones Act*-qualified offshore wind installation vessel. The vessel will support the CVOW commercial project, which DOI approved in October 2023. The CVOW project will provide about 2,600 megawatts of clean, reliable offshore wind energy, capable of powering over 660,000 homes.
- As part of its climate strategy, USAID is pursuing six ambitious targets with aims to achieve them by 2030, including: reducing carbon dioxide emissions by six billion metric tons; conserving, restoring, or managing 100

million hectares of natural and managed ecosystems; supporting 500 million people to be climate resilient; mobilizing $150 billion of public and private funds towards climate resiliency efforts; aligning its support with countries' mitigation and adaptation commitments in at least 80 countries by 2024; and supporting partners to achieve systemic changes that increase meaningful participation and active leadership in climate action of Indigenous Peoples, local communities, women, youth, and other marginalized and/or underrepresented groups in at least 40 partner countries.

- DOT provided more than $2 billion in funding to states and communities to build a nationwide EV charging network. This initial funding will cover approximately 75,000 miles of roads. DOT has a goal of reaching a network of at least 500,000 EV chargers by 2030 so that everyone can ride and drive electric. The Joint Office of Energy and Transportation, in conjunction with DOT and DOE, will support the increased deployment of publicly available EV charging ports to 310,000 by the end of calendar year 2025.
- To address climate change, EPA has utilized the IRA to provide $27 billion in Greenhouse Gas Reduction Fund grants to accelerate clean energy and climate solutions across the country. These grants are being used to provide affordable financing for clean technology projects, support community lenders to fund clean energy projects and deliver solar energy to more than 900,000 low-income households nationwide. EPA also recently announced $300 million of the $5 billion provided under the IRA for Climate Pollution Reduction implementation grants to assist 34 tribes and territories for the first time, so they can apply greenhouse-gas reduction measures in their own communities.
- HUD has made funding available in the form of direct loans and grants to fund projects that improve energy or water efficiency, enhance indoor air quality or sustainability, implement the use of zero-emission electricity generation, low-emission building materials or processes, energy storage, or building electrification strategies, or address climate resilience, of eligible HUD-assisted multifamily properties through a program known as the Green and Resilient Retrofit Program. The program is authorized and funded by Section 30002 of the IRA and is the first HUD program to simultaneously invest in energy efficiency, greenhouse gas emissions reductions, energy generation, green and healthy housing, and climate resilience strategies specifically in HUD-assisted multifamily housing.

Readers are encouraged to review both the financial statements and Climate Adaptation Plans of the entities referenced above, as well as others for additional information about efforts being employed across the federal government to address the many risks associated with climate change.

Financial Management

Grants and Cooperative Agreements

In FY 2024, the federal government obligated approximately $1.2 trillion for grants and cooperative agreements, according to USAspending.gov. This figure does not include obligations for other types of financial assistance, such as loans or direct appropriations. A large portion of grant funding was provided under the Bipartisan Infrastructure Law and the IRA of 2022. Improving access to key financial assistance data continues to be a priority for OMB. In FY 2024, this included the launch of the new Federal Program Inventory (https://fpi.omb.gov) that displays information on federal programs, including those implemented through grants and cooperative agreements.

In 2024, OMB published revisions to Title 2 of the CFR: OMB Guidance on Federal Financial Assistance (2 CFR). These revisions, which were published in May 2024 and became effective on October 1, 2024, reduce the administrative burden for federal agencies and recipients, as well as clarify the guidance and make it more accessible. Revisions to 2 CFR represent the most substantial changes to the guidance since its release in December 2013 and reduce unnecessary compliance requirements, clarify existing policy, and increase important thresholds for federal agencies and recipients. OMB continues to work to ensure that assistance is delivered in a more effective and impactful way and to the communities that need it most.

OMB continued to work with the newly established COFFA. This leadership body has been responsible for providing strategic direction and policy recommendations for other government-wide grant-related activities, including the oversight and management of federal financial assistance. The COFFA has provided a single forum to inform federal financial assistance policy, oversight, and technology activities. These activities included the coordinated implementation of revisions to 2 CFR and the simplification of Notices of Funding Opportunities for grants and cooperative agreements.

Payment Integrity

Preventing improper payments, especially those resulting from fraudulent activity, continues to be a management priority. To be successful in preventing improper payments, there must be an increased focus on improving up-front processes and controls that enable agencies to make payments accurately and minimizing monetary losses. An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirement. The term "improper payment" consists of two main components: 1) improper payments resulting in a monetary loss to the government; and 2) improper payments that do not result in a monetary loss to the government. Monetary loss occurs when payments are made to the wrong recipient and/or in the wrong amount, including financial fraud. Improper payments that do not result in a monetary loss include underpayments and payments made to the right recipient for the right amount, but the payment was not made in accordance with statute or regulation. Improper payments are not a measure of fraudulent payments nor monetary losses.

The federal government, through the CFO community, continues to develop and implement strategies to better identify, analyze, and prevent improper payments. In February 2024, JFMIP, a cooperative venture between GAO, OMB, OPM, and Treasury, issued the JFMIP Payment Integrity Initiative: A Three Year Plan to Advance Payment Integrity (https://www.cfo.gov/jfmip/payment-integrity-initiative/). The initiative advances a "whole of government" approach to preventing improper payments by providing federal programs, including federally funded, state administered programs, greater access to tools, data, and expertise to prevent improper payments; promoting best practices; and building partnerships with key stakeholders throughout the payment lifecycle.

Agencies with programs reporting improper payments that result in more than $100 million in monetary loss provide quarterly scorecards that are published on paymentaccuracy.gov. These scorecards provide information on the actions taken and progress made on preventing improper payments. This website also includes payment integrity information that OMB and Executive agencies are required to report under the *Payment Integrity Information Act of 2019*, including program compliance, overpayment recoveries, and accountability mechanisms.

OMB will continue to work with agencies, the CFO Council, JFMIP, and other stakeholders to improve the identification of the root causes of improper payments to prevent improper payments from occurring.

Agency Financial Report Audits

Since the enactment of the CFO Act, the federal financial management community has made significant progress in financial accounting and reporting. As shown in Table 10, for FY 2024, 18 of the 24 CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements.[31] In addition, 53 auditor-identified material weaknesses were identified for FY 2024, one more than in FY 2023. Twenty-eight of these material weaknesses are associated with DOD. The other 25 material weaknesses are associated with non-DOD agencies. Although virtually all federal agencies have adopted and maintained disciplined financial reporting operations, implemented effective internal controls over financial reporting, and integrated transaction processing with accounting records, weaknesses in financial management practices continue to prevent the government as a whole from achieving an audit opinion.

[31] The 18 entities include HHS, which received an unmodified ("clean") opinion on all statements except the SOSI and the SCSIA.

Table 10: Agency Audit Results: FY 2024						
	Audit	Auditor-Reported Material Weaknesses				
Agency	Opinion	Beginning	New	Resolved	Consolidated	Ending
Department of Agriculture (USDA)	Qualified	2	1	1	-	2
Department of Commerce (DOC)	Unmodified	1	2	1	-	2
Department of Defense (DOD)	Disclaimer	28	1	1	-	28
Department of Education (Education)	Disclaimer	1	1	-	1	1
Department of Energy (DOE)	Qualified	-	1	-	-	1
Department of Health and Human Services (HHS)*	Unmodified	-	-	-	-	-
Department of Homeland Security (DHS)	Unmodified	5	-	2	-	3
Department of Housing & Urban Development (HUD)	Unmodified	-	-	-	-	-
Department of the Interior (DOI)	Unmodified	3	1	3	-	1
Department of Justice (DOJ)	Unmodified	1	-	-	-	1
Department of Labor (DOL)**	Qualified	1	-	-	-	1
Department of State (State)	Unmodified	-	-	-	-	-
Department of Transportation (DOT)	Unmodified	-	-	-	-	-
Department of the Treasury (Treasury)	Unmodified	-	-	-	-	-
Department of Veterans Affairs (VA)	Unmodified	3	-	-	-	3
Agency for International Development (USAID)	Unmodified	-	-	-	-	-
Environmental Protection Agency (EPA)	Unmodified	-	3	1	-	2
General Services Administration (GSA)	Unmodified	-	-	-	-	-
National Aeronautics & Space Administration (NASA)	Unmodified	-	1	-	-	1
National Science Foundation (NSF)	Unmodified	-	-	-	-	-
Nuclear Regulatory Commission (NRC)	Unmodified	-	-	-	-	-
Office of Personnel Management (OPM)	Unmodified	1	-	1	-	-
Small Business Administration (SBA)	Disclaimer	6	1	-	-	7
Social Security Administration (SSA)	Unmodified	-	-	-	-	-
Totals		**52**	**12**	**10**	**1**	**53**

* Unmodified opinion on all statements except SOSI and SCSIA, which received a disclaimer.
**Unmodified opinion on the SOSI and SCSIA

Financial Management and Grants Systems

Federal agencies improved, but continue to face challenges, in implementing financial management systems that meet federal requirements. The number of CFO Act agencies reporting lack of substantial compliance with one or more of the three Section 803(a) requirements of the FFMIA remained at seven in FY 2024, and the number of auditors reporting agencies' lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements decreased from eight to seven in FY 2024.

Because of the federal government's size and diversity, its financial management infrastructure consists of both legacy and modernized systems and standardized and customized systems. Treasury works closely with agencies to manage systems for collecting and disbursing the government's cash and financing disbursements when necessary, recording and reporting on those collections and disbursements, and reporting on all government revenues, expenses, assets, and liabilities.

Treasury was designated as the Financial Management Systems QSMO in 2020 and continues to pursue financial management improvement strategies that have government-wide implications. These strategies include standing up a financial management systems marketplace and developing system standards, standardized processes, system requirements, and system interfaces. These efforts are providing a path to the decommissioning of legacy systems and migration to updated systems, leveraging modernized technologies. In addition, agencies continue to coordinate with the Treasury QSMO to improve their financial management and financial reporting systems as described in their financial reports, congressional justifications, and performance plans. DOD continues to address its material weaknesses in financial reporting and is bringing its financial systems into compliance with federal financial management systems requirements, including the FFMIA.

HHS was designated as the Grants QSMO in 2021 and continues working to modernize and streamline the government's vast and aging legacy grants management systems. The Grants QSMO established a marketplace of shared service providers for federal grants and developed a Catalog of Market Research highlighting select vendors that offer standard award management systems. HHS is also developing government-wide data standards to be incorporated into marketplace offerings in alignment with the *Grant Reporting Efficiency and Agreements Transparency Act of 2019*. The goal of this effort is to allow agencies to successfully manage grants through the entire award cycle and allow grants management systems to interface with agency financial management systems.

Internal Controls

Federal managers are responsible for developing and maintaining effective internal controls. Internal controls help ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Safeguarding assets is a goal of each of these three objectives.

OMB Circular No. A-123 implements the requirements of 31 U.S.C. 3512 (c) and (d) [commonly known as the *Federal Managers' Financial Integrity Act of 1982*] by providing agencies a framework for assessing and managing risks strategically and tactically. The Circular reflects GAO's Standards for Internal Control in the Federal Government (the "Green Book") and contains multiple appendices that address one or more of the objectives of effective internal control.

- Appendix A outlines a risk-based approach for agencies to use to assess, document, test, and report on internal controls over reporting and data integrity;
- Appendix B requires agencies to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs;
- Appendix C implements the requirements for the *Payment Integrity Information Act of 2019*; and
- Appendix D defines requirements for determining compliance with the FFMIA that are intended to reduce the cost, risk, and complexity of financial system modernizations.

As noted above, the total number of reported material weaknesses for CFO Act agencies was 53 for FY 2024, one more than in FY 2023. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed, with GAO reporting in their audit of this report that, at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting.

Legal Compliance

Federal agencies are required to comply with a wide range of laws and regulations, including appropriations, employment, and health and safety, among others. Responsibility for compliance rests with agency management and compliance is addressed as part of agency financial statement audits. Agency auditors test for compliance with selected laws and regulations related to financial reporting and certain individual agency audit reports contain instances of noncompliance. None of these instances were material to the government-wide financial statements; however, GAO reported that its work on compliance with laws and regulations was limited by the material weaknesses and scope limitations discussed in its report.

Conclusion

The federal government has seen significant progress in financial management since the passage of the CFO Act more than 30 years ago, but challenges remain to realizing the intended financial management reforms of the Act. The issues that the federal government faces today require financial managers to improve both the efficiency and effectiveness of financial management activities, which includes moving toward integrated government operations with standardized business processes, systems, and data. Together with Treasury and OMB, agencies are building on tools and capabilities to improve financial accountability and transparency.

Additional Information

This *Financial Report's* Appendix contains the names and websites of the significant government agencies included in the U.S. government's consolidated financial statements. Details about the information in this *Financial Report* can be found in these agencies' financial statements. This *Financial Report*, as well as those from previous years, is also available at Treasury, OMB, and GAO websites at:
https://www.fiscal.treasury.gov/reports-statements/; https://www.whitehouse.gov/omb/management/office-federal-financial-management/; and https://www.gao.gov/federal-financial-accountability, respectively. Other related government resources include, but are not limited to the:

- *Budget of the United States Government,*
- *Treasury Bulletin,*
- *Monthly Treasury Statement of Receipts and Outlays of the United States Government,*
- *Monthly Statement of the Public Debt of the United States,*
- *Your Guide to America's Finances,*
- *Economic Report of the President, and*
- *Trustees Reports for the Social Security and Medicare Programs.*